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The Electronic Cash Transfer Learning Action Network

TIP SHEET 3
KNOW YOUR CUSTOMER (KYC) REGULATIONS

WHAT ARE KNOW YOUR CUSTOMER (KYC) REGULATIONS?

Know Your Customer (KYC) regulations, also known as customer due diligence, are designed to combat money laundering, terrorist financing, and other related threats to the financial system. They refer to the ID checks that financial institutions perform to comply with national financial regulations. Typically, KYC checks take place when customers sign up for an account or conduct a transaction. However, KYC checks can also occur during events less visible to customers, such as creating customer transaction models and monitoring for unusual activity.

Humanitarian agencies are not directly subject to KYC regulations. However, the financial service providers (FSPs) they often partner with are. KYC regulations apply to FSPs whether they are based within or outside the country of implementation. FSPs must comply with them or face fines and penalties. As a result, FSPs apply policies designed to meet KYC regulations for all clients, including humanitarian organizations and their program participants, and tend to be risk-averse.

KYC requirements are set at the national level and may vary depending upon specific criteria. This criteria might include what type of FSP is involved (e.g., remittance companies, banks, mobile network operators, etc.); the transfer value; the account ceiling or the product itself. Differences between these tiers or types of applicable regulations can have significant implications for humanitarian programming.

WHAT HUMANITARIANS NEED TO KNOW:

- Know what type of ID the FSP requires from program participants to receive cash, establish accounts or access other services.
- Be aware of regulatory differences that may apply to different providers, services or transfer amounts.
- Understand who will be collecting KYC information (e.g., the humanitarian organization or the FSP) and know how it will be shared and stored. Clarify which teams will check the collected information and correct errors.
- Be aware of your FSP's obligations or procedures around the disclosure of KYC information to host or donor governments or other companies.
- Understand your host country's past experience. In the event KYC regulations were relaxed, under what circumstances did this take place, how quickly and for what length of time?
- Keep in mind that refugees often face KYC-related challenges to accessing financial services or establishing accounts since they frequently lack IDs issued by host country governments or other documentation to meet KYC requirements.

Where you foresee challenges in meeting KYC requirements, discuss alternative arrangements immediately with your selected FSP or raise them with relevant authorities. If no solution can be found, you may need to pursue an alternative transfer mechanism to provide assistance.

When you plan with your selected FSP, take into account KYC requirements in setting responsibilities and systems for providing informed consent, collecting and storing KYC information, and in planning data protection and sharing measures, where required. *(See Registration, Encryption, Sharing, and Retention, Archiving and Disposal Tip Sheets.)* For example, if the program creates accounts for participants and the agency and FSP want to support continued use of these accounts, the agency and FSP should plan from the early stages to secure informed consent to share the required KYC information.

WHAT HUMANITARIANS CAN DO:

Know your operating context

The first step to address KYC regulations is to learn which apply in your country of operation. As part of your assessment of cash feasibility and delivery mechanisms, gather information on FSPs' KYC policies. FSPs may also be able to share information about national KYC requirements. Keep in mind, however, that FSPs may differ in their interpretation of national KYC requirements (or may have company compliance requirements that are more stringent than national requirements). Knowledge about national KYC requirements can help you troubleshoot and modify programs to speed start-up (for example, by providing a program participant photo ID as an identity document). Online global guides to KYC regulations summarize the key points of some countries' national legislation.

SAMPLE QUESTIONS FOR YOUR FSP:

- What are your normal KYC requirements and process for verifying IDs?
- Is there a transfer amount below which KYC requirements do not apply, additional identification requirements that apply above a certain transfer amount, or other differences in requirements based on type of service?
- Can you offer transfers to multiple program participants through a single agency account?
- How do you collect and store program participant information?
- What are you legal obligations to disclose customer information to authorities?

KYC regulations apply to third-country FSPs

When selecting an FSP outside your country of operation, make sure they have the knowledge and experience to address KYC requirements in your country of operation to avoid delays.

Know your program participants

Consider whether factors such as refugee status, mobility and possession of IDs will affect participants' ability to establish accounts. When selecting the best transfer option for you program, consider whether sensitivities or persecution could mean that gathering KYC information would place populations at risk. *(See PIA Tip Sheet for more information.)*

Evaluate account options

Organizations should consider the potential tradeoffs related to KYC requirements for different account options. For example, if simplified KYC requirements are available for a limited time or for accounts with a lower ceiling, selecting these options could speed distribution. However, these choices could limit participants' ability to access the features of a full account or may require additional data collection later. Evaluate benefits and tradeoffs against other factors, including the number of participants your program will serve, the program's duration and objective, staff time required for contracting and data management, and other pertinent criteria.

Explain KYC requirements to program participants

National KYC regulations may dictate that FSPs routinely share customer information with national authorities. If this is the case in your country of operation, make sure participants understand this use of their data before data collection begins. *(See Registration Tip Sheet for more information.)*

Advocate for adjusted KYC regulations

While potentially time-consuming, some responses may call for a temporary adjustment of KYC regulations for affected populations. In the case where national regulations are a significant barrier to timely delivery of electronic assistance – particularly where many people have lost ID documents – you may want to work through coordination bodies, such as a Cash Working Group, to advocate for temporary adjustments to KYC regulations. Adjustments could include accepting additional types of ID, issuing temporary IDs, or allowing participants to open new accounts with a grace period in which they provide ID documents. (Specific examples of adjusted KYC regulations are covered in the next section.) In countries prone to natural disasters, cash coordination bodies could undertake these discussions as a preparedness measure.

Share your insights

KYC regulations are nationally applicable and information gathered from particular FSPs can benefit others. Share your findings with Cash Working Groups to avoid posing duplicative questions to FSPs.

EXAMPLES OF ADJUSTED KYC REGULATIONS:

Below, are examples where dialogue between FSPs, national regulators, program participants and humanitarian agencies helped to structure or adjust KYC regulations during humanitarian responses.

- In the **Philippines**, authorities temporarily waived ID requirements for transactions in affected areas, enabling people who lost ID documents during Typhoon Haiyan (Yolanda) to access cash assistance. Limits were set on the transfer amount participants could accept and they were required to document in writing that their ID had been lost.
- In **Haiti**, where mobile money was launched after the 2010 earthquake and designed with affected peoples' needs in mind, KYC requirements vary based on the ceiling of the mobile wallet. A mini wallet with a ceiling of approximately US$85 in transaction value does not require the holder to provide a national ID. A full wallet with a higher ceiling requires in-person registration in a bank branch with national ID documents and the applicant's signature.
- Overseas banks holding the accounts of **Somali** money transfer operators feared significant penalties under home countries' regulations, since it was difficult for them to verify the identity of the end recipient of remittances. These banks have closed many of the Somali money transfer operators' accounts, compromising significant volumes of remittance and humanitarian transfers into Somalia. Humanitarian agencies have helped advocate for clarity in international regulations so that money transfer operators can continue offering services to Somalis and humanitarians, since these funds represent a critical source of support for families and agency operations.
- **Nigeria** offers a three-tiered KYC requirement regime for low-, medium- and high-value accounts. Low-value accounts have a limited single deposit amount and maximum allowable cumulative balance, but require limited information to open an account. Medium- and high-value accounts require additional documentation to prove identity.

CHANGING INTERPRETATIONS AND DEVELOPMENTS:

Research on KYC regulations in humanitarian contexts suggests some developing interpretations that could affect humanitarian agencies and FSPs' collection and use of KYC information. Scholars have argued that the humanitarian agency, rather than the program participants, should be the singular customer subject to KYC requirements (rather than each individual participant), since the agency holds the contract with the FSP. If this view were to become more widely accepted, it could tremendously simplify KYC considerations in humanitarian programs. Ideally, researchers have suggested a standardized, simplified set of KYC requirements applied in all humanitarian emergencies; however, this is far from reality right now.

ADDITIONAL RESOURCES:

di Castri, Simone. *Mobile Money: Enabling regulatory solutions*. GSMA Mobile Money for the Unbanked. February 2013.

Keatinge, Tom. *"Counter-terrorist regulation restricts charity banking worldwide…" Uncharitable Behaviour*. Demos. 2014.

Know Your Customer: Quick Reference Guide. PricewaterhouseCoopers. January 2014.

Levin, Avner, Anupa Varghese, and Michelle Chibba. *Humanitarian Cash Transfer Programs and Beneficiaries: Know Your Customer Standards and Privacy Recommendations*. UNHCR. 2015.

Metcalfe-Hough, Victoria, Tom Keatinge and Sara Pantuliano. *UK humanitarian aid in the age of counter-terrorism: perceptions and reality*. HPG Working Paper. 2015.

Pantuliano, Sara, Kate Mackintosh and Samir Elhawary. *Counter-terrorism and humanitarian action*. Overseas Development Institute: Humanitarian Policy Group. 2011.

Smith, Gabrielle. *Electronic Transfers Scoping Study and Preparedness Plan*. ACF Philippines. December 2013.

Smith, Gabrielle. *Cash coordination in the Philippines: A review of lessons learned during the response to super Typhoon Haiyan.* Cash Learning Partnership and UNHCR. March 2015.

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