Balancing Financial Inclusion and Financial Integrity

Mr. President, Members of the Security Council, ladies and gentlemen, all protocols observed.

It is a great honour and privilege for me to be invited to address you and members of the council today. The resolution adopted debate is a timely one in the promotion of the fight against terrorism, terrorist financing and money laundering. As you have heard, I am from Kenya, and Kenyans have experienced firsthand the terrible consequences of terrorism; with the most recent incident at a local hotel in Nairobi where over 20 people lost their lives; still fresh in our minds.

It is however important to recognise that the fight against terrorism and the channels for financing terrorism must proceed in an enabling regulatory environment which does not stifle financial inclusion initiatives in the affected regions. Indeed, the FATF Guidance Paper on Anti-money Laundering and Counter Financing of Terrorism (AML/CFT) measures and Financial Inclusion issued in June 2011; recognised financial inclusion as a key agenda in the fight against terrorism and terrorist financing, and this will be the main focus of my briefing to the Council this morning.

Mr President, financial services are foundational to addressing today’s pressing global issues of poverty, inequality and migration and enable the achievement of a wide array of national development goals, as evidenced by an expanding body of research. Numerous studies have demonstrated that access to bank accounts and payment services have a measurable impact on poverty, more particularly, as follows:¹

- They make day-to-day transactions possible, including sending and receiving money;
- They safeguard savings, which can help households manage their cash flow, and build working capital; This has also contributed to the upliftment of women in the affected areas
- They help finance small businesses or microenterprises, helping owners invest in assets and grow their businesses;
- They enable planning and payments for recurring expenses, such as school fees, electricity and water access;
- They mitigate shocks and manage expenses related to unexpected events such as medical emergencies, death in the family, theft, or natural disasters; including famine and refugee crises
- They also improve poor families’ overall welfare

¹ Why does financial inclusion matter today?
Mr President, there is a direct link between financial inclusion and global development goals, some of which are *interalia*, the eradication of poverty, promotion of prosperity and protection of the environment as more particularly outlined in the United Nations Sustainable Development Goals (SDGs)\(^2\)

Mr President, globally, about 1.7 billion adults currently remain unbanked and without access to safe, reliable and convenient financial services\(^3\), either through an account at a financial institution or through a mobile money provider. In 2014 that number was 2 billion. Because account ownership is nearly universal in high-income economies, virtually all unbanked adults live in developing economies, mainly in Africa and South Eastern Asia. These economies are also the most affected by terrorism, more particularly, Africa, which has been identified as being among the top three continents affected by terrorism, with East Africa and the Horn of Africa being identified as “the region in Sub-Saharan Africa most threatened by indigenous and international terrorism”\(^4\)

Traditional providers of financial services are banks, microfinance institutions, credit unions, and cooperatives. In developing economies however, due to the lack of adequate traditional banking channels, new delivery channels have been at the forefront of financial inclusion, the most notable being mobile money transfer and mobile banking services.

In this regard, the lack of access to financial services in these regions, combined with the increasingly widespread use of mobile phones, has given rise to a mobile phone based economy whereby mobile platforms are used as an alternative to traditional banking systems. Indeed, when M-pesa was launched in Kenya in 2007, only “one billion of the world’s 6.5 billion people had bank accounts yet at least three billion had mobile phones”\(^5\).

Mr President, today, Mobile Money Transfer services are arguably the single most effective contributor to global financial inclusion initiatives, and, particularly in the developing countries, have facilitated access to cheap and reliable financial services to an ever increasing formerly unbanked population segment. Recent innovations in mobile transfer services in various jurisdictions, coupled with favourable regulatory environments, have heralded unprecedented success in financial inclusion initiatives, which have morphed into an entire Digital Financial Services Ecosystem offering savings, insurance, both local and international money transfers, payments, and credit services on mobile money platforms, to both individuals and corporate entities. Today, there are over 270 deployments of mobile money globally, with 866 million mobile money accounts transacting US$ 1.3 billion daily in 2018; 45.6 % of which are in Sub Saharan Africa with 33.2% in Southern Asia. \(^6\)

Mr. President, every good thing must come with an element of risk; as aptly captured by the No Money for Terror Paris Agenda of 26\(^{th}\) April 2018 which recognized that innovative financial technologies, products and services may offer significant economic opportunities but also present a risk of being misused by criminals for money laundering and other criminal activity, including terrorist financing.

Mobile money and other digital/electronic forms of payment will be attractive to criminals due to their speed of delivery and their anonymous nature. Other factors are the porous borders, and lack of adequate identification regimes in some of the jurisdictions where these channels are prevalent, and also the fact that the main users of such services comprise illiterate rural populations where identity verification and Customer due diligence (CDD) may be difficult to carry out. The diversified product

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\(^2\) https://www.cgap.org/research/publication/achieving-sustainable-development-goals
\(^3\) Global Findex
\(^4\) https://journals.lib.unb.ca/index.php/jcs/article/view/218/376
\(^5\) http://www.ipsnews.net/2007/05/finance-africa-mobile-phones-revolutionise-banking/
ranges offered on these channels which include Cross border and International remittances can also be used by criminals for money laundering and terrorist financing. Criminals, including terrorists will also use mobile networks as the primary means of communication to plan and co-ordinate terrorist and other criminal activities.

Mr President, it is therefore of critical importance, that governments in these jurisdictions put in place enabling AML/CFT and Financial regulation which will comply with the FATF standards and applicable UN conventions, and also facilitate financial inclusion initiatives, while ensuring the integrity of the systems used to deliver these services so that they are not used for money laundering and terrorist financing. Such regulation will ensure financial institutions and other non bank designated institutions have AML/CFT compliance programmes with appropriate controls on Customer Due diligence, Transaction Monitoring, Sanctions Screening, Record Keeping etc, and in particular, will also adopt the Risk based approach recommended in the FATF Guidance Note on New Payment Products and Services, issued in June 2013.

Mr President much has already been done in these jurisdictions to put in place the relevant legislative and private sector controls mentioned above; however more remains to be done. As highlighted by the World Bank in a 2011 report, compliance by low income countries with AML/CFT requirements has its challenges, in terms of infrastructure, capacity building and even political goodwill.

In this regard, I would wish to draw attention to the commitment made by the Paris Agenda to put in place measures such as the strengthening of information sharing frameworks between the private sector, regulatory authorities, Financial Intelligence Units and law enforcement agencies; and to also work with financial institutions and designated non-financial businesses or professions to ensure they fulfil obligations under domestic anti-money laundering and counter terrorist-financing legislation, which measures should also include capacity building, training and infrastructural support. The resolution under debate today also affirms the importance of improving national frameworks and interagency coordination; co-operation with the private sector; international cooperation and the need to explore ways in which the UN can better support Member states in these initiatives.

Accordingly, Mr President, as I conclude my remarks, the need to balance financial inclusion with financial integrity cannot be over-emphasized, and as the Council debates the proposed resolution today, it is my hope that such debate will take cognisance of the need for Member countries to promote initiatives which will assist jurisdictions in financially excluded areas to put in place the necessary measures to combat terrorist financing and money laundering without stifling financial inclusion, and hence, promote sustainable development in these countries.

Thank You

Mercy W Buku LLB, LLM, CAMS ACIB
AML/CFT Expert, Digital Financial Services

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