

GFIA response to FATF consultation on AML/CFT and Financial Inclusion proposed changes to FATF Standards

FATF is considering the replacement of the term “*commensurate*” with “*proportionate*” in Recommendation 1, in order to clarify how these concepts should be applied in the context of a risk-based approach; to set clearer expectations with regard to simplified measures; and to align the FATF’s language more closely with that of financial inclusion stakeholders and frameworks. For these purposes, the term “*proportionate*” is defined as follows: “*In the context of the risk-based approach adopted by the FATF Recommendations, a proportionate or commensurate measure or action is one that appropriately corresponds to the level of identified risk and effectively mitigates the risks*”. FATF would welcome views on whether to proceed with this change and on the proposed definition.

- The replacement of the term “commensurate” with “proportionate” is supported. This change is fundamental to a risk-based approach. GFIA believes that better promoting financial inclusion through an increased focus on proportionality and simplified measures in the risk-based approach will be achieved with this amendment. The use of “proportionate” aligns with the language of the EU Money Laundering directives, supports the concept of measurable action, and uses clearer English. With respect to defining the term “proportionate”, it may be confusing to retain a reference to “commensurate” in the definition.

FATF is considering amendments to require supervisors to “review and take into account the risk mitigation measures undertaken by financial institutions/DNFBPs”, to avoid overcompliance resulting from an only partial understanding of the risks, and also to consider proportionality in the engagements with them. FATF would welcome views on the potential impact of this change.

- GFIA supports the proposed amendment. The current requirement of S.9 in the Interpretive Notes states that Supervisors should review a firm’s risk profiles and risk assessments. The amendment clarifies the requirement for Supervisors to evaluate a firm’s complete residual risk profile after risk mitigation steps have been implemented. The potential positive impact is that Supervisors will obtain a more informed view that reflects the true risk profile of a firm.

On adoption of simplified measures in lower risk situations, FATF proposes to replace “countries may decide to allow simplified measures” with “countries should allow and encourage simplified measures”. This would place an explicit requirement on countries to be more active in creating an enabling environment for implementation of simplified measures.

- GFIA supports the proposed amendment. This proposal adds more credence to the NRA process and acknowledges the efforts of countries and the industry to prioritise high risks while recognising the significance of low risks. GFIA could endorse using “must” instead of “should”, as this would strengthen the desire for an explicit requirement.



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On “non-face-to-face customer-identification and transactions” as an example of potentially higher-risk situations, addition of qualification (“unless appropriate risk mitigation measures have been implemented”) to reflect technological advancements in digital identity systems that may reduce the risks associated with non-face-to-face interactions, and recognise that in many countries this has become the normal mode of interaction with financial institutions.

- GFIA supports the proposed amendment as an initial step in recognising that non-face-to-face interactions are now standard business practice and are not typically indicators of higher risk. GFIA also believes strong consideration should be given to reducing the risk profile of such relationships and transactions given their prevalence.

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About GFIA

The Global Federation of Insurance Associations (GFIA), established in October 2012, represents through its 42 member associations and 3 observer associations the interests of insurers and reinsurers in 68 countries. These companies account for 89% of total insurance premiums worldwide, amounting to more than \$4 trillion. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.