



FATF, Digital KYC and COVID 19.

The Alliance for Financial Stability with Information Technology (AFS-IT) welcomes the statement on 1st April 2020 by the then FATF President 2019-2020, Mr. Xiangmin Liu of the People's Republic of China, and the subsequent FATF guidance paper on COVID-19-related Money Laundering and Terrorist Financing Risks and Policy Responses on 4th May 2020. Both highlighted the importance of embracing digital ID and KYC during COVID-19 in response to disruptions to traditional customer onboarding and transactions.

The AFS-IT was established in Hong Kong in March 2018. The focal point of the AFS-IT then, as it is today, is the promotion and strengthening of standards, processes and arrangements to counter money laundering, illicit transfers, terrorist funding and to reinforce the robustness and cyber-resilience of digital and mobile financial transactions, whilst minimizing inconvenience to the consumer and intermediaries. More than two years on with the world gripped by COVID-19, these concerns are even more prescient. The COVID-19 pandemic has led to unprecedented global challenges, human suffering and economic disruption, and migration of work into the digital world.

It is therefore reassuring from the AFS-IT perspective to see the proactiveness by FATF in connecting COVID 19 and Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) concerns. Firstly, through the public statement on 1 April by the then FATF President mentioned above. Secondly, for the Statement to be followed on 4 May 2020 with the FATF paper on COVID-19-related Money Laundering and Terrorist Financing Risks and Policy Responses ([FATF and COVID 19](#)).

They are needed, as in most countries globally, the discourse and resources have been shifting to COVID-19 responses, and as surveyed by the FATF, AML/CFT measures have been disrupted.

Both the FATF President's public statement and the subsequent FATF paper focused on the increased risk of money laundering (ML) and terrorism financing (TF) arising from COVID-19. The FATF noted increased fraud associated with medical supplies, which is well reported in the media. Less well known or reported is the FATF observation that in an economic downturn, criminals may seek to invest in real estate or troubled businesses to generate cash and mask illicit proceeds, and criminal groups may also introduce illicit proceeds into the financial system by restructuring existing loans and lines of credit. As also noted in the FATF paper, "In one recent case, an individual used virtual assets to launder proceeds earned from selling fraudulent COVID-19 medicine." The FATF has served the international community well by raising awareness of these risks.

While we welcome the awareness raising on the increased ML/TF risks, the AFS-IT is particularly pleased to see those messages are balanced with a call to leverage the benefits of digital ID and KYC, as noted in the following public statement by the then FATF President on 1st April:

"With people around the world facing confinement or strict social distancing measures, in-person banking and access to other financial services is difficult, and unnecessarily exposes people to the risk of infection. Use of digital/contactless payments and digital onboarding reduce the risk of spreading the virus. As such, the use of financial technology (Fintech) provides significant opportunities to manage some of the issues presented by COVID-19. In line with the FATF Standards, the FATF encourages the use of technology, including Fintech, Regtech and Suptech to the fullest extent possible.



The FATF recently released [Guidance on Digital ID](#), which highlights the benefits of trustworthy digital identity for improving the security, privacy and convenience of identifying people remotely for both onboarding and conducting transactions while also mitigating ML/TF risks. The FATF calls on countries to explore using digital identity, as appropriate, to aid financial transactions while managing ML/TF risks during this crisis.”

There is the assumption among many AML/CFT compliance officers and supervisors that non face-to-face onboarding or transactions are inherently of higher risk. As recognised, however, in the FATF Guidance on Digital ID, “The Guidance clarifies that non-face-to-face customer-identification and transactions that rely on reliable, independent digital ID systems with appropriate risk mitigation measures in place, may present a standard level of risk, and may even be lower-risk.” This is a very important statement in an environment where physical face-to-face is challenging, particularly among citizens who are older or have suppressed immune systems. They have been strongly encouraged by their governments to shelter at home which over time could lead to financial exclusion. Even in the absence of COVID-19, there are vulnerable members of our communities who may find it challenging for legitimate reasons to attest to their identities through the traditional face-to-face identity verification processes.

While COVID-19 has caused immersed suffering, there have been useful lessons that should not be forgotten, which include leveraging on the benefits of the digital world. In many respects, work practices and business processes suffer from traditional hubris, which had maintained its rigidity until COVID-19 migrated more work processes out of necessity into the virtual working space, including digital ID and KYC.

The FATF paper has done an excellent job in cataloguing responses by AML/CFT regulators globally. In future articles, the AFS-IT will aim to summarize and comment on some of those guidance documents.

Stay safe.

AFS-IT

September 2020