The Perception of **ML Risks** and the Use of New Technologies:
The Case of m-transactions

- Next Generation Access to Finance: Gaining Scale and Reducing Costs with Technology and Credit Scoring -
  Washington, DC. September 17-19, 2007
  Raul Hernandez-Coss, Financial Sector Specialist, FPDFI, World Bank
Topics for discussion

1. World Bank’s Research on “Risk assessment and mitigation responses for ML/FT”

2. Convergence of Services and AML/CFT Controls for TelCos and Financial Institutions

3. New Framework for determining ML/TF risks of m-phones

4. Evolution of service moves away from traditional controls

5. M-transfers / Remittances: Reduce cost, Increase convenience and speed

6. Conclusions
1 Upcoming Paper on Mobile-Financial Services: Hope not Hazard

WB’s contribution to policymakers’ discussions on the development of mobile financial services in a safe and sound AML/CFT environment

- The Mobile Financial Services (m-FS) and the perceived ML/FT risks
- Proposed Paradigm for ML/TF Risk Analysis for m-FS
- Managing Risks of the Different Uses of Mobile Phones for Financial Services
- Analysis of risk mitigation
- Conclusions on perception, actual and mitigation for ML/FT risks
- Policy Recommendations to policy makers, TelCos, financial institutions and regulators

South Africa
The Philippines
Brazil
Hong Kong
Malaysia
Macau
South Korea
2. TelCos and Financial Institutions: Current convergence of Services should also be on AML/CFT controls

• New **convergence** mobile business among Financial Institutions and TelCos.
  - Financial Institutions acting like TelCos
  - TelCos acting like Financial Institutions

• Criminals and Terrorists may use **non-traditional methods**
  - Could take advantage of holes in regulations for non-financial institutions such as TelCos

• Convergence of **service** requires convergence of **controls**
  - No channel is free from abuse
  - ML/TF controls are not the responsibility of a single provider but the responsibility of all providers involved in financial services
3. New Framework for determining ML/TF risks of mobile phones

- Provider-based models for AML/CFT risk analysis difficult to make on a global basis.
  - Capacity of providers in each country is different
  - Level of convergence depends on market conditions
- Therefore, risk is determined by type of service. These include:
  - **Mobile Financial Information**
    - Gives access to view personal financial information (no transaction)
    - Examples: see account balance, daily stock price, etc.
  - **Mobile Bank and Securities Accounts**
    - Allows access to bank/securities account for transactions
    - Examples: send money from bank account, settle bills through account.
  - **Mobile Payments**
    - Permits user to make transactions without a bank account
    - Example: use of non-financial institution to make purchases, remittances
  - **Mobile Money**
    - Empowers user to work in electronic money through mobile phone
    - Example: use of airtime as intermediary currency for any transaction
4. Evolution of service moves away from traditional controls

- Anchored by a bank or securities account
- No interaction with customer
- Bank or Non-bank services (not anchored by a bank account)
- Offers alternative settlement systems

- m-BSA
- m-fINFO
- m-Payments
- m-Money

m-fINFO
Mobile Financial Information
m-BSA
Mobile Banking and Securities Accounts
m-Payments
Mobile Payments
m-Money
Mobile Money
4. Evolution of service moves away from traditional controls

- Offered by banks and securities houses:
  - m-BSA

- Offered by bank or non-bank services (not anchored by a bank account):
  - m-Payments

- Offers alternative settlement systems:
  - m-Money

Increasing distance from traditional financial service and conventional controls

- m-fINFO
  - Mobile Financial Information
- m-BSA
  - Mobile Banking and Securities Accounts
- m-Payments
  - Mobile Payments
- m-Money
  - Mobile Money
4. **m-Financial Services could pose unique risks of ML/TF**

<table>
<thead>
<tr>
<th>Perceived risks</th>
<th>Real risks</th>
<th>Where the risks are located</th>
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<tbody>
<tr>
<td>• Anonymity</td>
<td><a href="#">Risk /m-FS</a></td>
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<tr>
<td>• Fake IDs</td>
<td><a href="#">Anonymity</a></td>
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<td>• Pooling and Delegation</td>
<td><a href="#">Lack of Traceability</a></td>
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Mobile phones for FS pose a new type of ML risk:

Ubiquity + Rapid Settlement

Greater Need for AML/CFT Controls
5. M-transfers / Remittances: Reduce cost, Increase convenience and speed

Technology may not resolve all problems for remittance transfers but could address their key aspects

- Reduce cost,
- Increase convenience, and
- Speed

For AML/CFT could

- Support KYC procedures
- Increase traceability (record keeping)
- Monitoring of remittance transfers

As more persons use formal financial services, more information is potentially available to combat ML and FT

Does not resolve the issues of

- Undocumented workers
- Financial education
- Lack of trust on financial institutions
- Distribution of cash in rural areas

Do not guaranty financial inclusion

However, financial inclusion and formalizing of remittance transfers could be supported by the use of new technologies
6. Conclusions

- Mobile technology could pose significant ML risks in its uses to access **financial services**

- **Service-based risk analysis** most effective because of convergence of TelCo and financial institutions

- **Mobile services may require new approaches** for regulatory controls.

- Soon-to-be-published **World Bank paper** on mobile financial services to make recommendations on risk analysis and mitigation responses
Thank you for your attention