PLENARY OF THE FINANCIAL ACTION TASK FORCE
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Excellencies, ladies and gentlemen, I would like to join the Dutch Minister of Justice in welcoming you to Amsterdam. And I thank you, and especially the FATF President, for this opportunity to address the plenary meeting of the Financial Action Task Force.

Twenty years ago, FATF issued its 40 recommendations to fight money laundering. It is a remarkable achievement that FATF has developed into the global standard setter for combating the illicit use of finance. With this, you are substantially contributing to the integrity of financial markets.

Here in Amsterdam, I would like to draw your attention to a topic that I believe is closely linked to FATF's mandate, and that is inclusive finance. Many people talk about AML/CFT regulations and inclusion in terms of trade-offs. I believe, however, that financial inclusion and financial integrity are in fact complementary. We all know that advancing both will build stronger and safer financial systems for all of us.

When speaking about financial inclusion I always find it useful to start with a definition. Financial inclusion means universal access, at a reasonable cost, to a wide range of financial services for everyone needing them, provided by a diversity of sound and sustainable institutions.

Unfortunately, nearly half of the world's population is still "unbanked". Exclusion is greatest in poorer countries, where nearly 70% of the population has no access to financial services. The figures are just as concerning for small and medium sized enterprises, which are often the engines of growth and job creation. In low-income countries, only 29% of small businesses have a bank loan or credit line. As a result, many people and enterprises use informal financial tools, especially —but not only— in developing countries. Countries that have committed to the FATF principles and instruments.

These informal financial tools are of course transactions that are hard to track. This makes effective management of the financial system and economy much harder. With a large shadow economy, state revenues diminish. This in turn reduces the quality and quantity of public goods, including the justice system, law enforcement and financial supervision. Therefore, exclusion also has impacts on state welfare. Moreover, research has revealed a link between large shadow economies, weak states, organized crime and poverty. Therefore, bringing people and businesses into the formal financial system helps communities thrive. It helps regulators and supervisors monitor and trace the movement and sources of money. It helps law enforcement by diminishing the anonymity of informal transactions. In short, financial inclusion contributes to financial integrity.

The relationship also works in the other direction. The basic concepts of AML/CFT regulation are transparency and risk management. These are the principles of safe, sound and well-regulated financial systems that promote consumer protection and encourage a conducive environment for financial services. In these ways, an effective regulatory regime and financial inclusion are not only complementary objectives, but ultimately mutually dependent on one another.

Having said this, we have to acknowledge that this presents many challenges. FATF has set out important AML/CFT standards. As you know, these standards can be hard to meet. But it can be especially difficult for countries where financial and governance institutions are still maturing. One of the most common challenges we hear about is know-your-customer requirements. Even in countries that have a national identification system, many people, especially poor, rural and marginalized, do not have a formal ID. Because they cannot prove their identity, they can be barred from most banks and other formal financial services.

Equally, small international remittances are difficult to facilitate while maintaining effective AML/CFT controls. This is one reason why so many people use informal international transfers, such as the Hawala network. It is also part of the reason why the cost of formal remittances is high. These are but two examples of negative
impacts of some regulations.

This friction can be overcome. For example, South Africa's regulatory system formerly required bank clients to submit a proof of address. Many poorer South Africans have no proof of legal residence. Recognizing this problem, the South African government stopped requiring address verification for bank clients who hold low account balances, who conduct small transactions and who do not conduct international transactions. As a result of this and other related policies, there was a substantial increase in the percentage of population that held bank accounts. And, after this change, South Africa had a good FATF assessment.

Of course, there are many other examples from all over the world, including the Philippines and Mexico. These examples all demonstrate how AML/CFT regulations that work proportionate to the risk and value can also be compliant with the FATF standards and draw people into the formal financial system.

Another challenge relates to the implementation of the FATF standards, especially in low capacity countries. Existing flexibility and risk-based approaches are not used as often as they could be. Some national regulators just do not know of them. Some are uncertain how flexibility can be applied in practice, fearing a negative assessment by FATF. Some central bankers may not have the spare capacity to design or supervise new risk-based regulations. Others point out that they would find it difficult to enforce multiple standards, again due to capacity constraints. All of this results in a single system of higher standards.

To this end, I very much appreciate the initiatives FATF has undertaken to assist countries in applying a risk-based approach under current standards. I encourage you to amplify these efforts.

A third set of issues relates to effective regulations for new ways of delivering financial services, including agent and mobile banking. These innovations are changing the landscape of financial service delivery. They are making it possible for many more people to use formal financial services, and reduce the use of cash. Of course, these innovations require new approaches to regulation and to supervision. And, understandably, this is a big challenge. FATF is already addressing some, if not all of these trends and challenges.

All of this tells me that FATF is moving in the right direction. This is also a great opportunity for FATF to consider how it can assist countries to embrace this new branchless banking development. For example, how can the eight FATF-style regional bodies be leveraged even more to help current and new constituencies understand the issues and design sound regulatory frameworks?

I am aware that FATF does not have the resources to give technical support. This is an area where partnerships with other agencies, such as the Alliance for Financial Inclusion and the technical assistance divisions of many Finance Ministries, could be developed.

Ladies and gentlemen, I would like to reiterate that we have a shared interest in bringing more people into the formal financial system. We should banish the myth that financial integrity and financial inclusion are mutually exclusive goals.

My ideal is that the international community will come together to pursue these simultaneously. Such a common approach can only be attained by extensive cooperation between organizations working on poverty alleviation and development, and those addressing financial stability, such as the G20, the UN, the IMF, the World Bank and of course FATF and its entire family.

At their recent meeting in Korea, the G20 Finance Ministers and Central Bank Governors called on "...relevant international standard setting bodies to consider how they can further contribute to encouraging financial inclusion, consistent with their respective mandates."

I invite FATF to embrace this call, and to consider how you can do even more at this important juncture. A first step of enormous benefit would be to recognize the importance of financial inclusion to FATF's mission. A natural starting point could be a global inventory of innovative approaches to risk-based implementation of AML/CFT measures that facilitate financial inclusion. Inputs from countries at the forefront of innovation would be important.
This kind of inventory would facilitate a discussion about best practices that would be beneficial for all jurisdictions, not just low capacity countries. As you reflect on possible changes and improvements to the FATF standards and assessment methodologies, I also encourage you to consider their impact on financial inclusion.

I wish you a very productive session here in Amsterdam. I am looking forward to hearing about the various action items from the delegations, and much more from FATF in the future.

Thank you.