



World Council of Credit Unions, Inc.

April 29, 2013

Sent via email

Financial Action Task Force Secretariat
2 rue André Pascal - 75775 Paris Cedex 16
Secretariat@fatf-gafi.org

Re: FATF *Draft Guidance on a Risk-Based Approach to Prepaid Cards, Mobile Payments and Internet-Based Payment Services.*

Dear Sir or Madam:

World Council of Credit Unions (World Council) appreciates the opportunity to comment on the Financial Action Task Force's (FATF) *Draft Guidance on a Risk-Based Approach to Prepaid Cards, Mobile Payments and Internet-Based Payment Services.* World Council is the leading trade association and development organization for the international credit union movement. Worldwide, there are over 51,000 cooperatively owned not-for-profit credit unions in 100 countries with more than US\$ 1.5 trillion in total assets.

World Council supports most aspects of the draft guidance. We urge the FATF, however, to make several changes to this draft guidance to highlight better the importance of new payment products and services (NPPS) vis-à-vis financial inclusion and limit regulatory burdens on credit unions. Please find attached with this letter a redlined version of the draft guidance which incorporates World Council's below comments into the guidance document itself.

Many credit unions offer NPPS to their members in order to provide their members with useful and convenient payment services and to promote financial inclusion of unbanked individuals. Credit unions often use NPPS to serve previously unbanked members who live in rural areas where population density is too low to support traditional brick and mortar financial institution branch offices in an economically sustainable manner.

For example, credit unions in countries such as Guatemala, Haiti, Kenya, Mexico and other countries in Latin America and Africa use NPPS such as mobile payments and money transfer organization systems to provide their predominantly rural and poor members with payment services that they would not otherwise have access to. Also, many smaller credit unions in countries such as Great Britain and the United States of America offer their members prepaid cards as an alternative to a current account either because the credit unions do not have the economies of scale necessary to implement full-service current accounts cost effectively or because some members prefer to use prepaid cards as a money management tool.

In nearly all cases these NPPS are provided only to credit union members who have undergone a traditional Customer Due Diligence (CDD) review. There are some exceptions to this rule, however, where credit unions can provide limited NPPS services to non-members who are eligible to join the credit union in order to help attract unbanked

Washington Office
601 Pennsylvania Ave., NW
Suite 600
Washington, DC
20004-2601 USA

Phone: (202) 638-0205
Fax: (202) 638-3410
www.woccu.org

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individuals to credit union membership and promote financial inclusion. For example, section 107(12)(A) of the United States' Federal Credit Union Act allows credit unions to provide international and domestic electronic fund transfers (usually using money transfer organization systems) as well as physical cheque and money order products to persons who are eligible to join the credit union but have not yet become members.¹

World Council's specific comments on the draft guidance are as follows:

- In paragraph 57, we support the draft's weighing factor analysis for assessing risk set forth by this paragraph but believe that this provision would be clearer if the phrase "as weighing factors" were inserted between "functionality of a particular NPPS should be considered together" and "to determine whether the product poses as high or low ML/TF risk."
- Regarding paragraph 58 and the subsequent "Payment Methods Risk Factors" table, we are concerned that this table may be read by some national authorities as a binary "high risk" versus "low risk" regime and without regard to mitigating factors such as financial inclusion, even though this does not appear to be the FATF's intent. We urge the FATF to add to the end of paragraph 58 the following sentences:
"The below risk factor examples are intended to be illustrative and some NPPS may present a middling level of risk, such as if elements of both the high risk and low risk examples are present. The risk mitigation factors set forth in section IV(B) of this guidance, such as promotion of financial inclusion, should also be considered as part of any NPPS risk analysis, as noted above."
- We support the statements in paragraph 62 regarding simplified CDD measures, but believe that this aspect of the guidance would be clearer if the paragraph was broken up into two paragraphs. We urge the FATF to begin a new paragraph 63 at the sentence beginning "In particular for NPPS, one lower risk example . . ." and renumber subsequent paragraphs accordingly.
- We support current paragraph 63's statement allowing financial institutions in non-face-to-face scenarios to conduct CDD following the establishment of the business relationship. The flexibility provided by this paragraph will help limit the regulatory burdens on credit unions that are conducting financial inclusion outreach using NPPS, especially in poor, rural areas.
- Similarly, we support paragraph 67's statement that financial institutions may use agents to conduct CDD. In some developing countries, credit unions have established de facto branch offices in small stores in rural communities which are operated by agents, in order to increase local residents' access to financial services.

¹ 12 U.S.C. § 1757(12)(A), available at <http://www.law.cornell.edu/uscode/text/12/1757>. The relevant part of the provision reads as follows: "A Federal credit union shall have succession in its corporate name during its existence and shall have power . . . to sell, to persons in the field of membership, negotiable checks (including travelers checks), money orders, and other similar money transfer instruments (including international and domestic electronic fund transfers and remittance transfers, as defined in section 1693o-1 of title 15) . . ."



- In paragraph 82, we strongly support the proposed “alternative text” regarding prepaid card usage and urge the FATF to adopt the alternative text and strike the sentence preceding the alternative text regarding prepaid cards which appear to be used as a bank account alternative “where bank account access is readily available.” We note also that bank services in some jurisdictions can be irregular in terms of services quality and fees for many small account holders.

Many smaller credit unions offer prepaid cards as a bank account alternative because they are more cost effective to implement than full service current accounts or because they have members who prefer to use prepaid cards, even though bank-style accounts may be available. In that connection we do not believe credit union members using their prepaid cards as an alternative to a bank account, and looking simply for greater convenience in use of their money, is indicative of increased anti-money laundering or terrorist financing risk, and therefore strongly support paragraph 82’s alternative text.

- We strongly support the statements in paragraphs 84 and 85 regarding the *FATF Guidance: Anti-money laundering and terrorist financing measures and financial inclusion*² and the *G20 Principles for Innovative Financial Inclusion*.
- In paragraph 104, we strongly support the option for jurisdictions to adopt a *de minimis* threshold for cross-border wire transfers such as workers’ remittances below USD/EUR 1,000 but do not support the final sentence of the paragraph limiting this option to only “occasional” cross-border wires.

We note that many immigrant workers send remittances of less than USD/EUR 1,000 to family members in their home countries on a weekly or bi-weekly basis and therefore urge the FATF to strike the word “occasional” from this paragraph. We also urge the FATF to insert “indexed for inflation” after “USD/EUR 1,000” so that this threshold is set in real terms.

Thank you for the opportunity to comment on the FATF’s draft NPPS guidance. If you have questions about our comments, please feel free to contact me at medwards@woccu.org or +1-202-508-6755.

Sincerely,

Michael S. Edwards
VP and Chief Counsel
World Council of Credit Unions

² FATF, *Guidance: Anti-money laundering and terrorist financing measures and financial inclusion* (Feb. 2013), available at http://www.fatf-gafi.org/media/fatf/documents/reports/AML_CFT_Measures_and_Financial_Inclusion_2013.pdf.