PROPORTIONAL AND RISK-BASED CONTROLS PROMOTE BOTH FINANCIAL INCLUSION AND FINANCIAL INTEGRITY
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Well-intended security and control measures can inadvertently exclude sectors of the economy, especially lower income people and small business owners. Proportional and risk-based approaches allow greater flexibility for small value transactions, where the national authorities assess the risks to be very low in the local context. Requirements and controls then increase with value, frequency and riskiness of transactions and account value. There are a growing number of national examples.

In South Africa, the regulator realized that many poor people could not provide proof of legal residence, and removed the address verification requirement for accounts with small balances and transaction values. As a result of this and related policies, the percentage of the population with bank accounts increased to 63% in 2011, up from 46% in 2004. This success has given rise to new opportunities to achieve further growth and quality in coverage, as client needs become better understood.

The Philippines central bank issued a circular in 2008, allowing 20 alternative documents as sufficient formal identification for financial transactions. Banks can also use third parties for know-your-customer (KYC) verification, removing making it easier to open accounts and send remittances. And in 2011, the Mexican regulator developed a tiered system for customer identification that permits the opening of financial accounts with no identification requirements at a base level, requiring more identification as account values and permitted transactions increase.

Continued innovation in proportional, risk-based regulation will further improve accessibility of financial services to the poor, and lower costs for banks to open low-value accounts. At the same time, bringing more people, businesses and transactions into the formal financial system facilitates effective oversight and supervision.