Prerequisites

KYC Requirements

This barrier refers to the legal requirements for accessing a financial service, such as a basic mobile money account. Typically this barrier exists in markets where the government has not installed relaxed or tiered KYC requirements around basic accounts.

Why is this barrier important?
KYC requirements often depend on foundational infrastructure, such as identity, to be in place before it becomes a barrier by itself. There was less evidence that pointed directly to complex KYC requirements as a barrier to account ownership as opposed to the lack of foundational ID. Tiered KYC is also gaining popularity among countries around the world, and the adoption of relaxed/tiered KYC requirements has heightened during COVID-19.

Connected Barriers

Prerequisites
Broader legal constraints
Digital/Foundational ID

Social norms
All barriers in this category

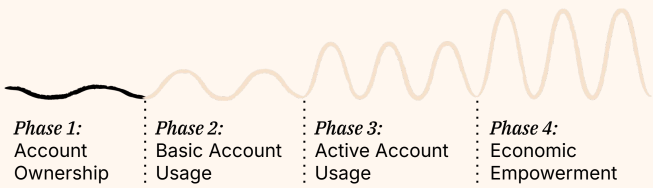
Product & Service Quality
Lack of products that meet women's needs

Information Availability & Capability
Unclear or difficult process to open an account

Most Relevant Segments

1	2	3	4
Excluded, marginalized	Excluded, high potential	Included, underserved	Included, Not underserved

Customer Journey Relevance



Key evidence relevant to this barrier

- According to AFI, "the accurate verification of identity is integral to the KYC processes necessary for compliance with AML/CFT regulation." Without verifiable identities, institutions cannot adhere to KYC requirements as stipulated in AML/CFT regulation which points to how KYC is dependent on first having ID documents (2019).
- 42 of 62 countries in the *AFI Data Portal* (accessed 2022)on Proportionate AML/CFT Frameworks have simplified risk-based customer due diligence in relation to specific low-risk products and services. This includes IFS target markets of India, Indonesia, Kenya, Nigeria, and Pakistan.
- According to GSMA, simplified KYC/innovations in KYC is already gaining traction around the world:
  - In *Overcoming the Know Your Customer Hurdle* (2019), GSMA found that "a growing number of countries have enacted simplified due diligence (SDD) reforms in recent years, with at least 60 countries around the world (out of a survey of 120 countries) allowing exemptions or simplifications to SDD for certain types of customers or products." Only 16 of the countries with SDD were high-income countries
  -
  - According to GSMA's *State of the Industry Report on Mobile Money* (2021), "in 2020, the number of registered accounts grew by 12.7% globally to 1.21 billion accounts – double the forecasted growth rate. Apart from changes in consumer behaviour, this impressive uptake was due to regulators implementing more flexible KYC processes and relaxing onboarding requirements to make it easier to open an account."
  - Another report, *Digital Identity* (2021), by GSMA found that the COVID-19 pandemic saw the rapid relaxation of KYC and related policies. Relaxed KYC led to an increased uptake of mobile money that boosted financial inclusion.
- According to AFI, KYC requirements could potentially be a barrier for low-income consumers looking to progress to higher transactional tiers (such as customers in Segments 3 and 4) without requiring additional documentation, such as proof of address (2019).

The following Exemplar represents one evidence-based interventions that has shown success in addressing this particular barrier. There may be other Exemplars for this barrier in the larger Barriers & Exemplars Analysis compendium deck.

Exemplar
Mexico's Tiered KYC

"In Mexico, a significant percentage of the population lacks access to formal financial services. These individuals are forced to rely on informal providers, in-kind savings, and cash transactions with high risks and high monetary as well as transactional costs. In the interest of fostering the design and supply of products focused on serving the unbanked, several financial authorities (CNBV, SHCP, and Banxico) joined efforts to identify aspects of the regulatory framework that could pose obstacles for expanding financial access. One of the main obstacles identified was the unequivocal implementation of KYC requirements. While Mexico passed an agent banking framework that allowed for an increase in the number of access points, account opening at these establishments was simply unviable if full KYC requirements were to be applied." (Dias and Faz, 2011)

Key Activities

"In August 2011, Mexico approved a tiered scheme for opening deposit accounts at credit institutions. This scheme implements risk-based account opening requirements for low-value accounts. The innovation here is that it incorporated several "levels" of simplified accounts – requirements increase progressively as restrictions on transactions and channels are eased." (Faz, 2013)

The summary of accounts is as follows (Dias and Faz, 2011):

- **Level 1:** This is an "anonymous" account that can be opened at branches, agents, through the web, or "sold" through retailers; it is capped at US $285 in monthly deposits and US $380 maximum balance. Customers can use any channel—except mobile phones—to deposit, transfer or withdraw money.
- **Level 2:** This is a "named" account that can be opened "remotely". Customers self-report name, state and date of birth, gender and address. Monthly deposits are capped at US $570. A physical/paper file with customer ID information does not need to be created. For these type of accounts opened remotely, a 24-month grace period is granted to banks in order to do a more complete KYC procedure.
- **Level 3:** This is the same as Level 2, but the bank is able to validate the self-declared data online against a public database; the cap in— —monthly deposits doubles to US $1,140.
- **Level 4:** This can be opened only at branches, agents and enterprises (for mass payroll); it requires additional information to Level 3 (nationality, occupation, phone number, and ID). Information must be cross-checked against a valid ID document and thus account opening must be face-to-face. Monthly deposits are capped at US $3,800; as with Level 2 and Level 3 paperless record keeping is allowed.
- **Level 5:** This is a full-fledged bank account, opened only at branches. The bank needs to file copies of ID, proof of address, tax ID and other."

Outcomes/results

"Two years following the regulations, in 2013, the impact was as follows:

- It has led to a reorganization of different products in the market around a single scheme based on deposit accounts, giving visibility to products that were previously not considered deposit accounts.
- It has provided more flexibility for commercial banks who participate in the distribution of government payments.
- It has enabled new products, many designed around payment instruments, which would not have been possible without this regulation.

Additionally, 9.1 million accounts were opened in the two years that followed the publication of the scheme:

- 50% of which were Level 1 accounts
- 23% were Level 2 accounts
- 4% were Level 3

2.9 million prepaid cards that were previously operated by commercial banks for government programs were converted into Level 1 accounts when the scheme came into place, bringing the total to approximately 12 million “simplified” accounts in commercial banks to date (as of 2013).” (Faz, 2013)

Key enabling environment factors for intervention

Government support: the tiered approach was implemented by regulators in Mexico who wanted to address barriers faced by people participating in the informal sector and low-income individuals.

Key design elements and principles that led to successful outcomes

The regulation called for five different types of deposit accounts, targeting different market segments and income brackets, allowing KYC requirements to be customized to particular segments. The regulations also allowed for non face-to face account opening and paperless record keeping.

Potential for scale/replicability

This regulation applies to Mexico on a national level. Mexico’s tiered KYC approach is thought to be an exemplar for other countries to follow. Countries looking to adopt tiered-KYC should use Mexico as a case study.

Additional Exemplars

Estonia’s E-identity program

Benazir Income Support Programme

Aadhaar Project

Women Citizenship Initiative

GRID Impact and SIA's analysis revealed that this barrier along with 11 others require further research and examination as to how they affect the customer experience, other barriers and overall WEE-FI. More in-depth analysis can be found in the larger Barriers & Exemplars Analysis compendium deck.