

Remittance Service Providers' Access to Banking Services

Monitoring of the FSB's Recommendations

29 May 2019

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Foreword

As stated in the March 2017 G20 Finance Ministers and Central Bank Governors Baden-Baden communique¹ and July 2017 G20 Leaders' Hamburg Action Plan², the Financial Stability Board (FSB) has coordinated work, together with the Financial Action Task Force (FATF) and the Global Partnership for Financial Inclusion (GPFI), to address remittance service providers'³ (RSPs') access to banking services that are not already being dealt with through existing initiatives. To this end, the FSB published a report⁴ in March 2018 that took stock of past and ongoing initiatives that address this issue (referred to here as the "2018 report"). The 2018 report included 19 recommendations directed at national authorities, banks and RSPs that, if implemented, may contribute to greater access by banking services by RSPs. The recommendations were divided into four categories as follows:

- Promoting dialogue and communication between the banking and remittance sectors
- International standards and oversight of the remittance sector
- The use of innovation in the remittance sector and its possible role in enabling RSPs greater access to banking services
- Technical assistance (TA) on remittance-related topics

The FSB, FATF, GPFI, International Monetary Fund (IMF) and World Bank (WB) agreed to monitor the implementation of the recommendations and report back to the G20 in June 2019.

This report presents the results of the monitoring of implementation of the recommendations and identifies areas where further work may be necessary.

¹ [G20 Finance Ministers and Central Bank Governors Meeting Baden-Baden Communiqué](#), Germany 17-18 March 2017.

² G20 Germany 2017. [G20 Hamburg Action Plan: Annex to G20 Leaders Declaration](#).

³ The FSB defines remittance service providers, or RSPs, as financial institutions that: a) engage in the transmission of cross-border payments, frequently through the use of agents (with the originator and/or beneficiary typically using cash); b) are not banks, although the report acknowledges that some banks may also provide remittance services; and c) are regulated (as opposed to unregulated or informal, since the objective is to improve access to banking of regulated providers).

The FATF Glossary defines the term money or value transfer services, or MVTS, as financial services that involve the acceptance of cash, cheques, other monetary instruments or other stores of value and the payment of a corresponding sum in cash or other form to a beneficiary by means of a communication, message, transfer, or through a clearing network to which the MVTS provider belongs. Transactions performed by such services can involve one or more intermediaries and a final payment to a third party, and may include any new payment methods. Sometimes these services have ties to particular geographic regions and are described using a variety of specific terms, including hawala, hundi, and fei-chen.

Given the above definitions, RSPs are a subset of MVTS. When referring specifically to FATF guidance or FATF's monitoring of recommendations in section 3, this report will use MVTS; otherwise, the scope of the report is limited to RSPs.

⁴ FSB (2018), [Stocktake of remittance service providers' access to banking services](#), March.

Abbreviations

AML/CFT	Anti-money laundering / combatting the financing of terrorism
BAFT	Bankers' Association for Finance and Trade
CBDDQ	Correspondent Banking Due Diligence Questionnaire
e-ID	Electronic identification
EU	European Union
FATF	Financial Action Task Force
FIUs	Financial Intelligence Units
FSB	Financial Stability Board
GPFI	Global Partnership for Financial Inclusion
IAMTN	International Association of Money Transfer Networks
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
KYC	Know Your Customer
ML/TF	Money laundering/terrorist financing
MVTS	Money or Value Transfer Services
RBA	Risk-based Approach
RSPs	Remittance service providers
TA	Technical assistance
WB	World Bank

Remittance Service Providers' Access to Banking Services

Executive summary

A decline in the number of correspondent banking relationships remains a source of concern for the international community. The reduction in correspondent banking relationships has had a significant impact on remittance service providers' (RSPs') ability to access banking services, particularly acute in those developing countries where remittance flows are a key source of funds for households. In many of these jurisdictions remittances represent a significant percentage of Gross Domestic Product.⁵

The cost of sending remittances also remains a concern to the international community, which has supported efforts to reduce those costs to end-customers; indeed, costs have declined over the past decade and as of the fourth quarter of 2018, the cost of sending USD 200 was 7.01%. Nevertheless, this remains well above the United Nations' Sustainable Development Goal target of 3%.

The FSB's focus has been on work to address RSPs' access to banking services that are not already being dealt with through existing initiatives. The FSB's 2018 stocktake report identified a variety of intertwined drivers for the termination of banking services to RSPs, including profitability, the perceived high risk of the remittance sector from an anti-money laundering / combatting the financing of terrorism (AML/CFT) perspective, supervision of RSPs that ranges from active and effective to complete absence and, in some jurisdictions, weak compliance with international standards, particularly those relating to AML/CFT.

This report follows up on the recommendations in the 2018 report and finds that, while positive steps have been taken in a number of areas, further work by national authorities, international organisations, RSPs and banks is needed.

- Jurisdictions have adopted or implemented a number of good practices and procedures to improve their supervisory framework and enhance coordination; authorities are responding to and accommodating innovative technology approaches in their regulatory frameworks; and significant technical assistance is being directed at the issue both at a global level and directly to affected jurisdictions.

Dialogue between RSPs, banks and authorities responsible for supervision of the remittance sector has been useful, but has not led to tangible next steps. In order to make further progress, it is important to have a common understanding of issues facing RSPs in their access to banking services and banks' expectations concerning RSPs' AML/CFT compliance.

As stated in the 2018 report, international standards relevant to RSPs appear sufficient. However, while implementation of these international standards is taking place at the domestic level, the state of progress varies quite widely: many jurisdictions do not appear to have robust supervision for RSPs and quite a few do not effectively supervise them at all. Guidance by national authorities to RSPs on their AML/CFT obligations, strengthening of supervision and

⁵ As noted in the [March 2018 report](#), based on World Bank data, inflows from remittances were equivalent to more than 10% of 2015 GDP in 29 countries, and more than 20% in eight of them. See World Bank (2017), [Migration and Remittances Data](#), November.

further dialogue with banks and RSPs concerning regulatory expectations are all areas in need of attention.

Innovation is a helpful solution to the challenges faced by RSPs, but it is likely only part of a broader solution. National authorities are encouraged to continue facilitating innovation through regulatory sandboxes and innovation hubs, and supporting the developing FinTech firms while ensuring that they are subject to appropriate AML/CFT requirements.

Significant amounts of TA have been directed to the remittance sector, but there is a need for better coordination of TA and more focused TA on oversight of the remittance sector and the development of national risk assessments.

This report concludes with a number of possible next steps – aimed at national authorities, international organisations, RSPs and banks – that could build on the progress that has already been made.

- FATF (in cooperation with the Basel Committee on Banking Supervision for issues pertaining to risk management in the context of banking supervision):
 - to continue monitoring actions by national authorities to implement standards and guidance as they relate to remittance firms through mutual evaluations and follow-up reports.
 - to consider organising a workshop for national authorities to identify and share effective practices on supervision, licencing and enforcement in the remittance sector.
- FSB to coordinate:
 - provision of remittance-related TA, through the FSB’s Correspondent Banking Coordination Group TA workstream.
 - development of guidance on communication strategies for jurisdictions in explaining the steps they have taken to address perceived weaknesses in regulatory frameworks for remittance firms (using as a model the guidance it has provided on communication strategies relating to regulatory frameworks for correspondent banking).
- FSB to convene the official sector, banks and remittance firms:
 - to encourage banks and remittance firms to work together to develop guidance on information that RSPs should provide to banks to facilitate due diligence.
 - to discuss the scope for development of standardised tools targeted towards remittances that would facilitate customer due diligence and reduce costs.

1. Recommendations to improve the accessibility of banking services to RSPs

The March 2018 stocktake of actions to address RSP’s access to banking services included 19 recommendations in four key areas that, along with brief annotations, are listed below.

In addition to the recommendations and annotations, an authority was assigned to each area of recommendations and was assigned responsibility for monitoring actions taken by national authorities, banks and RSPs in response to the recommendations.

Recommendation

**Authority
responsible for
monitoring**

Promoting dialogue and communication between the banking and remittance sectors

FSB

Fostering dialogue between the RSP’s and the banking sectors through public initiatives to improve interconnectedness between both sectors. The FSB, GPFI, FATF, IMF and WB should continue to facilitate a dialogue among stakeholders to foster a common understanding of issues facing the remittance sector and RSPs’ access to banking services.

Promote private sector initiatives to foster dialogue between the remittance and banking sectors. Banks and RSPs could work together to enhance the level of understanding, communication and cooperation between themselves; thereby enabling banks to apply a RBA. The banking sector could, for example, clarify with RSPs their expectations concerning AML/CFT compliance and offer assistance, where appropriate.

Support of mechanisms to standardise, where appropriate, financial communication, including clearing and settlement infrastructures, between the banking and remittance sectors. Cost functions, compliance processes and financial communication (including information sharing) would be improved through technical standardisation and standardisation initiatives such as ISO 20022.

Supporting actions by the remittance sector, such as the development of a code of conduct, to improve the risk perception of the sector by banks. Demonstrating the level of AML/CFT compliance could help to improve perceptions surrounding risk management practices within the sector. An example of this is the code of conduct being developed by the International Association of Money Transfer Networks⁶ (IAMTN). The introduction of a private sector certification or periodic independent audits to demonstrate compliance could be a useful complement to the code as it would strengthen the confidence of correspondent banks in the AML/CFT procedures of RSPs. It is recommended that work on these best practices continue, with a view to pilot it at least at a domestic level.

International standards and oversight of the remittance sector

FATF

National authorities should implement the FATF standards as they relate to RSPs. In particular, they should: (a) assess the risks associated with RSPs when conducting national risk assessments for money laundering/terrorist financing (ML/TF); (b) ensure that RSPs are licensed or registered, and their agents are either licensed or registered or RSPs are required

⁶ The IAMTN is an international organisation representing money transfer industry and payments institutions providing cross-border payments. Founded in 2005, the objective of the organisation is to discuss common challenges and industry initiatives.

to maintain current list of their agents; (c) apply a system of risk-based monitoring and inspection of RSPs; and (d) apply criminal and/or administrative sanctions for significant violations of AML/CFT obligations.

National authorities should evaluate and improve, as necessary, coordination and information sharing practices. Effective coordination and information sharing practices among supervisory, financial intelligence, law enforcement and other authorities, responsible for the oversight of RSPs are a critical element of oversight of the remittance sector.

National authorities should publish guidance. National authorities should publish, as necessary, guidance on the risk-based approach (RBA) and the banking of RSPs, on their regulatory and supervisory expectations for AML/CFT compliance by RSPs, and should consider additional efforts to engage in direct dialogue with the private sector on these issues. Doing so would assist both banks and RSPs to properly implement laws and regulations and in the case of banks, manage the risks associated with RSPs.

National authorities should assess whether their models for the regulation and supervision, as well as inspection of RSPs, are effective and properly include a RBA. If not, authorities should clearly outline what steps they could take to address deficiencies, recognising that this may have an impact on the number of players in the market. Where appropriate national authorities could consider augmenting oversight of the remittance sector with regular reviews by independent parties including external auditors. Doing so would not however, absolve supervisors from their oversight responsibilities.

National authorities could consider programmes that would enable supervisors to collect data necessary to effectively oversee the remittance sector and for both supervisors and RSP principals to monitor and assess the risks associated with agents. National authorities could consider mechanisms that enable them to collect data from RSPs that is necessary for them to properly supervise both the remittance sector as a whole and remittance providers individually. In addition, supervisors and RSPs could require regular reporting on the admission of agents into the remittance sector and that RSPs closely monitor and assess the risks associated with their agents.

The use of innovation in the remittance sector and its possible role in enabling RSPs greater access to banking services

GPII

National authorities should consider how the regulatory environment could best support greater innovation. Innovation could be promoted through, for example, the use of sandboxes or innovation hubs, while at the same time managing risk levels and maintaining a healthy and stable financial system.

National authorities could promote new technologies supporting the identification of customers. Technologies such as electronic identification (e-ID) and those that facilitate the creation of e-ID platforms as well as access to these platforms by financial institutions (including banks and non-banks, and in general all financial institutions providing remittance services) could help to reduce ML/TF risks.

National authorities should investigate and implement – to the extent feasible within national legislation – ways to facilitate end-users’ access to transaction accounts offered by banks as well as non-banks. Access to transaction accounts would increase end-users’

freedom of choice and could mitigate their vulnerability to loss of access to cash-based remittance services.

Without introducing a technological bias, national authorities should consider digital solutions when drafting and issuing laws and regulations, in order to make them more resilient to future technological developments.

Without introducing a bias, national authorities could support the development of FinTech firms through enabling legal and regulatory frameworks. In addition to creating a supportive environment for FinTech firms and innovation, the frameworks should ensure that FinTech firms are subject to proportionate and risk-based AML/CFT requirements. Authorities could also identify adequate risk mitigation measures for FinTech products, which would contribute to lowering their risk-profile.

Remittance-related technical assistance (areas of possible focus)

IMF/WB

Technical assistance focused on the strengthening regulation and supervision of RSPs, where necessary. TA providers should prioritise capacity building, consistent with international standards and guidance, such as the General Principles for International Remittance Services⁷ and FATF standards, to the areas of regulation and supervision where material weaknesses have been identified. These include appropriate licensing procedures; effective risk-based supervision; adequate cooperation between supervisors, including between AML/CFT supervisors and payment systems overseers; and proportionate and deterrent administrative, civil or criminal sanctions in case of non-compliance or illegal provision of services.

Preparing national risk-assessments to determine the level of risk posed by the remittance sector, particularly ML/TF risk.

Reducing the use of cash in remittance flows. TA could be directed at efforts to promote the access to and use of transaction accounts offered by banks and non-banks (including RSPs) and remittance products based on those transaction accounts, as well as interoperability between payment services and platforms (including for remittance services).

Improving interconnectedness between remittance sending and receiving jurisdictions. TA could assist RSPs' in the strengthening of their implementation of best practices and international standards. This may lead to greater access to payment systems, except in cases where their participation would introduce financial or other risks in the system. Access by RSPs to payment systems should be consistent with Principle 18 of the Committee on Payments and Market Infrastructures-International Organization of Securities Commissions *Principles for financial market infrastructures*.⁸ Similarly, technical standardisation and standardisation initiatives such as ISO 20022 could generally support the interoperability of clearing and settlement infrastructures.

⁷ CPMI (2007), [General principles for international remittance services](#), January.

⁸ CPMI (2012), [Principles for financial market infrastructures](#), April.

Collecting data to monitor the evolution of the remittances market. TA could be used to support the collection of additional data on the remittances market, including for the World Bank's Remittances Prices Worldwide database.

2. Promoting dialogue and communication between the banking and remittance sectors

The level of dialogue and communication between the banking and remittance sectors has improved recently. Although the dialogue has enabled a sharing of concerns and perspectives, it has yielded few tangible solutions. Further dialogue, focusing particularly on solutions and necessary next steps, is necessary.

Dialogue around expectations, particularly those of banks and regulators, is important to reach a common understanding of the cause of the problem. One element of a discussion about expectations should involve the sharing of data. Another element could be whether industry-developed standards or a certification process in the remittance sector would be useful. The banking sector has taken some steps and published some information to clarify their expectations, particularly around financial crime risk control frameworks. RSPs, perhaps with some assistance, need to understand the requirements and expectations and respond accordingly. Further dialogue can lead to a better understanding and agreement on the challenges RSPs face when attempting to gain access to banking services, and potential solutions.

Fostering dialogue between the RSP's and the banking sectors through public initiatives to improve interconnectedness between both sectors.

On 11 March 2019 in London, the FSB held a workshop among RSPs', banks and supervisors to strengthen the dialogue and understanding of issues impacting RSPs access to banking services. Participants discussed ways to enhance cooperation, AML/CFT practices in the remittance sector, efforts by banks to enable the provision of banking services to the remittance sector, and the supervision and oversight of the sector. It was noted that the dialogue between correspondent banks, respondent banks and RSPs had improved over the last couple of years. At the same time, the number of actors wishing to remit funds (including FinTech firms), some being regulated, others not, makes the dialogue more complicated.

The asymmetry of information between RSPs and banks remains a challenge and makes collaboration between the two more difficult. Banks advocate for more transparency and more openness from the RSP sector, saying that suspicious patterns and anonymised information could be shared more transparently. It is clear however, that there are legal constraints which may hinder RSPs' ability to share information.

Banks argue that, while "know your customer's customer" (so-called KYCC) is not part of the FATF standards, some authorities still expect from their banking sector a knowledge of the identity of the underlying customer, to mirror the information available in traditional interbank cross-border wire transfers. In addition, banks are expected to send to RSPs requests for information when ML/TF suspicions arise. In such cases, RSPs should respond in a timely manner with necessary information about the client and the transaction. This would require that RSPs have the means to do so, both technically and in terms of resources. Clarifying and

standardising what and how information can and should be shared among private sector stakeholders would contribute to solving the issue. Participants at the workshop called upon policymakers to provide greater clarity concerning their expectations. It was also noted that the variance in the quality of supervision of the remittance sector that exists among jurisdictions, makes it difficult for banks to form a broader view of the sector or even to assess the depth of the supervision for a given actor.

The remittance sector has highlighted the fact that in the European Union (EU), article 36 (Access to accounts maintained with a credit institution) of Payment Services Directive 2⁹ has contributed to improvements in the dialogue by forcing banks that refuse to open an account to explain the rationale for their decision. This does not however, guarantee access to an account. In the UK, use of the competition law was also seen as a way to prevent a bank from entirely excluding a RSP from a given corridor.

Promote private sector initiatives to foster dialogue between the remittance and banking sectors.

The Bankers' Association for Finance and Trade (BAFT) published in March 2019 a *Respondent's playbook for obtaining and maintaining a correspondent banking relationship*.¹⁰ The playbook is based upon contributions from most of the major correspondent banks, both from a business and compliance perspective. While focusing on bank-to-bank relationships, the playbook specifies that "Generally, the expectations and best practices discussed for respondent banks seeking to obtain and maintain a correspondent account are equally applicable to MSBs [money service businesses], especially cross-border money transmitters, and FinTech companies that execute payments or deal with cryptocurrencies".

The BAFT playbook includes a section dedicated to RSPs, which explains features that may make an RSP higher or lower risk compared to its peers, for instance whether or not an RSP accepts cash from its customers. This illustrates that major correspondent banks recognise some variations in risk levels among RSP, although the document also notes that banks serving RSPs are seen as a "fourth tier" of risk out of six risk levels (six being the highest level of risk).

The BAFT playbook also provides examples of best practices that could be adopted by cross-border RSPs to mitigate inherent financial crime risks. For instance, and in line with the expectation of some supervisors described in the previous section, if an RSP plans on bundling its customer's payments for processing through the correspondent account, it may offer to the correspondent to "deliver to the correspondent a separate file with full originator and beneficiary information for each payment in the bundle that the correspondent may screen." The March 2018 report noted that this solution may not be universally applicable, and representatives from one large RSP had observed that because they process large volumes of small value transactions and have dozens of banking relationships, expecting banks to monitor all transactions would be highly duplicative and costly.

⁹ The aims of Payment Service Directive 2 are to (1) provide the legal foundation for the further development of a better integrated internal market for electronic payments within the EU; (2) put in place comprehensive rules for payment services, with the goal of making international payments (within the EU) as easy, efficient and secure as payments within a single country; (3) open up payment markets to new entrants leading to more competition, greater choice and better prices for consumers; and provide the necessary legal platform for the Single Euro Payments Area.

¹⁰ BAFT (2019), [BAFT Releases Respondent's Playbook](#), March.

Similarly, while relying on agents is a higher risk factor, a financial crime compliance programme that covers agents could help mitigate some of the risks. More generally, large respondents are of the view that RSPs can reduce their risk profile by applying due diligence processes similar to those expected from respondents. In this regard, the BAFT playbook offers rich descriptions of best practices, both to improve the substance of the risk control framework (such as applying the same sanction screening as banks), and the way in which the RSP could explain its framework to its bank (for instance offering on-site visits).

Another relevant development is the Wolfsberg Group's Correspondent Banking Due Diligence Questionnaire (CBDDQ), which supports a structured description of a respondent bank and its financial crime risk control framework, thereby clarifying the global banks' expectations regarding correspondent banking. The CBDDQ is a good example of how an industry can develop its own standard that, among other things, it articulates how responsibility can be shared reasonably between correspondent and respondent banks. Participants at the March 2019 workshop discussed how this could be replicated in the relationship between banks and RSPs, and how RSP could use relevant parts of the CBDDQ to communicate with banks. Banks emphasised that RSPs need to understand and manage the risks that they are taking and be able to demonstrate this to their bank. Banks also argued that regulators should ensure a robust oversight of RSPs, and not rely on banks to police the sector. Banks need to know they can rely on an adequate risk management from their counterparts, including from RSPs. This means that RSPs need to be transparent about their business model and explain their processes.

A positive, more inclusive approach to mitigate the risks within this sector could be through education and capacity development, instead of by simply exiting markets.

Support of mechanisms to standardise, where appropriate, financial communication, including clearing and settlement infrastructures, between the banking and remittance sectors.

It was widely agreed during the aforementioned workshop in London that bulk settlements would remain a model for RSPs. Participating banks recognised that in some cases, namely when bulking a large amount of small transactions, this business model makes sense. For banks, it is important to understand the objectives of bulking and bulked settlements, as such operations reduce not only costs, but also transparency. In such cases, banks are forced to rely on their clients to apply appropriate controls. In return, banks expect that if a RSP observes unusual activity, it will share the information and keep its bank informed of any developments.

The Society for Worldwide Interbank Financial Telecommunication (SWIFT) recommends that a migration of correspondent banking payment messages to ISO 20022 should start in November 2021. As ISO 20022 is not a proprietary format, it could be used by RSP in their communications with banks, which should facilitate interoperability, especially in cases where banks want to access additional information.

Supporting actions by the remittance sector, such as the development of a code of conduct, to improve the risk perception of the sector by banks.

The usefulness of cross-industry standards and certification remains a question. When asked whether a RSP certification or industry standard could contribute to the solution, some banks argue that it possibly would, provided that the certification is sufficiently robust process and it

is endorsed by the regulatory authorities. Banks would still conduct their own enhanced due diligence on new clients but a certification would help banks sort through the potential clients and identify the key issues and risks. This would then enable banks to have more focused discussion with potential clients. Such certification schemes could help to improve the general perception that the remittance sector in entirety is high risk.

The BAFT playbook notes, for respondents domiciled in a jurisdiction that is affected by high crime, corruption, political instability and/or weak rule of law, that “a respondent might also engage a third party to perform an independent audit of its financial crime compliance programme against international standards and share the analysis and remediation plan with the correspondents that it approaches.” This could apply equally to RSPs. BAFT notes that the due diligence process that a bank has to conduct before opening accounts for respondents and RSPs is costly, and anything the customer can do to reduce that cost for the correspondent bank increases the chances that a bank will be willing to invest in an account opening procedure.

Participants in the March 2019 workshop discussed the GSMA¹¹ Mobile Money Certification and whether it could serve as a model for a code of conduct and certification programme for the RSP sector for broadly. The GSMA relies on a code of conduct, launched in 2014, which covers topics such as safeguarding customer funds against the risk of loss, AML/CFT, the management of agents and other third parties, security of the system and various rules for the protection of consumers and their data. The certification process is managed by a certification management company hired by GSMA, and begins with a self-assessment in support of an application for certification. The certification process includes both an off-site and an on-site assessment by an auditor hired by the certification programme (not by the assessed entity). The cost of a certification appears commensurate with what a correspondent bank spends when having to hire a third party to conduct enhanced due diligence on a respondent. However, the scheme was primarily driven by a desire of mobile money players to build trust towards their customer, and as the scheme is relatively new, its effect on access to banking services remains unknown.

An RSP also presented what could be the structure of a code of conduct for the industry, and participants discussed that the level should be sufficient to make a difference, while remaining reachable. Some RSPs feared that a certification programme could have the adverse impact of increasing bank closures for RSPs that would not seek or fail certification. A bank noted that it would be normal for an assessment programme to reveal areas of weakness, provided the RSP implements a remediation plan. Another bank also communicated to the FSB that its policy was only to deal with the largest RSPs, and a certification may actually help widen the range of RSPs that some banks are willing to consider.

2.1 Conclusions

Progress has been made to support enhanced communications between RSPs and banks, thanks to the implementation of legislative measures or regulatory guidance for banks to explain the refusal or closure of a bank account to RSPs. Communication and a better understanding of the banking sector’s expectations, particularly around AML/CFT, has also benefitted from the publication of the BAFT Playbook and Wolfsberg Group CBDDQ and accompanying

¹¹ GSMA is a trade body that represents the interests of mobile network operators worldwide.

explanatory materials. The dialogue has been further supported by workshops at the international, regional and national level. The FSB will monitor further progress in several areas:

- Whether the GSMA Mobile Money certification programme is having an impact on access to banking services, perhaps through a survey of banks having accounts of certified mobile money providers, and whether regulators in some countries are willing to encourage a similar programme; this would help support a decision by RSPs whether to pursue such an initiative.
- Whether further guidance could be given by banks on the format of data that may be shared on underlying customers.

3. International standards and oversight of the remittance sector

The 2018 report found that while international standards relevant to RSPs appear sufficient, a review of the relevant sections of 35 mutual evaluation reports suggests a lack of understanding by some jurisdictions about some of their key tenets, for example, the RBA. Despite the 2016 publication by the FATF of guidance to assist national authorities, RSPs and banks with the implementation of a RBA, few of them have done so. Some jurisdictions lack regulations necessary to implement aspects of the international standards, including a clear requirement for RSPs to register or acquire licenses. Often, however, the review of mutual evaluations found that jurisdictions have the necessary legal framework in place, but have not effectively implemented it. To remedy this, these jurisdictions must first understand the remittance sector and the standards and requirements pertaining thereto, and then intensify their supervision of it.

The complexity, diversity and overall size of the remittance sector, as well as the pace of technological change and the principal-agent business model, make supervision very challenging. To illustrate the diversity of the remittance sector, the US, at one end of the spectrum, has more than 14,500 principal Money or Value Transfer Services (MVTs) providers and 441,460 active agents with supervision being a shared responsibility between the federal state governments. At the other end, many jurisdictions have only a handful of providers and agents with limited operations.

The number of inspections (onsite and offsite) and dedicated supervisory staff for the sector also varies across jurisdictions due to such wide divergence in the composition of the sector. This fundamental diversity in scale, size, operations and products and services offered highlights that a one-size-fits-all supervisory approach will not be appropriate. Jurisdictions will need to adopt a proportionate and risk-based supervisory framework that is suitable in their national context.

To review the implementation of the 2018 report's recommendations on international standards and oversight of the remittance sector, the FATF conducted a survey that drew responses from 37 jurisdictions,¹² including 24 FATF members. As such, the statements in this section should

¹² Argentina; Austria; Bangladesh; Belgium; Brazil; Burkina Faso; China; Denmark; France; Georgia; Germany; Gibraltar; Hong Kong, China; Iceland; Indonesia; Ireland; Italy; Jamaica; Japan; Kyrgyzstan; Macao, China; Malaysia; Mexico;

not be interpreted to represent the global community, but rather a small subset. This subset however, does include both advanced and emerging market economies.

National authorities should implement the FATF standards as they relate to RSPs.

The recommendation noted that national authorities should assess the risks associated with RSPs when conducting national risk assessments for ML/TF. The FATF survey found that in fact, most jurisdictions have assessed the ML/TF risks associated with MVTs providers and communicated the outcome of such risk assessment to other public authorities. In addition, a number of them have conducted sectoral risk assessment of the MVTs sector as part of their national risk assessment. In some cases, jurisdictions have followed this with publication of a thematic review of the sector.

This recommendation also stated that RSPs and their agents should be licensed or registered. Alternatively, RSPs could be required to maintain current list of their agents. While most jurisdictions have licensing requirements for MVTs providers, a smaller number only have registration obligations. Similarly, a minority of jurisdictions have licensing requirements for agents of MVTs providers, while registration requirements are more commonplace.

Most jurisdictions follow a risk-based supervision model for the sector. Key risk factors taken into account for classifying providers/agents into different risk categories include ownership and management structure of MVTs providers, compliance history, size and complexity of business model, risks related to products and services, volume of cash transactions and use of high denomination notes. Agent risk, geographical risk (country of destination of the payment), type and nature of customers (e.g. politically exposed persons), quality of reporting to supervisors and Financial Intelligence Units (FIUs) are other factors taken into account.

Some jurisdictions are further developing their risk-based model to incorporate a more sophisticated approach for supervision. For example, Italy is currently developing a model that will combine quantitative and qualitative factors to monitor RSPs more effectively. The risk categorisation will be used as the basis for determining the onsite and offsite supervision or monitoring of RSPs. For agents, the risk-based model for inspections has been recently updated and takes into consideration specific risk factors combined with data and information held by authorities.

Many jurisdictions taking part in the survey noted that the inspection of MVTs providers is largely risk-based. When agents are obliged entities, their monitoring or supervision is, however, often random as risk information for each individual agent may not be available. Some countries (Germany) are further developing supervisory model for agents to make it risk-based. This is an area, which may merit more attention from jurisdictions to ensure that agents are either supervised or monitored by home/host country, or included in the AML/CFT programmes of MVTs providers, which should monitor them for compliance with these programmes.

Monaco; Netherlands; Nigeria; Norway; Senegal; Singapore; Spain; Switzerland; Timor-Leste; Turkey; Ukraine; United Kingdom; United States and Uzbekistan.

Many jurisdictions have a range of administrative, civil and criminal sanction powers to address compliance failures in MVTs providers or their agents. The application of such powers however, varied quite significantly.

National authorities should evaluate and improve, as necessary, coordination and information sharing practices.

In most jurisdictions, national law enforcement authorities, supervisors, FIUs and other relevant authorities cooperate and coordinate at an operational level – through existing coordination mechanisms – concerning the oversight of the MVTs sector. At the same time, most jurisdictions coordinate at the strategic level, often following the same mechanisms as operational coordination, but with different levels of participation.

Jurisdictional reviews of the effectiveness of the coordination and cooperation mechanisms are common and in those jurisdictions where a specific review does not take place, it is frequently a part of regular review meetings and follow-up.

National authorities should publish guidance.

The review of mutual evaluation reports conducted as part of the 2018 report found an insufficient level of understanding of risks and/or the risk-based approach in some jurisdictions, with weak risk understanding more commonly a problem at the provider level than the supervisor level.

The FATF survey concluded that while progress has been made against this recommendation, further work is needed in disseminating the findings of risk assessments and engagement by authorities with MVTs providers and banks. Most jurisdictions responding to the survey have published a risk assessment of the MVTs sector, either as part of a national risk assessment or as a separate sectoral assessment. Many of them have also issued guidance to the MVTs sector. Conversely, roughly half of jurisdictions covered by the survey have issued some form of guidance to banks that provide services to MVTs providers. More starkly perhaps, only two-thirds reported actively engaging with the private sector.

Table 1

Activities	Number of Jurisdictions	
	Yes	No
Published ML/TF risk assessment of the MVTs sector	29	8
Published guidance/Best practices for MVTs providers	30	7
Published guidance/Best practices for banks providing banking services to MVTs providers	19	18
Conducted proactive engagement with MVTs providers and banks	25	12
Published/conducted none of the above		2

National authorities should consider further work in these areas, in particular, where no guidance is issued or outreach to banks or providers is undertaken.

National authorities should assess whether their models for the regulation and supervision, as well as inspection of RSPs, are effective and properly include a RBA.

The RBA to oversight depends on in-depth knowledge of the remittance sector, including MVTs providers' business models, on the part of supervisors in order to identify risks and appropriately allocate resources. Developing this understanding for national authorities requires access to a variety of information sources, including financial intelligence, national risk assessments (including provider and sectoral risk assessments), law enforcement, and international expertise and guidance.

One of the most important weaknesses with respect to oversight of the remittance sector seems to lie in the area of agent supervision, both at the national level and at the provider level. This weakness may also reflect a lack of understanding of their obligations and/or capacity by MVTs, or a lack of resources or recognition of the importance of agent supervision by some national authorities. The problem poses an especially acute deficiency in view of the fact that many of the crucial elements of an AML/CFT programme, such as identity verification, occur at the agent level.

Most jurisdictions surveyed require MVTs providers to include their agents in their AML/CFT programme and monitor them for compliance. Of these, many report having reviewed the effectiveness of their supervisory policies and procedures for MVTs providers and agents within the last 10 years. Following such reviews jurisdictions have updated their guidelines and circulars for the sector, issued new reporting requirements and market entry norms, increased the number of inspections, or adjusted their supervisory approach.

In many jurisdictions, AML/CFT supervisory policies and procedures are subject to annual review, review by the internal audit function or a review through internal annual management discussions. The UK, for example, published a thematic review on AML in the MVTs sector in 2018¹³ and introduced new fit and proper requirements for agents effective from June 2017. Agencies in the US are planning to issue a proposal for changes to the Money Services Business registration process, and review effectiveness as part of the regulatory reform initiative under the Unified Agenda.¹⁴

A number of jurisdictions are undertaking reviews of their MVTs supervisory framework. It is recommended that the reviews be outcome focused, set out performance indicators, offer objective evaluation criteria and compare results achieved against expectations, with corrective action taken where needed. Jurisdictions may also consider an independent review of their supervisory programmes to ensure greater consistency and effectiveness.

National authorities could consider programmes that would enable supervisors to collect data necessary to effectively oversee the remittance sector and for both supervisors and RSP principals to monitor and assess the risks associated with agents.

Jurisdictions have implemented a number of mechanisms to gather additional data from MVTs providers or are putting in place other processes to improve compliance and mitigate ML/TF

¹³ [HM Revenue and Customs AML/CTF Thematic Review: Anti-money laundering Compliance in the Money Service Business Sector](#).

¹⁴ Federal Register (2017), [The Daily Journal of the United States Government. Introduction to the Unified Agenda of Federal Regulatory and Deregulatory Actions](#), Fall.

risks as well as to tackle de-risking of the sector. For example, in some jurisdictions, MVTs providers are required to file periodic reports on agents, including termination of business relationships for non-commercial reasons. This data is accessible to authorities and to MVTs providers. Authorities in Japan undertake risk-based classification of MVTs providers according to the level of ML/TF risks, which are being monitored on a regular basis. The authorities take into account collected data such as transaction volume, customer base and business area and associated geopolitical risk. In Spain, providers are encouraged to mitigate the risk of complicit agents by keeping a common ‘bad agent register’ where information is shared on agents that have been reported to the FIU for suspicion of ML (by misusing the identity of real customers to carry out money transfers, faking identity documents or structuring transactions, etc.). When engaging a new agent, MVTs providers can verify whether an agent has been reported and/or the relationship has been terminated by another MVTs provider.

In the UK, an ‘Action Group on Cross-Border Remittances’ has been created to respond to the closing of MVTs providers’ accounts by banks. Its objective is to help identify market-led solutions for ensuring the continued flow of remittances from the country, by bringing together representatives of industry, government, and the humanitarian sector. The mandate, objectives and working practices of this Group are under continuous review to address de-risking in the MVTs sector. A number of jurisdictions reported organising roundtable and industry interaction among regulators, policymakers, MVTs providers and banks.

While many initiatives are indeed underway, jurisdictions could also consider how they can regulate the sector more effectively, following a risk-based approach. This could include information sharing on agents between MVTs providers and authorities, which could further share such data across the sector to avoid ‘account shopping’ by complicit agents. As noted by some jurisdictions, systematic data collection on remittance flows and its analysis may help supervisors identify any particular patterns or trends and strengthen their supervisory processes.

3.1 Conclusions

The survey found that jurisdictions have adopted or implemented a number of good practices, policies and procedures to improve their supervisory framework and enhance coordination. The survey also identified areas which will benefit from further attention by national authorities and supervisors.

- Supporting a risk-based approach, collection of data on agents and strengthening of their monitoring/supervision within the framework of the FATF standards should be considered a priority. Appropriate information sharing between home and host country supervisors in a timely manner for risk assessment and supervision should help authorities determine the most effective framework in this regard.
- Proactive engagement by supervisory authorities with the private sector (including the banking sector) and offering risk-based guidance may help clarify regulatory expectations from the industry.
- While most jurisdictions seem to have broad sanctioning power, its application in practice varies considerably. National authorities should make more effective use of the entire range of sanctions available to it. Doing so would not only create confidence in the supervisory practices for the sector, but also act as a deterrent against egregious behaviour.

4. The use of innovation in the remittance sector and its possible role in enabling RSPs greater access to banking services

The findings of the 2018 report highlighted a number of financial technology developments that could address some drivers of de-risking and identified a number of opportunities where innovation can be applied to AML/CFT tools, including with respect to regulation, supervision, compliance and direct government initiatives. Following-up on the recommendations, many national authorities are already responding to and accommodating innovative financial technology approaches in their regulatory frameworks. While many of the actions taken by national authorities apply to FinTech and the financial services sector more broadly, it is anticipated that they will have a positive impact on remittance service providers.

National authorities should consider how the regulatory environment could best support greater innovation.

As discussed in the 2018 report, many jurisdictions are taking steps to support the development of innovative new financial technology products. Such actions, which may include the establishment of regulatory sandbox regimes or innovation hubs, are not typically taken specifically for the remittance sector, but will often apply to RSPs. Of course other forms of innovation also exist.

Regulatory sandboxes are enabling environments that allow firms to test innovative products, services and business models in a live market environment under more flexible regulatory standards, while ensuring that appropriate safeguards are in place.

Many jurisdictions have or are planning to have regulatory sandboxes that enable the testing of products that may also have use in the remittance sector. The objectives of sandboxes are typically to enhance firms' understanding of regulatory expectations, to increase knowledge of the authorities about financial innovations and the risks they pose and to foster innovation. Testing in the regulatory sandbox provides firms with an opportunity to trial their product or service and make changes before they commit to a full market launch.

Innovation hubs are institutional arrangements whereby regulated or unregulated entities (i.e. unauthorised firms) engage with the competent authority to discuss FinTech-related issues (as well as seek clarifications on the conformity of business models with the regulatory framework or on regulatory or licensing requirements (i.e. individual guidance to a firm on the interpretation of applicable rules).

Many jurisdictions, including 21 EU Member States and a significant number of FSB member jurisdictions, have established innovation hubs. Argentina, for example, has established the Financial Innovation Roundtable (or Financial Innovation Hub), which is a place for discussion and cooperation between the public and private sector to develop proposals related to means of payment, credit and savings and technology applied to financial services. Japan's Financial Services Agency has established a FinTech Innovation Hub that works to grasp innovation in financial services and reflect the findings in its policies. In addition, a 'FinTech PoC Hub' supports innovative proof-of-concept projects implemented by financial institutions and FinTech start-ups. Brazil has launched a Laboratory of Financial and Technological Innovations (LIFT), a virtual collaborative environment with participation from academia, the private sector including technology companies and FinTechs, aimed at the development of

technology innovations. Finally, Italy has established an innovation hub called ‘FinTech channel’ to improve its capacity to track and analyse developments in financial markets and to open up a new channel of dialogue with operators willing to propose innovative solutions in the financial services area.

Regulatory sandboxes and innovation hubs are by no means the only way to encourage greater innovation through the regulatory environment; national authorities are taking a range of other measures. For example, Canada is closely monitoring innovation in the financial services space to ensure its regulatory frameworks address the emergence of FinTech, both from a risk and benefits perspective. Legislative changes were brought forward in 2018 to allow Canadian financial institutions to undertake a broader range of financial technology and related activities, including in partnership with FinTech firms.

In July 2018, the US Department of the Treasury released a Report, *A Financial System That Creates Economic Opportunities – Nonbank Financials, Fintech, and Innovation*,¹⁵ which called for embracing innovative technology and business models to modernise the US financial sector. The report identified potential federal and state regulatory obstacles to innovation and issued over 80 recommendations to address them.

Of particular relevance to remittance service providers, countries are also often working together on innovations to facilitate cross-border transactions. The Bank of England, Bank of Canada and Monetary Authority of Singapore, along with participating financial institutions, have collaborated on research into more efficient means of making interbank cross-border, cross-currency transfers. This includes consideration of whether distributed ledger technology or central bank digital currencies can play a part in a more efficient means of transfer.

National authorities could promote new technologies supporting the identification of customers.

According to the *G20 Digital Identity Onboarding*¹⁶ report prepared by the WB for the GPFI, the introduction of legal, digital ID has the potential to increase the adoption of financial services (including remittance services), furthering the financial inclusion agenda and supporting development goals. Many jurisdictions have been innovating in this area for several years and continue to do so, digital ID measures being a key aspect being studied to enhance frictionless, but appropriate, client onboarding in the online context.

In Mexico, regulatory adjustments to the in-person identification process undertaken by banks were introduced in 2017, with the goal of curbing identity theft by taking advantage of the use of biometrics. In 2018, the Swiss Federal Council adopted the dispatch on the Federal Act on Recognised Electronic Means of Identification. This work forms part of a broader “Swiss eGovernment strategy”, which also aims at promoting transparent, cost-effective seamless electronic transactions by establishing digital means of identification that are valid nationally and internationally.

¹⁵ U.S. Department of the Treasury (2018), [A Financial System That Creates Economic Opportunities: Nonbank Financials, Fintech, and Innovation](#), July.

¹⁶ GPFI (2018), [G20 Digital Identity Onboarding](#).

As outlined in the 2018 report, biometry, geolocalisation and more generally e-ID schemes are often implemented to facilitate identification for Know Your Customer (KYC) purposes. Technologies such as e-ID and those that facilitate the creation of e-ID platforms as well as access to these platforms by financial institutions (including banks and non-banks, and in general all financial institutions providing remittance services) could help to reduce ML/TF risks. For example, in Chile the Congress is discussing a bill that will modernise the legal basis of the electronic signature, extending its reach.

Canada's AML/CFT regime is continually reviewed to ensure that it remains effective, addresses emerging risks, and takes into consideration new technologies. New measures include new, more flexible methods for identification, the use of electronic signatures (including PINs and biometrics), and an obligation for regulated businesses to undertake risk assessments on new technologies they are deploying.

A European Commission expert group is currently exploring how to facilitate the cross-border use of electronic identification and KYC portability based on identification and authentication tools under Regulation EU No 910/2014 on electronic identification and trust services for electronic transactions in the internal market (eIDAS) to enable financial institutions to identify customers digitally.

The eIDAS Regulation mandates the mutual recognition of national e-ID schemes across Europe, allowing citizens of one European country to use their national e-IDs to securely access online services provided in other European countries. The European Commission, Member States, and stakeholders are currently discussing further EU legislation to promote cross-border use of electronic identification and know-your-customer portability.

Finally, at an international level, FATF is conducting policy work on digital ID, in order to clarify the application of FATF Standards when digital forms of identification are used for customer due diligence purposes. FATF is convinced of the benefits of the use of digital IDs to generate cost savings and efficiencies for financial services firms, including RSPs, and to increase access to remittance services and financial inclusion. However, along with those benefits, there are also risks related to the use of digital ID solutions that both public and private sector stakeholders need to take into account. This include their vulnerability to abuse if technical standards are not met, data privacy and unauthorised access to personally identifiable information (PII), the potential erosion of political and civil rights etc. FATF Guidance will therefore seek to elaborate the conditions under which the use of digital IDs would be in line with the FATF Standards and possible ways of mitigating the risks.

National authorities should investigate and implement – to the extent feasible within national legislation – ways to facilitate end users' access to transaction accounts offered by banks as well as non-banks.

The 2018 report highlighted opportunities to promote and expand the use of existing technological and regulatory solutions to facilitate the public's access to bank accounts. This could include reducing cash transactions by promoting access to bank and non-bank transaction accounts and remittance products based on those transaction accounts. Access to transaction accounts can increase end-users' freedom of choice and could mitigate their vulnerability to loss of access to cash-based remittance services.

Although many jurisdictions already have a high level of account ownership, opportunities to promote account access still exist. In China, for example, the government helps residents obtain bank accounts and debit cards by requiring that bank accounts be free of charge and that debit cards be provided at no additional cost. The Peoples' Bank of China has also released Administrative Rules for Network Payment of Nonbank Payment Institutions that establish different types of nonbank payment accounts. These are differentiated by their respective know-your-customer requirements and the type and size of transactions that can be made using the account.

In the UK, following the introduction of Payment Services Regulations 2017, the Bank of England extended access to settlement accounts in its real-time gross settlement (RTGS) system to non-bank payment service providers (NBPSPs). This change enabled NBPSPs to access directly the UK payment schemes that settle in central bank money for the first time. Since opening up access in 2017, three NBPSPs have joined RTGS (including one firm with a focus on remittance and cross-border payments) and there is a pipeline of NBPSPs with slots to become direct participants over the coming year.

The EU's Payment Services Directive 2 grants any consumer lawfully residing in the EU the right to a basic payment account. This legislation contributes to improving financial inclusion, including of migrant workers and asylum seekers living in the EU. Banks already offering international cross-border transfer services to their existing customers will have to offer those also in relation with new basic payment accounts. This measure will increase consumer's choice for making international payment. The EU is also financing International Fund for Agricultural Development's (IFAD's) Financing Facility for Remittances works to maximise the contribution of migrants to development, promoting the impact of their remittances linked to financial inclusion, as well as migrant/diaspora engagement for rural investment in communities of origin.

In Brazil, it is possible to send and receive remittances through institutions authorised to operate in the foreign exchange market. If the amount is equal or below USD3,000, this can be done through agents hired by those authorised institutions. Any company regularly authorised to engage in commercial activity can be hired by a financial institution authorised to operate in the foreign exchange market as its agent. A new system was also introduced in 2018, increasing the regular ways to receive remittances in Brazil and thus fostering competition, with possible cost reduction for the public. This system allows institutions authorised to operate in the foreign exchange market to receive remittances payment orders in foreign currency from abroad, undertake the conversion to Brazilian Real (BRL) and deliver the resources in BRL to the beneficiaries without the time and cost involved in traditional foreign exchange transactions. In this new system, the beneficiary does not need to negotiate foreign currency in Brazil and therefore will not incur any other expenses or fees.

Without introducing a technological bias, national authorities should consider digital solutions when drafting and issuing laws and regulations, in order to make them more resilient to future technological developments.

When designing regulations that will apply to financial services, considering the attribute of flexibility could enable standards to be adapted to accommodate future technological developments and innovation. Many jurisdictions are approaching the development of laws and

regulations that cover the financial sector with a policy of technological neutrality, particularly in relation to customer due diligence requirements.

A technology neutral approach to legislation and policy exists in the EU, the US, Australia and a number of other jurisdictions. All EU legislation is subject to regular reviews which allow for its adjustment to technological evolution if needed. In the context of its FinTech Action Plan of March 2018, the European Commission is currently assessing the regulatory obstacles and gaps in current EU-wide financial services legislation, as well as the potential regulatory challenges that new or emerging technologies may pose to financial regulation. Australia is reforming its AML/CFT framework to ensure that it does not favour one technology at the expense of another, and should anticipate the future use of technology as much as possible. The next phase of reforms scheduled for introduction into Parliament in 2019 will enhance cross-border reporting obligations, and facilitate more use of reliance among reporting entities for customer due diligence. Australian regulators are also currently reviewing certain aspects of the regulatory framework for retail payments, which covers remittance service providers. This review is intended to support regulation that is able to adapt to recent and prospective developments in the market, and that does not pose an undue obstacle to innovation and competition.

The US Treasury (including the Financial Crimes Enforcement Network or FinCEN, as the lead regulator and administrator of the Bank Secrecy Act (BSA)), the Federal banking agencies, and the other federal functional regulators (the Securities and Exchange Commission and the Commodities Futures Trading Commission) are committed to technology-neutral regulation in the financial sector. For example, the BSA and FinCEN's implementing regulations define a money services business operating as a money transmitter as a person or entity that accepts and transmits currency, funds, or other value that substitutes for currency from one person or entity to another. This definition covers entities involved in virtual assets and is sufficiently flexible to cover any emerging form of transmitting or accepting assets. Further, the US Treasury's July 2018 report on non-bank financials, FinTech and innovation¹⁷, explicitly calls for modernising the US financial regulatory framework to account for new and emerging technologies and business models, with the aim of "future-proofing" the regulatory framework as much as possible.

Some countries are going further and are developing regulations specific to digital finance. The Chinese Government, for example, issued the Guidance and Instructions on Promoting the Sound Development of Internet Finance (the Guidance) in July 2015. Jointly issued by 10 government ministries and commissions, the Guidance is the first guiding document on internet finance regulation and supervision since 2013, when internet finance first saw rapid growth. Following the issuance of the Guidance, the People's Bank of China issued new rules for the non-bank digital payment sector. In addition, the Chinese Government is engaging with stakeholders on digital finance. The National Internet Finance Association of China, an organisation committed to enhancing self-discipline of internet finance, was established in March 2016. The Association has hundreds of members, including many key FinTech companies. The Association is currently developing various self-regulatory standards, beginning with disclosure guidelines for internet lending.

¹⁷ U.S. Department of the Treasury (2018).

Without introducing a bias, national authorities could support the development of FinTech firms through enabling legal and regulatory frameworks.

In addition to creating a supportive environment for innovation, legal and regulatory frameworks should ensure that FinTech firms are subject to proportionate and risk-based AML/CFT requirements. Authorities could also identify adequate risk mitigation measures for Fintech products, which would contribute to lowering their risk-profile.

At the global level, FATF has launched a new platform – known as the FATF FinTech and RegTech Initiative – to share initiatives and developments for the benefit of governments and the private sector more broadly. The FATF has expressed strong support for responsible financial innovation in line with the FATF Standards on AML/CFT. FATF delegates have agreed to explore the opportunities that new financial and regulatory technologies present for improving the effective implementation of AML/CFT measures.

At the national level, there are several examples of national authorities working to enable FinTech in their regulatory frameworks. India created a Steering Committee on Fintech in 2018 as a follow-up to an announcement from the Finance Minister that “use of Fintech in financing space will help growth of MSMEs. A group in the Ministry of Finance is examining the policy and institutional development measures needed for creating right environment for Fintech companies to grow in India”. The Ministry of Finance has also established a Central KYC repository (CKYC), an infrastructure firm, to provide KYC services for FinTechs.

Australia takes a risk-based approach to AML/CFT regulation, and seeks to implement legislation and rules based on identified risks and trends affecting the Australian economy. AUSTRAC seeks to support FinTech firms through the provision of targeted guidance and education. It also conducted a survey of registered digital currency exchange providers to gauge how they are progressing with their AML/CFT obligations. The results of the survey help AUSTRAC to target its education and compliance assessment efforts.

In the US, the Office of the Comptroller of the Currency created a “FinTech Charter” to enable the national licensing of qualified FinTech firms. Such institutions chartered by the Office of the Comptroller of the Currency would be subject to the same AML/CFT requirements as other banks. FinCEN engages with financial institutions, financial and regulatory technologies firms and other companies to understand their ability to enhance the effectiveness and efficiency of the AML/CFT compliance. It also assesses emerging technology to identify any vulnerabilities and associated risks to the U.S. financial systems that expose a gap in regulatory coverage or understanding. To date, more than 30% of all registered money services businesses dealing in virtual assets have been examined.

Several other countries have responded that FinTech firms are not treated differently to other financial institutions. For example in Germany, as in other EU Member States, technology neutrality and a risk-based approach are guiding principles of the supervisory framework for payment services. This includes AML/CFT requirements. However, there are no special provisions for FinTech firms. In Italy, FinTech firms providing financial services are subject as well to the same set of standard AML/CFT requirements. In the UK, FinTech firms are subject to standard AML/CFT requirements. Simplified or streamlined AML/CFT requirements do not apply to FinTech firms compared to those applicable to financial institutions. The Bank of England and Prudential Regulation Authority also take a technology-neutral approach to

regulation, meaning they do not mandate firms to use any particular technology to meet regulatory requirements.

4.1 Conclusions

Many jurisdictions are taking steps to promote the development of financial technology products. Regulatory sandboxes and innovation hubs, which currently exist in a number of jurisdictions, provide a good facilitating mechanism for such development. E-ID is a prime example of how innovation can benefit the remittance sector. In most cases the actions or products apply to the financial sector more broadly, but, like e-ID, are nonetheless still relevant for the remittance sector. Indeed, financial technology is widely viewed as an important element of a broader solution to the challenges faced by RSPs when attempting to access financial services.

National authorities are encouraged to continue levelling the playing field in order to foster an environment for innovation and consider technology neutral solutions when drafting laws and regulations. To the extent possible, the remittance sector should be taken into account when drafting such laws and regulations. At the same time, national authorities are encouraged to support the development of FinTech firms while ensuring that they are subject to appropriate AML/CFT requirements.

5. Remittance-related technical assistance

Technical assistance focused on the strengthening regulation and supervision of RSPs, where necessary.

In the context of recent national reforms targeting payment systems development, the WB has provided TA to a number of countries on the legal and regulatory framework (including the licensing and supervision of RSPs and the oversight of the remittances and payments market) with a view to opening of the market to innovative services and non-bank providers, while ensuring the safety, efficiency and competitiveness of the market.¹⁸ IMF TA missions have focused on strengthening the payment systems oversight function in member countries by (i) reviewing oversight objectives and standards; (ii) examining the oversight framework for payment related activities, including registration and licensing, ongoing monitoring, assessment, inducing changes, and transparency; and (iii) reviewing organisational capacity and challenges (including the organisational structure for payments oversight, division of responsibilities, reporting lines, potential conflicts of interest, staff numbers, staff skills). Therefore, the focus of such TA activities is broader than the regulation or supervision of RSPs, but includes it as a focus area.¹⁹ The WB and IMF use as a reference framework the Committee on Payment and Settlement Systems-WB *General principles for international remittance services* and other relevant international standards, including FATF Recommendations. In the context of its support to the Central Bank of Somalia's regulation of mobile money to strengthen

¹⁸ These reforms have covered inter alia the following countries: Vietnam, Indonesia, Lao PDR, Papua New Guinea, Samoa, Solomon Islands, Malaysia, the Philippines, Vanuatu, Ukraine, Albania, Kosovo, Bosnia and Herzegovina, Serbia, Egypt, Morocco, Tunisia, the West Bank and Gaza, Algeria, Angola, São Tomé e Príncipe, Burundi, Ethiopia and Mozambique.

¹⁹ IMF TA missions have been conducted in Kuwait, Nepal, Ukraine and the Kyrgyz Republic.

and safeguard remittances, the International Organization for Migration (IOM) has also provided relevant TA.

The WB is developing a technical assistance package on risk-based AML/CFT supervision of all financial institutions including the RSPs. The package contains very practical and effective tools that aim to boost a country's AML/CFT supervision capacity over a two-year period. The package is currently under development and has been piloted in Zambia, the Philippines, Malaysia, and Lao PDR. The official launch is expected to take place in May 2019.

The IMF has been providing technical assistance to strengthen legal frameworks for AML/CFT regulation and supervision in many countries. As part of the review of countries' AML/CFT laws, the advice has most often covered risk-based supervision, cooperation between AML/CFT supervisors, and sanctioning regimes. In some instances (e.g., Uruguay), staff has been assisting the development and implementation of risk-based supervisory tools for RSPs.

Preparing national risk-assessments to determine the level of risk posed by the remittance sector, particularly ML/TF risk.

The WB has developed a methodology to support jurisdictions when performing their national risk assessments. Since 2016, the WB has supported the preparation of national risk assessments in 20 countries and is now supporting another 25. In almost all cases, countries assessed the risks of the remittances sector as part of the national risk assessment and developed risk-based-action plans to address deficiencies.

The IMF has also been assisting countries in preparing national ML/TF risk assessments. This assistance systematically included an analysis of the risks posed by the remittances sector. In some instances (e.g. Bhutan) the TA beneficiary had a significant remittances sector.

Reducing the use of cash in remittance flows.

In the context of the Universal Financial Access (UFA) Goals for 2020, the WB is implementing a series of Programs to support access and usage of transaction accounts, such as FIGI (Financial Inclusion Global Initiative) or FISF (Financial Inclusion Support Framework). TA programmes under FIGI assist national authorities with the design and implementation of targeted policy and regulatory reforms to advance UFA. Such reforms are being implemented in Egypt, China and Mexico. Under FISF, TA activities consist in supporting authorities to develop and operationalize a national strategy for financial inclusion and countries of focus include Pakistan, Nigeria and Ethiopia. The WB remittances and Payments Program covering Kosovo, Albania, Serbia and Bosnia and Herzegovina also includes in its TA activities the adoption of strategic reforms to enhance access and usage of transaction accounts. The 'Ave Pa'anga Pau voucher initiative, supported by TA from the WB has been set-up in response to established commercial banks' ongoing de-risking policies that have resulted in the closure of Money Transfer Operators (MTOs) in sending countries like New Zealand as well as in Tonga – it has contributed to reducing the use of cash in remittance services in that corridor and it is planned that it is implemented in Australia, and possibly in Samoa and Fiji. The European Commission and IFAD provide TA to banks and remittance service providers to develop non-cash remittance services linked with other financial services in Malaysia, Pakistan, Bangladesh, Cambodia, Kenya and Uganda. IFAD provides similar TA programmes in Nepal, UAE and Qatar.

In the context of the implementation of frameworks inspired in the CPMI-WB Payments Aspects of Financial Inclusion Guidance (PAFI), the interoperability of payment infrastructures is a core area. The WB has implemented the PAFI framework in several countries and reforms to improve interoperability are currently active in Angola, Ethiopia, Sierra Leone, West Bank and Gaza, Albania, Kosovo. In Eastern Africa, the Consultative Group to Assist the Poor is supporting the establishment of a regional scheme for mobile money interoperability (covering Kenya, Tanzania, Uganda, Rwanda and Burundi).

Improving interconnectedness between remittance sending and receiving jurisdictions.

The WB is working on a blockchain based remittance corridor solution that aims to ease de-risking of MTOs. A first prototype of the solution has been developed and the project team is working on enhancements. The solution involves recording customer identification information and important details of each transaction on the blockchain in a cost-effective way. The solution is expected to give more confidence to correspondent banks (in their correspondent relationships with MTOs) while reducing the cost of compliance. The team has been in contact with Caribbean Development Bank to pilot the project in the region. Pilot countries have not been decided.

The WB is also exploring, in the framework of the Remittances and Payments Program (TA funded by the Swiss Government in the Western Balkans), support to improve the connectivity between sending countries in the EU and recipient countries in the Balkans. The improved connectivity would be through the participation of those countries in the recently launched Target Instant Payments of the European Central Bank and would include guidance to facilitate direct and indirect access of RSPs to these systems.

In the framework of its PRIME Africa Programme funded by the EU in partnership with the African Institute for Remittances (AIR), the WB and UNCDF, IFAD launched a Platform for Remittances, Investment and Migrant Entrepreneurship in Africa, with the aim of improving the management of remittances and its use for development outcomes in the continent. This €15 million initiative, implemented by the Financing Facility for Remittances (FFR), will contribute to the reduction of the cost of remittances and the promotion of their development impact through financial inclusion and investment, particularly in rural areas, for the next five years. The programme will target seven African countries and corridors and will have as one of its focus areas to set up and implement key initiatives promoting innovative business models, technologies, and partnerships to transfer remittances in a cheaper, faster and more convenient way.

Collecting data to monitor the evolution of the remittances market.

The WB manages the Remittance Prices Worldwide (RPW) database, which is the most comprehensive measurement of the price of sending money from countries. It currently covers 85% of global remittances value. Every quarter, mystery shoppers enquire about sending two remittances (the equivalents of US\$200 and US\$500) between 365 pairs of countries (“corridors”), recording all explicit fees and implicit charges and information on transparency, accessibility, and the speed of transaction. Data is collected for a variety of service providers: banks, money transfer operators (including FinTechs), mobile money operators, and post offices. For every corridor, providers surveyed by RPW account for at least 80 percent of the

market as measured by transaction value. Annual market analyses are conducted to ensure the list of providers and their market share data remain up to date. Every effort is made to include new innovative remittance service providers in the sample.

The WB also produces the following data regarding remittance flows:

- Bilateral remittance estimates using migrant stocks, host country incomes, and origin country incomes, which are updated annually;
- Annual remittances data, which are updated bi-annually

In addition, the WB issues a bi-annual brief on key developments in migration and remittance flows and related policies. It also provides medium-term (two years) projections of remittance flows. The remittance dataset is used worldwide, by governments as well as stock analysts following the payment industry.

The above-mentioned tools are used widely as a reference by policymakers, industry players and governments and strongly contribute to mainstreaming knowledge about remittance flows and prices. The WB also uses these tools in technical assistance programmes that focus on facilitating remittances.

The WB also delivers technical assistance to countries to improve data collection of formal and informal remittances (recent include Ethiopia and Nigeria), including by undertaking surveys on remittances flows and access points for sending or disbursement of remittances in China, Pakistan, Mozambique, and Ethiopia, under the Financial Inclusion Support Framework Program funded by the Netherlands and the Bill & Melinda Gates Foundation.

The IMF has developed a tool that supervisory authorities can use to monitor the development of CBRs, as well as restrictions imposed by CBRs on certain client segments, including RSPs.²⁰ IMF staff have provided TA on this tool to: Guatemala, Samoa, Jamaica, Guyana, Bahamas, Cayman and Belize. For 2019 TA is planned for the East Caribbean Central Bank and Turks and Caicos. The tool has also been used in IMF's surveillance (Article IV) in, amongst others, Cabo Verde, Belize and Seychelles (for Belize and Cabo Verde, Special Issue Papers have been published) and is also being used in IMF's Financial Sector Stability Review engagements (e.g. Paraguay and Cambodia).

Currently the IMF is working on expanding the framework, with a tool facilitating the data collection of values, volumes and prices of remittances. The tool is currently being discussed with the Marshall Islands and may be made available to all member countries once finalised and tested.

The IMF is also working towards improving the coverage of data on cross-border remittances which includes, among others, collecting data of remittances through new channels such as mobile money. A pilot survey of telecommunication companies was conducted in three countries (Botswana, Philippines, and Uganda) on cross-border mobile money remittances. As a follow up action based on survey results, a TA mission is planned to Philippines within the newly-established Data for Decisions (D4D) Trust Fund that will assess progress made in improving reporting of remittances through surveys on mobile money transactions. This would feed into external sector statistics capacity development in other low and lower-middle income

²⁰ IMF (2017), [Understanding Correspondent Banking Trends: A Monitoring Framework](#), October.

countries, where remittances are often a major, yet difficult-to-measure, balance of payments inflow.

Other international organisations such as IFAD and IOM contribute to improving remittances data. IOM has supported authorities in Ghana to develop a database on remittances and is planning to replicate similar initiatives in other countries. IFAD's Remitscope initiative focusing on Asia and to be replicated in Africa and funded by the EU's MIGGRA programme (2015-2020), collects and disseminates information and data on remittances, market trends, remittance-linked financial services, and licensing conditions for remittance service providers, which is posted on an IFAD hosted website (RemitScope.org). IFAD's Sending Money Home reports address the linkages between remittances and diaspora investment and development and exploits existing data from the WB on flows and costs of remittances. In the framework of its PRIME Program IFAD, in partnership with the WB, AIR, and UNCDF will have as one of its focus areas to provide strategic market data for further market depth and width and capacity building to strategic stakeholders for remittance data creation and dissemination.

The WB, IMF and other organisations mentioned also contribute to improving remittances data when performing diagnostics of remittances markets in selected countries.

5.1 Conclusions

The WB, IMF and other organisations have provided significant amounts of TA to a broad range of jurisdictions to enhance oversight of the remittance sector, assist with the preparation of national risk assessments, improve the connectivity between sending and receiving jurisdictions, and the monitoring the evolution of the remittances market. Anecdotal evidence suggests that the TA is having a positive effect, but further improvements are still needed in some areas, particularly oversight and supervision of the remittance sector.

6. Conclusion and next steps

The 19 recommendations in the 2018 report identified a number of areas of weaknesses or steps that could be taken by banks, RSPs and national authorities that, if addressed, may enable RSPs to have greater access to banking services. Progress has been made against some of the recommendations, but further work remains: for example, the average cost of sending remittances is still well above the UN's Sustainable Development Goal, RSPs continue to struggle to access the banking system and banks' AML/CFT concerns with RSPs remain largely unmitigated.

The report identifies the areas where implementation at the national level needs to be further improved. At the international level, while there is no need for additional standards, monitoring by the relevant bodies needs to continue and possibly needs to be supplemented by additional guidance and/or best practices for supervision and enforcement as well as for RSPs. Furthermore, technical assistance targeted towards remittances must continue and coordination among donors should be increased.

In light of the above, FSB proposes the following next steps that build upon the previous recommendations and address the request of the G20:

- FATF (in cooperation with the Basel Committee on Banking Supervision for issues pertaining to risk management in the context of banking supervision):

to continue monitoring actions by national authorities to implement standards and guidance as they relate to remittance firms through mutual evaluations and follow-up reports.

to consider organising a workshop for national authorities to identify and share effective practices on supervision, licencing and enforcement in the remittance sector.

- FSB to coordinate:
 - provision of remittance-related TA, through the FSB’s Correspondent Banking Coordination Group TA workstream.
 - development of guidance on communication strategies for jurisdictions in explaining the steps they have taken to address perceived weaknesses in regulatory frameworks for remittance firms (using as a model the guidance it has provided on communication strategies relating to regulatory frameworks for correspondent banking).
- FSB to convene the official sector, banks and remittance firms:
 - to work together to develop guidance and information that RSPs should provide to banks to facilitate due diligence.
 - to discuss the scope for development of standardised tools targeted towards remittances that would facilitate customer due diligence and reduce costs.