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# Impact of AML/CFT regulations on digital disruptions (FinTech) and financial inclusion in Sub-Saharan Africa

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# Impact of AML/CET Regulations on Digital Disruptions (FinTech) and financial inclusion in Sub-Saharan Africa

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***Abstract***

*Financial Technology is becoming paramount in all financial institutions, being utilized in helping companies manage most of their financial operations efficiently through the use of softwares and specialized algorithms. The future of finance will shine brightest when it provides standard and valuable services to the society, however this will come with its own merits and demerits. I have prepared this report to carry out a detailed discussion on the impact that the AML/CFT controls have on FinTech and the financial inclusion initiative in sub-Saharan Africa. The AML/CFT controls can be applied more effectively in the formal systems for banking and financial service provisioning. Sub-Saharan Africa being among the developing countries is on the process of taking conscious measures aimed at developing regulations that can ensure greater AML/CFT controls on the financial technology-based service providing organizations as well. However, these controls should continue to evolve to stay relevant and to address the obstacles in the way of greater financial inclusion for this region.*

**Keywords**
Anti-Money Laundering, Anti-Money Laundering/Combating the Financing of Terrorism, AML/CFT, Combating the Financing of Terrorism, Financial Technology, financial inclusion, FinTech, Nigeria, Sub-Saharan Africa.

## Introduction

Financial inclusion is defined as the accessibility that the people have to appropriate products and services from the finance sector in transparent and fairly fashion. Financial inclusion has become a very important national and international policy initiative driving the countries towards development and contributing to the fight against poverty. The developing countries in sub-Saharan Africa are transitioning towards greater financial inclusion with the help of mobile banks. These technologies have made it possible for people to make use of the mobile phone in storing monetary value that can be used for making purchases and payments to other users in mobile money platforms. People can also redeem the mobile money for cash and convert cash currency into mobile money by depositing it into the account (Castri & Grossman, 2015).

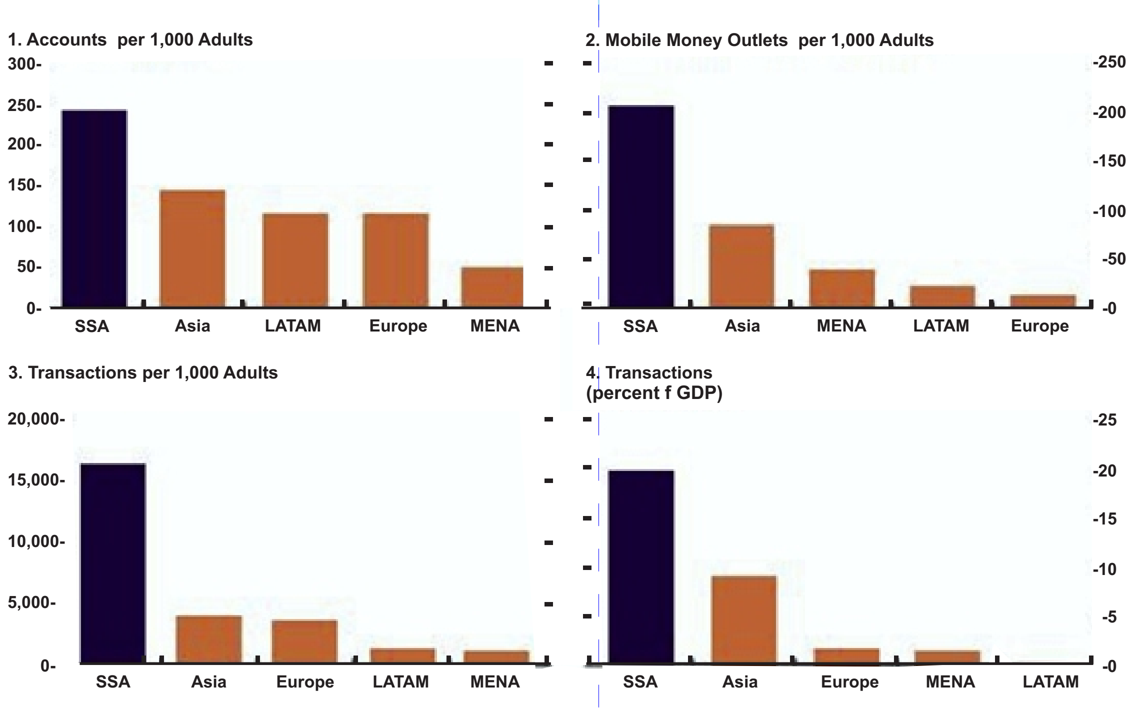
Therefore, mobile money is placed at the crossroads between financial services and mobile technology by creating a unique position that is popularly known as financial technology (FinTech). I have prepared this report in an effort to carry out research on the impacts that the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) controls have on FinTech and the financial inclusion initiative in sub-Saharan Africa. It begins with discussing the FinTech landscape of sub-Saharan Africa and current use of mobile money by the countries belonging to this region. It then goes on to present a discussion on the AML/CFT laws and regulations that are developed by the International Monetary Fund (IMF) and the Financial Action Task Force (FATF). The final section of the report discusses the impact that these regulations are having on financial inclusion, financial technology sector as well as advantages and disadvantages of the AML/CFT controls on the initiative of increasing accessibility to financial services in the sub Saharan Africa (Adetunji, 2017). With financial inclusion having extended dramastically in subsaharan Africa, evolution of mobile banking as well as access to financial services is still limited to traders and the agricultural sector. An economy with millions of poor and low income earners , without access to financial institutions , savings and loan opportunities many might not opt out of poverty.

**Current Sub-Saharan African FinTech Landscape**

Financial technology (FinTech) is transforming into a significant force that is contributing to shaping and defining the financial industry and the entire economy of the world. There are new technologies being developed with every passing day that are contributing to technological disruption and transformation of the competitive forces by defining the landscape of the financial services sector. The same holds true for Sub-Saharan Africa as this region emerges as global leader inaccessibility to technology is associated with financial services and mobile fund transferring services (CBN, 2019).

All over the world, about 2500 organisations operating in the financial services sector have received an investment of more than $50 billion and are contributed to incorporating technology in the process of borrowing, exchanging, saving, investing, protecting and spending the funds. The last two decades have witnessed the liberalization of financial functions and significant reforms in the frameworks of the monetary policies in sub-Saharan Africa. The banking organisations opening the doors for Pan African monetary Exchange with the help of the technology-based payment systems and the introduction of tools like credit cards and mobile wallets have also contributed to significant growth in the mobile payments in sub-Saharan Africa (Abuja, 2019). FinTech has immense possibilities for the developing countries but the technology is also raising concerns about the increased vulnerability that comes with the transformed Business models of the financial function in. There are new organisations entering the industry for providing financial services that do not have any prior experience. An example of such innovations is the blockchain-based crypto currencies that entered the mainstream financial industry in the last few years. These technologies are developed for a more secure digital exchange of funds and easy cross border payments making the business transactions simpler and faster. However, there is a new set of risks identified with these technologies that are yet to be understood and explored in line with the existing regulations, legislative rules and policies (Malady, Buckley, & Arner, 2014).

The overall financial inclusion in the countries belonging to sub-Saharan Africa is moderate to low despite significant progress and technological development in the past two decades. When compared with the other developing countries across the world, sub-Saharan Africa is still following a financial system that is relatively shallow. While most of the advanced and developed nations have 92% of their population transact with the help of a bank account, the developing countries report the same to be about 38%. The average percentage of people having a bank account in the sub-Saharan region is still close to 20%. This lower percentage is attributed to the lack of effective infrastructure, lower financial literacy of the population in this region and under investment in the financial initiatives (FATF, 2014). The amalgamation of technology and financial services introduced the sub-Saharan African economies to mobile money has brought about a radical change in how the financial services are delivered across this region. As a result of this, sub-Saharan Africa is emerging as a global leader in the adoption and use of mobile money-related innovations. Out of the total 45 countries belonging to sub-Saharan Africa, 40 are already abreast with the latest Financial Technology and actively using it for transactions. Within this region, east Africa is remarkably ahead of the rest of the sub-Saharan economies and because of this, financial technology is not only acting as

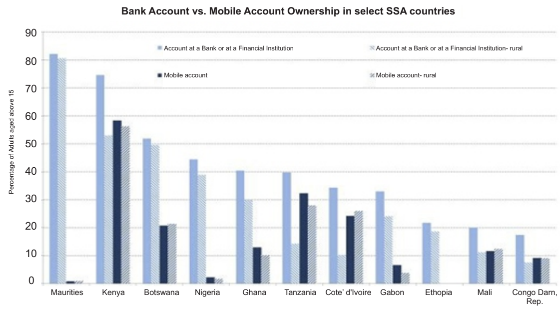



Source: IMF Financial Access Survey-
Note: LATAM-Latin America; MENNA - Middle East and North Africa; SSA - Sub-Saharan Africa

Mobile Money Indicators

**(Amadou & Maino, 2019)**

Sub Saharan Africa is leading the way globally when it comes to the use of mobile money and there are more mobile money accounts that are registered and active per capita that is the direct result of embracing the ongoing Financial Technology and innovation in this region. The above figure indicates the popularity of mobile money wallets and their related transactions for sub-Saharan Africa, Asia, Latin America, Europe, and the Middle East and North Africa. About 20% of the transactions of the total GDP in sub-Saharan Africa now take place with the help of the mobile money while this figure is only about 7% in Asia and less than 2% in the other regions of the world (Ackman, 2018). In fact, there are more mobile money accounts in the sub-Saharan African economies as compared to the traditional accounts in the banking organisation as indicated by the research carried out in the year 2018.




**(EIB, 2017)**

The analysis of the financial inclusion for the individual countries belonging to sub-Saharan Africa indicates that there is striking diversity in this percentage and each country has a unique set of challenges. Addressing these challenges requires tailored strategies of financial inclusion. The above figure depicts the stark contrast between figures of financial inclusion for the urban and rural regions for the countries belonging to sub-Saharan Africa.

This graph is an indicator of how the underdeveloped countries are compensating for the financial inclusion gap with an increase in mobile money accounts. In the case of Nigeria, there is a huge gap between the urban population holding a bank account and the number of people belonging to the rural regions opening a bank account. This is a huge opportunity that is largely untapped by the mobile bank services. It is also interesting to note that the mobile infrastructure in the countries that is one key consideration for mobile transactions does not limit the ability of the Nations to carry out transactions with the help of mobile money. The countries like Namibia and Botswana report for or more mobile phone subscriptions then the number of people living in the country and still the total volume of transactions taking place through mobile money is low. On the contrary, the countries like Tanzania, Kenya and Uganda that still report for low mobile telephony penetration, contribute the most towards the total mobile transactions as compared to their GDP (Yepes, 2011).

## Anti-Money Laundering and Countering Financing of Terrorism Regulations

Financial technologies and mobile money are enabling a lot of countries to achieve greater financial inclusion. This mobile money makes it extremely convenient to not only carry out transactions but also to store and redeem cash. The unavailability of financial services in the developing countries was considered to be the biggest restriction on the growth and economic development of these regions. FinTech has enabled these economies to address most of these challenges and overcome them by achieving greater financial inclusion. All these technologies have provided the countries belonging to the sub-Saharan Africa shortcut to financial inclusion and a path for faster development (Kersop & Toit, 2016).

However, this easy mode of transaction and monetary exchange is also so be misused for activities like money laundering and terrorism financing. Money laundering can be defined as a crime of making a profit so that the proceeds from this crime can be concealed or used for criminal activities. The common money laundering activities include corruption, manipulation of the markets, tax evasion, drug trafficking and fraud. All the funds that are generated through these activities result in diverting the resources that could otherwise be used for economic and social welfare. These activities also have a negative impact on the general functioning and stability of the countries and their financial operations. Therefore, the International Monetary Fund (IMF) has developed Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) controls that are regularly assessed and updated to mitigate the impact of the activities associated with money laundering and terrorism financing (IMF, 2009).

AML/CFT controls are emerging as a new necessity in the financial service sector that is powered by technology. These regulations are developed and defined in order to improve the overall compliance of the countries with a collectively accepted set of standards that can benefit the financial services sector and the international technological powered system working in it. Therefore, the IMF in collaboration with countries throughout the world is constantly looking for strengthening the regulations and contributing to the international system of finance (Finmark Trust, 2015). The three broad areas that are covered with the help of the AML/CFT laws and regulations include the conduct of the financial service providers, the regulations governing any third-party beneficiaries of the financial services and the conduct of the employees of the financial organisations.

Nigeria is the largest sub-Saharan African economy and the Central Bank of Nigeria has a detailed AML/CFT Manual that sets out all the procedures and policies that guide the conduct organisation and the members working for it (Proshare, 2019). The country has also developed a regulatory body Fintech Association of Nigeria that is contributing to greater regulation of the FinTech products and services available in the country. However, Nigeria has largely adopted a stance that is pro-innovation and that promotes the organisations providing technological enabled FinTech products and services to the population that still suffers from financial exclusion as compared to the other developing countries of the world. The Payments System Vision 2020 developed by the central bank of Nigeria in the year 2013 help in setting this foundation for the country by creating a network of electronic payments infrastructure for increasing financial inclusion. This is being revised at present under a proposed Payments System Vision 2030 that will contribute to the further advancement of financial technologies penetration in the region. However, this undertaking also includes effective measures for AML and CFT controls with laws that are specific to FinTech and the electronic payment channels.

## Impact on Financial Inclusion

The biggest hurdle in the economic growth of sub-Saharan Africa is low financial inclusion. Only about 25% of the total adult population in this region has a bank account operating with the formal bank or financial institution. As FinTech continuous to contribute towards broadening the reach of financial services and greater accessibility to these services by the people belonging to these regions, the formal financial systems of the sub-Saharan Africa are still underdeveloped in comparison with the other developed and developing economies of the world (Chikalipah, 2017). The Financial Action Task Force (FATF) is a body that is formed for the development and promotion of AML/CFT controls. However, the recommendations by FATF also ensure greater cooperation among the International Financial bodies and institutions. There is an ongoing discussion between the impact that the AML/CFT controls have on the accessibility to financial services and financial inclusion at large. While it is important to ensure greater accessibility to financial services and the general increase in financial inclusion, it is also important to ensure that the activities associated with money laundering or terrorist financing are put in check. Having a financial system that is completely informal, undocumented and unregulated can impact the effect of AML/CFT controls and their very purpose. The greater dependency of the economy on informal financial service providers can also hamper the general development of the company and limit the access to credit for the organisations and individuals in these economics.

Therefore, developing a formal system of financial services is central to the success of an effective regime for AML/CFT. FAFT is motivating the sub-Saharan African countries to develop national policies for financial inclusion that are mutually supportive and that also promote the goals of the AML/CFT controls. FinTech brings with it, unique set of challenges and risks because of the different supply channels, services and products offered by the service providers. FAFT please try to enhance the flexibility of the AML/CFT controls to show that the national jurisdictions and the international bodies can craft controls that are appropriate and effective for addressing these risks and challenges.

AML/CFT obligations sometimes have a negative impact on the objective of financial inclusion since they increase the cost of financial Service provisioning and the general cost of business which gets distributed among the service providers and the customers alike. This is a challenge that is repeatedly being acknowledged and addressed by FATF by bringing about changes in the regulations. The FinTech empowered financial service providers have developed a market that is largely unregulated and attractive. This underground economy is not only making the legitimate transactions easier but also opening new avenues for illicit transactions (FATF/OECD, 2011).

## Conclusion and recommendations

It can be concluded that financial inclusion has become a very important national and international policy initiative driving the countries towards development and contributing to the fight against poverty. The developing countries in sub-Saharan Africa are transitioning towards greater financial inclusion with the help of mobile banks. Currently, the biggest hurdle in the economic growth of sub-Saharan Africa is low financial inclusion. Only about 25% of the total adult population in this region has a bank account operating with the formal bank or financial institution. The AML/CFT controls can be applied more effectively in the formal systems for banking and financial service provisioning. With a good platform of financial inclusion individuals areable to lookfor more convenient and secure models of accumulating, holding and transferring values. Business owners having innovative ideas and aggressive attitude enables them to utilize these institution services in growing and investing their businesses. Banks on the other hand are able to grow and serve more markets segments in the economy. The countries belonging to sub-Saharan Africa are taking conscious measures to develop regulations that can ensure greater AML/CFT controls on the financial technology-based service providing organizations as well. However, it is important that these controls continue to evolve and develop with the changes and evolution in FinTech to stay relevant and to address the obstacles in the way of greater financial inclusion for this region.

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