TC NOTES

PRACTICAL **LEADERSHIP** AND **GUIDANCE** FROM TORONTO CENTRE

THE ROLE OF SUPERVISION IN THE FINANCIAL INCLUSION OF FORCIBLY DISPLACED PERSONS

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THE ROLE OF SUPERVISION IN THE FINANCIAL INCLUSION OF FORCIBLY DISPLACED PERSONS

Introduction[1]

Financial services continue to be key to addressing today's pressing global issues of poverty, inequality, migration, and the protection of the environment; and to the achievement of an array of national development goals. Some 1.4 billion adults remained unbanked in 2021,[2] with most living in developing economies, mainly in Africa and Southeast Asia.[3] They include vulnerable groups such as women, the elderly, and forcibly displaced persons or refugees, who are the focus of this Toronto Centre Note.

Forcibly displaced persons[4] (FDPs) numbered 110 million worldwide in 2022,[5] with the cross-border refugee population standing at 36.4 million in 2023.[6] The continuing cross-border refugee crisis caused by conflict in Africa, the Middle East (Syria and Afghanistan), and in Eastern Europe with the recent Ukrainian crisis, has created great vulnerabilities for forcibly displaced populations, as well as for host communities.[7]

The UN Global Compact on Refugees (GCR) recognizes that easing access to affordable financial products and services for host and refugee communities is an important aspect of improving the livelihoods and self-reliance of FDPs.[8] The World Bank also recognizes – under its Private Sector for Refugees (PS4R) program[9] – that FDPs can be economy-builders in their host countries as entrepreneurs, investees, employees, and customers, and can provide a new prospective customer base for financial institutions.

There is empirical evidence that access to safe, affordable, and reliable financial services is vital for FDPs and enables them to:[10]

- Safely store money
- Build up savings
- Receive money transfers and conduct everyday financial transactions

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[1] This Toronto Centre Note was prepared by Mercy Buku. Please address any questions about this Note to publications@torontocentre.org.
[2] Global Findex (2021).
[3] Global Findex (2017).
[4] According to the Office of the United Nations High Commissioner for Refugees (UNHCR), forced displacement occurs when individuals and communities have been forced or obliged to flee or to leave their homes or places of habitual residence in order to avoid the effects of certain events or situations. These include armed conflict, generalized violence, human rights abuses, natural or man-made disasters, and development projects. Forcibly displaced persons include stateless persons, asylum seekers, refugees, returnees, and internally displaced persons (IDPs) as defined by the UNHCR (Definitions section).
[5] UNHCR (2022).
[6] UNHCR (2023a); (UNHCR 2023b).
[7] ILO (2024).
[8] UNGCR (2018) page 13.
[9] World Bank (2024).
[10] AFI (2017).

- Overcome difficult financial situations
- Apply their skills and competencies to realize their future potential
- Contribute to the economic development of their host community or country
- Mitigate the challenges that forced displacement poses to the Sustainable Development Goals

For countries with large refugee populations, the incorporation of FDPs in national financial inclusion strategies (NFIS) should therefore be a key priority. Available data indicate that FDPs often do not have adequate access to appropriate, fast, cost-effective, and safe financial services in their host communities. For example, in 2017 they represented 3.3% of the total population of financially excluded persons.[11]

Many host countries lack data on the financial inclusion of FDPs. However, corresponding data on migrant remittances points to strong links with refugee populations living in these countries. For example, a study in Mauritania, Afghanistan, and Rwanda indicated that a large percentage of inward remittances are from countries with displaced populations.[12]

The objective of this Note is to explore measures that financial services regulators and supervisors can put in place to reduce or remove the constraints and barriers impeding the financial inclusion of FDPs.

Barriers to financial inclusion for FDPs

Various constraints and barriers prevent eligible adults, including FDPs, from accessing financial services. These include regulatory, literacy, financial, gender, cultural, mobility, and other constraints, and have a negative impact on customers' trust in, adoption, and use of formal financial services.

Notable barriers to the financial inclusion of FDPs are:[13]

Inadequate financial services

FDPs are often disadvantaged by their inability to access quality banking and other financial services in the host country, including payments and transfers, savings, loans, and insurance. In many host countries, uncertainty in the financial services sector about what financial services FDPs require, or the appropriate delivery channels or regulatory approaches for such services, leads to the failure to create financial products targeted at FDPs.[14] Misplaced marketing strategies, coupled with the perception that FDPs may not be an attractive customer base due to their perceived low-income status, also contribute to the financial exclusion of FDPs.

As a result, many financial products offered may be unsuitable for FDPs, due for example to unfavourable account opening requirements, high transaction limits for current accounts, or savings and credit products targeting high-income or salaried customers. Products for the FDP

[11] AFI (2017).
[12] AFI (2020). For example, Rwanda receives remittances mainly from countries such as the Democratic Republic of Congo, Burundi, and Tanzania, while 70% of the inbound remittances to Afghanistan are from Iran and Pakistan. This suggests links with the displaced populations in these countries. See also World Bank (2020a).
[13] CGAP (2017 and 2020).
[14] Hassan (2020).

community typically focus on responding to emergency needs, such as pre-paid cards, smart cards, basic bank account facilities, and limited mobile money services.

Additionally, financial institutions and supervisory authorities in these countries may not prioritize financial services to FDPs in the absence of specific strategies for the financial inclusion of FDPs at a national policy level.

Money Laundering and Terrorist Financing (ML/TF) risks

One of the primary barriers to FDPs' access to financial services is the lack of official or acceptable identity documents issued by their home country, due to their refugee status. This restricts their access to financial services as they are unable to comply with stringent account opening requirements under anti-money laundering (AML) legislation, which creates challenges in establishing and verifying their identity. National ML/TF risk assessments may also exclude FDPs.[15] Consequently, FDPs are often categorized as high risk for money laundering and terrorist financing.[16]

Additionally, legislation in the host country may not provide for the registration of refugees, which would facilitate their access to required identity documentation. Even where such registration is available, applicable AML legislation or supervisory guidance may not provide for the acceptance of refugee documentation for the opening of accounts.

Undocumented stateless persons may also be considered to pose a high risk of terrorist financing, because their movements and activities (including cross-border transactions) are not easy to track**.** Additionally, limited customer information on FDPs creates challenges in implementing sanction-screening and monitoring requirements.

The distance from formal financial institutions also leads to refugees relying on informal money transfer mechanisms such as *Hawala,*[17] which is a popular choice, particularly for migrants from the Middle East, North Africa, and South Asia. However, *Hawala*'s position outside formal regulatory frameworks has raised concerns about its transparency and its potential use for illicit activities, including terrorist financing.[18]

Country barriers

A lack of political goodwill in the host country for the recognition of refugees, of appropriate regulation to facilitate their documentation, and of specific financial inclusion strategies for the financial inclusion of FDPs at a national policy level impede the inclusion of FDPs in any meaningful economic activity in the host country. Many host countries have restrictions against the employment of foreigners, which make it difficult for FDPs to find employment as they cannot obtain official work permits. The political situation surrounding FDPs –arising from movement disruptions, the lack of clarity on their status, entitlements and assumed permanence, and the diversity of FDPs – may also negatively influence the provision of financial

[15] AFI (2017).
[16] An assessment of these risks should also include "proliferation financing" (of weapons) under FATF Recommendation 1.
[17] *Hawala* is an informal money transfer system operating via a network of brokers or agents and involves the transfer of money without the actual movement of cash. See FATF (2017).
[18] Zhang (2023).

services to them. The lack of support networks and housing in conducive locations (for example, the distance of refugee camps from town centres) also limits financial access.

Low levels of financial inclusion in the host country

Countries that have no specific financial inclusion strategies for their citizens, or where such strategies are still at nascent stages of implementation, are unlikely to prioritize the financial needs of FDPs. In addition, gender barriers – such as cultural norms and social practices which discourage women from having accounts – will have an adverse impact on female refugees.

Prevalence of cash-based economies

Cash-based economies in host countries hamper food security initiatives for refugees, which may require the opening of a basic mobile money or savings account. As a result, donor agencies may not be in a position to channel much-needed funds to refugees for the purchase of food, since the refugees will be accustomed to dealing mainly with cash transactions.

Additionally, refugees will typically be engaged in informal small-scale cash-based businesses (for example, within refugee camps). These may not generate enough income for them to consider opening bank accounts as they will use their meagre earnings to support their basic needs. These impediments draw FDPs into the "grey" market, leaving them unable to document their source of income or earn a living through self-employment. FDPs residing outside refugee camps may also not seek official registration if there is a risk of detention or deportation, and so may not be able to access financial services. As a result, their financial transactions will be mainly carried out in cash.[19]

Absence of formal education and financial literacy

Education usually determines livelihood goals, wealth, and the need for innovative financial services. People with no formal primary, secondary, or university education are more likely to be financially excluded than those higher up the education ladder. Refugees living in camps may face language and financial knowledge constraints and may not have access to schools or financial education. As a result, they will not be in a position to make informed decisions about their financial needs. This can lead to misconceptions about and mistrust of financial services, and may intimidate or discourage refugees from accessing financial services such as mobile money.[20]

Unfair market practices, fraud, and data privacy risks

High service fees and a lack of transparency in pricing and the setting of tariffs discourage users of financial services, particularly mobile money where P2P transfers will be for relatively small

[19] According to a survey of 11.2 million refugees in 18 countries carried out by UNHCR in 2022, 64% (eight million) had full or partial access to free movement rights or exit permits required for camp residents and 29% (three million) had no freedom of movement. Some 52% (8.4 million) lived in jurisdictions with laws that provided full or partial access to decent work, including wage-earning and self-employment. According to UNHCR's Global Livelihoods Survey 2023, only 38% of refugees had unrestricted access to formal employment in 2021, and at least seven countries required refugees to obtain a work permit before entering the labour market. See UNHCR (2023c).
[20] See also AFI (2022b).

amounts. Due to language barriers, FDPs may need to rely on agents or third parties to help them make financial transactions, which may expose them to security and fraud risks.

Lack of access to digital finance

Other factors preventing the delivery of digital financial services and aid to refugees include the inability to access mobile phones; poor agent distribution networks in refugee centres; financial literacy and numeracy challenges; and system challenges.[21]

Overcoming the barriers: Supervisory approaches to the financial inclusion of FDPs

Ensuring that all adults have access to formal financial services – transactions, payments, savings, credit, and insurance – is a key financial inclusion objective that can also help address many of the economic challenges faced by FDPs.[22]

There are specific measures financial services supervisors can take to create favorable environments for the inclusion of FDPs These include:

- Addressing challenges with customer due diligence (CDD) and identity documentation (ID) requirements
- The provision of appropriate supervisory guidance to encourage the provision of financial services to FDPs
- Sensitization and awareness programs for financial institutions on the benefits of financial services for FDPs
- Participation in government initiatives to incorporate FDPs in NFISs and risk assessments, including through the provision of data

Supervisory guidance and regulatory architecture

The provision of supervisory guidance is a critical aspect of supervisory practice and is of particular relevance in the absence of regulation.[23] Supervisors in host countries should put in place appropriate guidance on customer identification and verification for FDPs who lack traditional ID documentation and cannot reasonably meet standard identification/verification requirements. Supervisors can also provide guidance on financial services and products that would meet the needs of FDPs. Such guidance can include supervisory approval for specific services and products targeting FDPs.

[21] These barriers are discussed in detail in Toronto Centre (2019).
[22] See also AFI (2022b) on policy measures for the financial inclusion of FDPs.
[23] An example where supervisors were able to advance financial inclusion in the absence of regulation is the launch of the M-PESA mobile money service in Kenya in 2007. Although there were no formal national payment regulations in place, the Central Bank was able to issue supervisory guidance allowing its operation, using its existing mandate under the Central Bank of Kenya Act. This model was replicated in many countries in the region such as Uganda (with MTN Cash) and Tanzania (with M-PESA).

Box 1: Examples of financial services targeting FDPs[24]

Eswatini – FDPs can access mobile wallets from MTN Eswatini, and savings accounts and remittances services from Standard Bank, Nedbank, and Western Union, using the UNHCR registration documentation approved by the Central Bank of Eswatini.

Rwanda – The National Bank of Rwanda has approved measures to allow FDPs to have access to bank accounts offered by financial institutions such as Equity Bank. Eligible refugee households have bank accounts linked with a Mastercard debit card, which enable them to receive relief aid, cross-border digital wallets named "Leaf" for remittance transactions through smartphone apps or USSD (Unstructured Supplementary Service Data), and access to mobile money accounts provided by mobile network operators (MNOs) such as MTN. The MNOs have also partnered with banks to offer microcredit and loans to refugees.

Europe – In keeping with guidance issued by the European Banking Authority (EBA) in April 2022, the LGT, LLB, and VP Bank provide fee-free accounts to Ukrainians with relaxed Know Your Customer (KYC) rules, which includes payment transactions and a Eurocheque debit card (Lichtenstein Initiative, March 2022).

Box 2: Use of regulatory sandboxes to promote financial inclusion[25]

Jordan

The Central Bank of Jordan promotes fintech innovation through regulatory sandbox activities linked to its National Financial Inclusion Strategy. These include the introduction of a fintech pillar aimed at reducing bottlenecks to financial inclusion and the promotion of financial access through innovation. The sandbox contributes to inclusion goals by testing innovations that support inclusive and scalable products, services, and delivery channels targeting Jordan's priority populations: women, youth, refugees, and low-income populations. Fintech initiatives to support inclusion include interoperable retail payment systems; digital payments, such as cash transfers and bill payments; and innovative identity solutions to include vulnerable sections of society.

[24] See AFI (2019) and EBA (2016 and 2022b).
[25] See AFI (2019 and 2022a) and CGAP (2017).

The Pacific Regional Regulatory Sandbox

The Pacific Regional Regulatory Sandbox is another example of leveraging fintech to reach unbanked populations. The sandbox was launched by central banks in Fiji, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Timor-Leste, Tonga, and Vanuatu to allow financial service providers and financial technology firms to test their products and services in a live environment, and to offer a single market solution for financial inclusion in a region that has one of the highest rates of unbanked persons globally.

Regulatory architecture is an important aspect of supervisory guidance and can support the development of financial products which are "fit for purpose," with supporting technology that is robust in terms of privacy and security. For example, regulatory sandboxes can be used to test specific new ways of identifying and verifying FDP customers, monitoring their transactions, and providing FDPs with privacy and security from the design stage.[26]

Addressing the ID and customer due diligence (CDD) problem

Measures to address the lack of formal identification for FDPs could include putting in place specific customer identification and verification requirements for FDPs within the context of anti-money laundering and countering the financing of terrorism (AML/CTF) regulations.

The adoption of a risk-based approach in supervisory guidance would encourage a greater understanding of tiered CDD. It would also enable the mitigation of risk in situations where FDPs can only meet simplified customer identification requirements. Supervisory guidance can stipulate acceptable alternative forms of identification documents, data, or information that financial institutions could use to conduct CDD for FDPs.

The risk-based approach to CDD is discussed in greater detail later in this Note.

Involvement of FDPs in product development

Supervisors need to understand the financial needs of FDPs within the context of their country's wider NFIS. This will enable them to put in place guidance promoting the targeted provision of financial services to FDPs, thereby avoiding a "one size fits all" mentality. Where appropriate, FDPs should be given the opportunity to indicate their individual preferences and needs; for example, through financial literacy programs and financial inclusion diagnostic surveys targeting vulnerable groups, driven by the country's NFIS.[27]

Supervisors can be involved in co-ordinating these financial literacy programs and diagnostic surveys and in the dissemination of the results to stakeholders, including financial institutions.

[26] See also World Bank (2020b).
[27] Financial inclusion diagnostic studies provide relevant data which facilitate the implementation of evidence-based, targeted policy measures for unbanked segments of the population.

Such initiatives would also help address the current data gaps relating to the financial inclusion of FDPs.

Box 3: Leveraging financial literacy programs for refugees – Uganda[28]

Uganda has about 1.5 million refugees from South Sudan, Democratic Republic of Congo, Burundi, and Rwanda. A toolkit was developed by the UN World Food Programme, the United Nations Capital Development Fund, and PHB Development in co-ordination with the Bank of Uganda (BOU). The toolkit has a curriculum tailored to meet the financial needs and realities of refugees and refugee-hosting communities in Uganda by creating better financial awareness among refugees to accommodate the shift from food-based support to cash-based support.

The BOU has also included refugees in its own financial literacy curriculum. The BOU co-ordinated the development of the Strategy for Financial Literacy in Uganda (2019-2024), which explicitly references refugees as a special interest group for targeted training in financial literacy programs.

Digital financial inclusion programs

Digital financial inclusion programs play a vital role in providing access to financial services in countries with unbanked populations. In host countries, such programs can be leveraged to facilitate the provision of financial services to FDPs.

Supervisors can play a critical role in the implementation of digital financial inclusion programs in their respective sectors including the approval of digital financial products targeting FDPs such as mobile money, remittances, and digital credit and savings accounts. Such products have simplified CDD requirements which are essential for moving low-income customers from reliance on basic cash transactions to the adoption of a savings culture and financial security.

In particular, promoting mobile money usage among FDPs is critical as it is an important enabler of financial inclusion in Sub-Saharan Africa –both as a driver of account ownership and of account usage through mobile payments, saving, and borrowing.[29] This is especially so for vulnerable groups, including FDPs and women.

Relief aid initiatives for refugees have also benefitted from the promotion of digital financial services in host countries with significant refugee populations, such as Kenya, Tanzania, Nigeria, Zambia, Rwanda, and Jordan. For example, remittance services offered to FDPs in partnership with donor agencies such as the UNHCR and the World Food Programme have contributed significantly to the financial empowerment and economic improvement of FDPs.[30]

[28] UNHCR (2021a and 2021b).
[29] Global Findex (2021), See also Batsaikhan et al (2018) on KYC barriers to financial inclusion for migrants in the European Union.
[30] Financial services such as money transfer services and humanitarian cash assistance can provide a lifeline for refugees seeking to rebuild their livelihoods. See Vos, et al (2020).

Box 4: Digital financial inclusion for FDPs[31]

In Kenya, Safaricom's M-PESA mobile money platform, which is regulated by the Central Bank of Kenya, has facilitated the delivery of relief aid to over 400,000 refugees. For example, 53% of participants in the Cash and Voucher Assistance program, administered by the Kenya Red Cross in the Kakuma camps, said they preferred to receive payments via mobile money (23%) and bank transfers (30%). M-PESA was the preferred mobile payment method. During the COVID-19 pandemic, the Central Bank of Jordan provided digital mobile registration through an online platform to provide accessibility and support social distancing. The platform was also made accessible to refugees. The Bank of Zambia and ZICTA, the telecommunications regulator, approved the use of proof of registration, refugee certificate and refugee ID cards as valid ID for mobile wallet registration. This enabled refugees to gain access to formal financial services under their own names.

Improvement of financial infrastructure

Central banks are the custodians of settlement and payment systems in most host countries and have a responsibility to maintain the stability of the financial system.[32] Stable financial infrastructures can promote the economic resilience of FDPs during times of displacement by facilitating payments and the delivery of financial aid, for example through electronic transfers to bank accounts and mobile wallets. Increased access to financial services can be vital in supporting FDPs and host communities to mitigate economic shocks. This was particularly relevant during the COVID-19 pandemic.[33]

Financial infrastructure includes physical infrastructure (bank branches, ATMs, agent networks, and mobile agents) as well as non-physical infrastructure (mobile and other digital payment systems).

Supervisory measures for improving the financial infrastructure include:[34]

- Issuing guidance and carrying out market surveys to support providers in putting adequate and trained agent networks in place, with appropriate point-of-sale (POS) devices in refugee camps and remote areas.
- Encouraging the establishment of physical infrastructure to support the transfer of humanitarian assistance payments securely and quickly into accounts through traceable, digital transfers. This could entail, for example, putting in place regulation and other oversight measures to provide for stable mobile and electronic connectivity to assist with the delivery of financial aid to refugees, with penalties for non-compliance as evidenced by system downtimes.

[31] See IFRC (2022), World Bank (2020a), and UNHCR (2020b).
[32] See also BIS (2005) and Toronto Centre (2023).
[33] Beinker and Shorey (2020). See also GSMA (2017).
[34] AFI (2019).

- Putting in place robust digital payment and agent banking regulations and supervisory guidelines providing for secure and reliable interoperable payment infrastructures. These would support account portability (as well as portability of digital identities), and cross-border transactions that are vital for FDPs. For example, national payment systems can be linked to national ID systems where feasible to facilitate easy identification and verification of FDPs who have refugee IDs.
- Encouraging provider investment in physical infrastructure, for example through increased mobile network and agent accessibility to support the provision of widespread digitally enabled financial services, even in rural areas and displacement camps that may be far from urban centres.[35]

Risk management responses and consumer protection

Risk management responses at the provider level need to be enhanced to address several potential barriers, such as fraud and cyber security risks, as FDPs may be more vulnerable to financial exploitation (for example, by unscrupulous lenders), and have personal security concerns associated with cash distribution.

An important aspect of risk-based supervision is understanding financial inclusion products and services, the risks associated with financial exclusion, and the risk assessment processes needed to justify exemptions or an appropriate level of due diligence measures.[36] Supervisors should recognize the need to balance financial inclusion initiatives with financial integrity, and implement financial consumer protection frameworks with appropriate guidance that provides for issues of specific relevance to FDPs. Such guidance should facilitate responsible innovation that identifies and addresses associated AML/CFT risks, as well as fraud, security, data protection, and consumer protection risks, through the implementation by providers of robust AML/CFT risk management programs.

Financial literacy programs targeting FDPs are a useful consumer protection tool for supervisors. Consumers who are financially literate gain the ability to make better choices, understand the risks of using financial products and their rights in relation to these risks, and where to seek redress from the right channels.[37]

Industry collaborative efforts

Supervisors are key stakeholders in financial inclusion policy-making initiatives and, in many countries, are tasked with the implementation of NFISs.[38] An NFIS can be an effective policy tool for increasing access to formal financial services, and can also help to ensure that financial

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[35] Invariably, this will require the joint action of both bank supervisors and mobile network regulators, who share a joint responsibility for supervising digital financial services offered on mobile networks.
[36] FATF (2021).
[37] For example, financial consumer protection and education are priorities for the Bank of Zambia towards achieving financial sector development in Zambia, stimulating sustainable access to finance by consumers, and building trust in the financial system. These objectives have also been incorporated in financial inclusion programs targeting refugees in Zambia. See also AFI (2022b and 2022c), Toronto Centre (2022) and World Bank (2014).
[38] For example, the Bank of Zambia, Reserve Bank of Malawi, and Central Bank of Philippines (BSP) have played a pivotal role in the implementation of their NFISs which have advanced financial inclusion in their respective countries. See AFI (2018).

inclusion efforts are targeted, co-ordinated, measured and harmonized with other related national policy agendas.[39]

Supervisors can promote the inclusion of FDPs in an NFIS by providing data on FDPs for financial inclusion diagnostic surveys and National Risk Assessments and incorporating alternative ID requirements in supervisory guidance and regulations.

Supervisors can also help create and participate in partnerships with the private sector and humanitarian and development agencies. Additionally, supervisors should consider how to reach FDPs and offer incentives to financial service providers that address the needs of FDPs. For example, they might allow the relaxation of KYC rules by providing alternative ID requirements, and leverage the payment infrastructure to distribute cash-based humanitarian assistance.[40]

Risk-based approach to the financial inclusion of FDPs

Risk-based approach to CDD

Countries are required to comply with Financial Action Task Force (FATF) Recommendations[41] on the provision of financial services so as to ensure that these services are not being abused for money laundering, terrorist and proliferation financing, and other criminal activities.

Countries are further required to have comprehensive AML legislation providing for adequate customer due diligence measures at account opening, to enable the verification of the identity of the users of financial services, and to facilitate the monitoring of ongoing customer relationships. This obligation extends to supervisors and financial institutions.

Identifying and verifying the identity of potential customers is, in practice, the main challenge for financial institutions when seeking to on-board previously unbanked, unserved, or underserved people. Certain population segments including vulnerable groups such as FDPs often do not have official or acceptable identity documents issued by their home country. These challenges may also affect specific groups of people in developed economies, for example asylum seekers and refugees from higher-risk countries.[42]

From a financial inclusion perspective, FATF recognizes that inappropriate AML/CFT regulation and compliance may unnecessarily exclude customers. This may have negative consequences such as growing the cash economy, which in turn may make transactions harder to track and hinder efforts to combat money laundering and terrorist financing.[43] FATF therefore

[39] AFI (2020).
[40] See also Wang, Weiyi et. al (2021).
[41] FATF Recommendations (2012) as amended 2023, and FATF (2007).
[42] For example, Somali, Sudanese, and Ukrainian refugees in Europe, U.K., and the U.S.
[43] FATF (2021). Financial exclusion of customers holds serious ML/FT risks as customers may seek the unregulated cash economy or access services by providers who may not have robust risk control measures.

recommends aligning AML/CFT and financial inclusion policy objectives to offer all population segments access to secure financial services.[44]

FATF advocates a risk-based approach which allows exemptions from AML/CFT obligations. For example, under the risk-based approach, supervisors may allow Simplified Due Diligence (SDD) in situations of proven low risk in limited and justified circumstances (for a particular institution or activity, or for low-value balances and transactions).[45]

Box 5: examples of simplified due diligence measures[46]

Kenya and Tanzania – Implemented tiered KYC thresholds for the Mshwari and Mpawa digital banking savings and credit products, which are pegged to the M-PESA mobile money transfer service. The thresholds are based on the amount saved, with enhanced KYC measures (such as submission of copies of identification) required for amounts in excess of $2,500.

Chile – Allows the opening of deposit accounts linked to tax numbers for low-income persons.

Fiji – Allows for account opening with a suitable referral letter and a birth certificate in place of a formal ID. Suitable referees are widely categorized to allow flexibility.

Mexico –Has approved an SDD structure for account opening pegged to low transactional volumes. For example, no physical identification card copies are required for accounts with transactions of less than $1,150 per month.

Where standard identification requirements (for documentation or digital records) are not readily available, the FATF Guidance notes[47] on financial inclusion and the risk-based approach to CDD offer flexibility to ensure that certain groups (low-income and those assessed as lower risk) are not unreasonably excluded from accessing financial services.

For example, low-income users and other vulnerable groups (such as women, youth, and the elderly) may be categorized as low risk to enable them access basic savings accounts, with restricted balance and transaction limits. Similarly, if refugees and displaced persons cannot access their accounts in their former country, they may require recognition of their former national identification or other identity documents to access banking facilities in their new country.

Financial Action Task Force guidance on a risk-based approach for FDPs

FDPs are usually categorized as high risk for money laundering and terrorist financing. This is because they often do not have official or acceptable identity documents issued by their home

[44] FATF (2017).
[45] Ibid.
[46] See FATF (2017), and Faz (2013).
[47] FATF (2007) and FATF (2012), updated 2023.

country, which creates challenges in establishing and verifying their identity. Limited customer information on FDPs creates challenges in implementing sanction screening requirements and in ongoing monitoring requirements. Undocumented stateless persons also pose a high risk of terrorist financing as their movements and activities are not easy to track. Additionally, many FDPs come from countries that have experienced political instability, conflict, and related terrorism concerns. This creates difficulties in determining the type and level of monitoring required to address higher risks of terrorist and proliferation financing. These factors increase their risk of exposure to money laundering and terrorist financing risks.

FATF recognizes that while customer identification is a primary AML/CFT control for financial services, providing FDPs with access to financial services and products is critical to their full participation in economic and social life. It is also a door-opener to other services such as basic utilities, housing contracts, education, or small business loans. There is therefore a need for acceptable alternative identification measures for these vulnerable groups, where formal identification is lacking.[48]

The FATF guidance on digital identities[49] also highlights the importance of access to a transaction account for the delivery and receipt of humanitarian assistance. The guidance suggests measures that can be taken to prevent financial exclusion, including biometric registration and the acceptance of refugee identity documents as reliable and independent evidence of official identity to open a bank account and access other financial services.

Supervisory actions for the adoption of a risk-based approach for FDPs

Measures that supervisors can introduce to enable a risk-based approach for the provision of financial services for FDPs include:[50]

1. The provision of legislative and regulatory frameworks and supervisory guidance prescribing simplified customer due diligence measures for the onboarding of FDPs, within the context of anti-money laundering and countering the financing of terrorism (AML/CFT); with alternative identification to address the lack of formal identification. In addition, the integration of refugee identity documents in national ID registration systems facilitates the easy identification and verification of refugees.

   Examples of simplified CDD measures that provide for acceptable alternative identification include:

   - Acceptance of other types of evidence of identity, which may include a letter or statement from a 'person of standing' such as a local chief, head teacher, community leader, or refugee camp administrator
   - Acceptance of UNHCR issued refugee cards, including asylum cards, resident status permits, and other refugee registration documents as proof of identity and refugee status
   - Recognizing temporary documentation applicable to displaced persons or refugees, such as registration slips and waiting cards

48 FATF (2017).
49 FATF (2020).
50 FATF (2017).

- Delaying the implementation of CDD measures; for example, allowing the limited operation of accounts until full documentation is received
- Setting threshold-based CDD for money transfers that do not impose unreasonable identification requirements on those who may not have such documents. This would enable FDPs to access low value mobile money and digital credit products

Examples of host countries where central banks have permitted the use of alternative identification documents to satisfy KYC and CDD include Zambia, Burundi, Malawi, Jordan, Nigeria, and Kenya. Additionally, countries such as Kenya, Uganda, Zambia, and South Africa issue refugee IDs under their National Identity Registration processes. These are included in the list of acceptable IDs for KYC purposes under their AML legislation. These measures have been adopted in supervisory guidance on the risk-based approach to CDD in these countries.

2. Providing guidance to financial institutions on ongoing customer due diligence verification and monitoring, undertaking risk assessments targeted at FDPs, and using risk-related information (such as country background, location, and refugee status) to support risk assessments and the categorization of FDPs. Supervisors can provide capacity building for financial institutions to foster a greater understanding of tiered CDD and of mitigating risk – while fully complying with CDD norms –where certain underserved segments meet only simplified customer identification requirements.[51]
3. Approving measures by financial institutions to design digital onboarding policies aimed at improving the identification and verification of new customers, taking into account the risk-based approach and allowing lower levels of due diligence for customers and/or activities deemed 'lower risk', with concessions on KYC obligations for FDPs and vulnerable host communities. For example, certain products with limited functionality –such as savings accounts, insurance products, and mobile wallets –can be defined as low-risk and targeted to refugees and low-income earners.

Box 6: Case Studies: Simplified due diligence for FDPs[52]

Rwanda: Refugees have had access to bank accounts since 2017. The National Bank of Rwanda allowed the UNHCR Proof of Registration as a proxy KYC for refugees who did not have a government-issued refugee ID.

Kenya and Tanzania: Agencies such as the UNHCR, World Food Programme, and IFAD have partnered with local mobile network operators (MNOs) and banks to provide remittances for food and basic needs to refugees through mobile money wallets, which are usually opened on simplified CDD, such as copies of proof of registration and refugee cards.

[51] FATF (2021).
[52] See AFI (2017 and 2020), ILO (2022), and EBA (2022a and 2022b).

Uganda: In 2019, in recognition that the refugee ID card can take months to issue, the Uganda Communications Commission enabled greater access to finance for refugees by allowing MNOs – who typically provide more affordable and accessible mobile money services – to accept the Refugee Registration document or a government-issued attestation letter, as a valid refugee ID for the registration of mobile wallets for FDPs.

Zambia: The telecommunications regulator, ZICTA, and the Bank of Zambia enabled the use of the alien certificate, refugee certificate, and refugee identity card as valid proof of identity to open bank and mobile money accounts for FDPs.

Philippines: The central bank allowed the temporary relaxation of identification requirements following a natural disaster (Typhoon Haiyan), with specific controls on transaction limits and relaxed documentation requirements. This enabled typhoon victims who had lost property and official identification documents to withdraw deposits, receive remittances, take out loans, and access other financial services.

Europe and U.S.: In recognition that financial inclusion plays a critical role in socio-economic integration, the Finance Against Slavery and Trafficking (FAST) initiative at the United Nations University Center for Policy Research has worked with banks across Europe and the U.S. to provide basic banking services to survivors of trafficking and refugees. In April 2022, the EBA issued guidance to financial institutions and supervisors to enable them to provide financial services to Ukrainian refugees by adapting their AML/CFT policies to address compliance challenges.

4. Participating in initiatives at a national policy level to implement an integrated identity framework that includes biometric registration and the establishment of a robust and secure digital identity infrastructure that can support the financial sector. Biometric registration as well as Electronic KYC (e-KYC) projects can also be leveraged to include FDPs.[53] A number of countries have introduced biometric registration and e-KYC to support simplified due diligence as an alternative to traditional methods of identification. Biometric information enables the storage of information in centralized databases, which can be used to identify and verify customers at financial institutions. This helps promote financial inclusion as it eliminates the need to produce physical ID documents for financial transactions. Countries that have introduced biometric registration and e-KYC in their KYC processes include Malawi, Somalia, Rwanda, Nigeria, India and Pakistan.[54]

[53] The use of digitally-enabled IDs that are interoperable across different aid agencies can greatly enhance the efficiency of humanitarian assistance delivery. Refugee IDs that are officially recognized will facilitate the financial inclusion of refugees by, for example, allowing them to register SIM cards in their own name and to open mobile money or bank accounts. See Oakeshotte et al (2018).

[54] Banerjee (2015); AFI (2022b); FATF (2020).

Box 7: Case Studies: Biometric registration

> **Nigeria:** The Bank Verification Number stores biometric information and enables a risk-based tiered KYC regime based on transaction limits and permits electronic due diligence.
>
> **India:** The Aadhaar biometric registration system has enabled the government to register 1.2 billion people.
>
> **Pakistan:** Biometric information is used for account opening.
>
> **Somalia:** The Central Bank of Somalia has prescribed the Voluntary Return Form issued by the UNHCR to returning refugees, together with the UNHCR biometric authentication of identity in the country of asylum, as adequate documentation to open a bank account.

5. Promoting the inclusion of FDPs in national risk assessments is also critical, as this enables host countries to collect valuable data on ML/FT risk factors affecting different sectors, financial services, products and customer segments, including vulnerable groups such as FDPs. These can also facilitate the incorporation of appropriate risk mitigation measures in financial inclusion initiatives and supervisory guidance for financial inclusion.[55]

Conclusion

Addressing the financial needs of forcibly displaced persons is critical to finding a sustainable solution to the global crisis of forced displacement. Many financial supervisory authorities, particularly in emerging markets and developing countries, have a financial inclusion objective. This reflects the importance of financial inclusion as a means of reducing poverty, increasing economic growth, and contributing to a range of other sustainable development objectives. For countries with large refugee populations, the incorporation of FDPs in national financial inclusion strategies should therefore be a key priority.

However, expanding access to finance for FDPs presents some unique challenges for financial services regulators and supervisors. Key among these challenges is the need to comply with customer due diligence requirements under AML/CFT legislation and to understand the financial needs of FDPs.

This Note has outlined actions that supervisors can take towards achieving financial inclusion for FDPs. These include:

- The adoption of risk-based approaches to account opening
- The acceptance of a wider range of identification documents for customer due diligence purposes
- Supporting government programs for the establishment of integrated national identity frameworks with biometric registration
- The inclusion of FDPs within national financial inclusion strategies
- The implementation of financial education programs for FDPs

[55] FATF (2021).

- The promotion of responsible innovation in financial services – including digital financial services – that also addresses fraud, cyber security, and other consumer protection measures for FDPs
- Encouraging the development of financial infrastructure in refugee centres to facilitate the delivery of financial support to FDPs
- Undertaking research and analysis through diagnostic surveys on the financial needs of FDPs and the current status of FDPs' financial inclusion

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