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# ELAN HUMANITARIAN KYC CASE STUDIES

## INTRODUCTION

**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. While humanitarian agencies are not subject to KYC regulations, they do apply to financial service providers (FSPs) that humanitarian agencies partner with to deliver cash transfers.**

KYC regulations can restrict options for delivering humanitarian assistance, as populations affected by conflict and disasters often have trouble producing required identity documents (IDs) and sometimes arrive from areas considered high-risk. These case studies draw lessons from two recent humanitarian KYC examples: cash transfers to refugees in Uganda and cash transfers to Typhoon-affected households in the Philippines. The studies demonstrate that access to financial services and adherence to KYC regulations are mutually attainable goals, even amidst crisis. Achieving both, however, requires planning and consideration of the specific needs of populations affected by humanitarian crises.

These case studies have been compiled using existing reports, as well interviews with humanitarian staff, private sector representatives and regulators in the focus countries. We recognize that the case studies may benefit from additional information and insight. If you would like to contribute further information about either of these cases, please contact Lily Frey (lfrey@mercycorps.org) or Sara Murray (smurray@mercycorps.org)

The Electronic Cash Transfer Learning Action Network, convened by Mercy Corps and with support from the Mastercard Center for Inclusive Growth and PayPal, is connecting businesses and humanitarians to improve e-transfers in emergencies.

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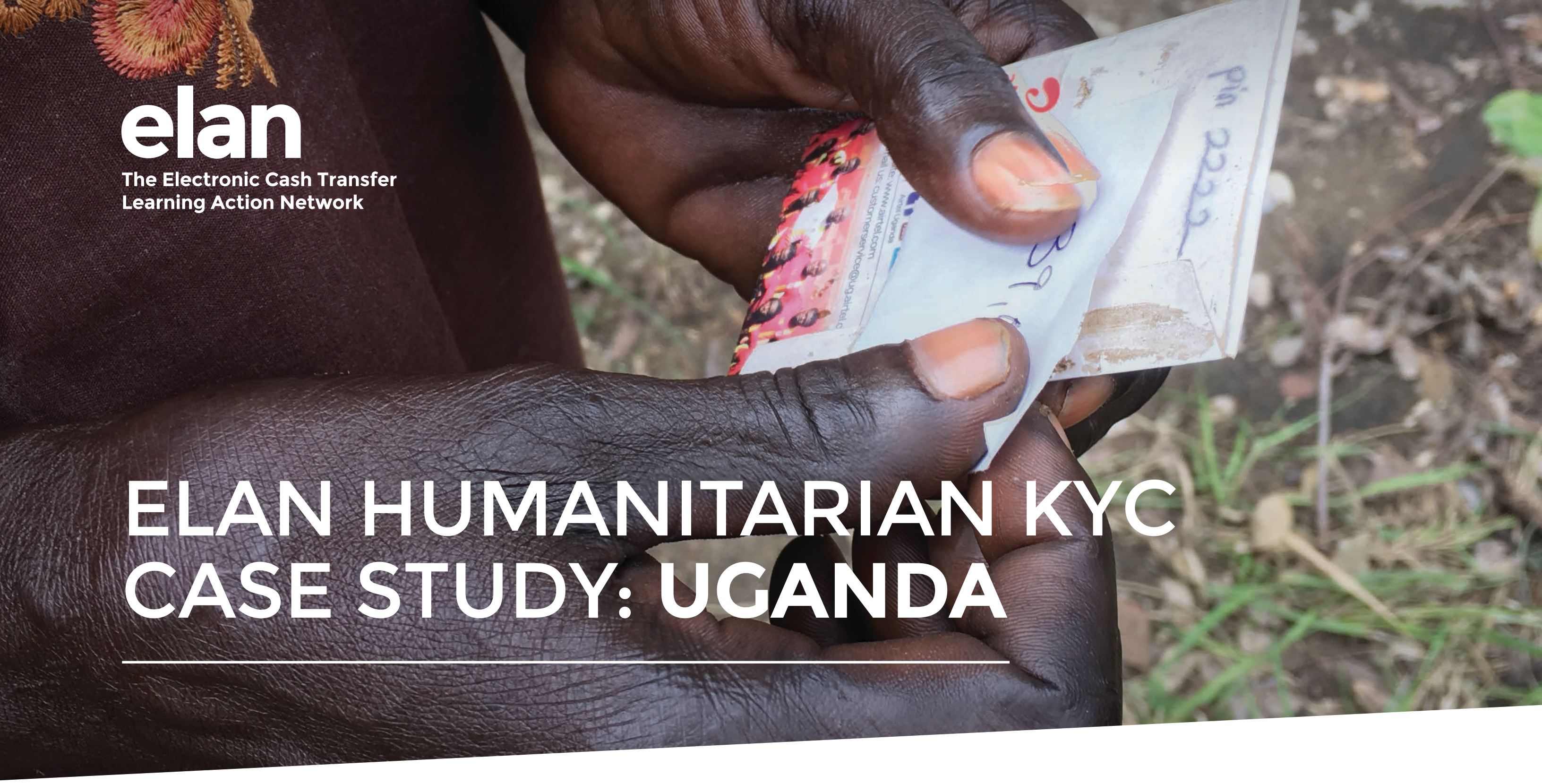

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# ELAN HUMANITARIAN KYC CASE STUDY: UGANDA

## TIMELINE DATES

| | |
|---|---|
| 2013 | Mobile Money Guidelines established |
| 2015 | AML regulations established |
| JULY 2016 | Sharp Increase in South Sudanese refugee arrivals to Uganda |
| MARCH 28, 2017 | UCC directive issued |
| MARCH 28-31, 2017 | Advocacy for inclusion of OPM-issued ID card |
| MARCH 31, 2017 | Acceptance of OPM-issued card |
| APRIL, MAY, AUGUST 2017 | Extensions to SIM re-registration |

## INTRODUCTION

**With a large recent influx of refugees, regulatory shifts around SIM card registration, and use of mobile money for humanitarian assistance, Uganda offers a compelling case study on some of the practical challenges related to Humanitarian KYC. This study draws heavily from UNCDF's recent report on KYC in Uganda[1], as well as interviews with humanitarian actors in Uganda.**

## AN OVERVIEW OF THE REFUGEE CONTEXT

Almost one million South Sudanese refugees have arrived in Northern Uganda, settling primarily in the northern districts of Adjumani, Arua, Moyo, and Yumbe. Additionally, more than 300,000 refugees from the Democratic Republic of Congo, Burundi, and elsewhere currently reside in the country. Refugees represent a significant population group in Uganda, and their numbers will likely grow given increased conflict and instability in the region. In 2016, humanitarian organizations launched a large humanitarian response to assist arriving South Sudanese refugees, including cash transfer programs initiated by several major aid organizations. Many of these programs are using mobile money to deliver cash to refugees.

Refugees often arrive to Uganda without passports or other official identity documents from their home country. Without proof of identity, refugees can be excluded from important services including mobile phone and bank accounts. After arrival, refugees may register with two institutions that issue identity cards: Uganda's Office of the Prime Minister (OPM) and/or the United Nations High Commissioner for Refugees (UNHCR). The OPM collects biometric data for all family members and issues refugee households an initial "attestation" document, which includes the household's registration details. After a wait time of several weeks up to four months, refugees receive a more permanent plastic ID card that carries the household's biometric details. As of May 1, 2017, 81% of refugees in Uganda had been biometrically registered with OPM.[2]

## REGULATORY CONTEXT

A number of laws, regulations and guidelines impact SIM card registration and mobile money usage in Uganda. These laws have evolved and been enforced differently over time, sometimes disrupting mobile money usage both among refugees and Ugandan nationals. Uganda's 2013 Mobile Money Guidelines state that mobile money accounts can be opened using a wide range of documents, including an identity card, passport, driving permit, voter card, or local administration letter. In 2015, Anti Money Laundering (AML) Regulations restricted the approved documents for account opening to only two: a national ID card or a passport.

In practice, however, the 2015 AML guidelines were not enforced for mobile money and Ugandans continued to register SIM cards and mobile money accounts using the wider range of documents from the 2013 Guidelines. In addition, refugees registered SIMs and mobile money accounts using UNHCR IDs or letters from refugee settlement leaders. Ugandans also reported that it was common to hold SIM cards registered in someone else's name (often anyone nearby with an approved ID, such as agents, friends, boda-boda drivers, etc.)

## SHIFTS IN REGULATION OR APPLICATION OF KYC LAWS

In March 2017, the Uganda Communications Commission (UCC) issued a directive that required all existing SIM cards to be validated against the National Identification and Registration Authority's (NIRA) database. Practically, this required many SIM card holders to re-register their SIM cards using the shorter list of acceptable ID documents, including passports and national ID cards. SIMs that were not re-registered would be deactivated. This shift in enforcement abruptly blocked refugees and others without these documents from using mobile money services.[3]

The 2017 UCC directive came as a surprise to humanitarian agencies and Mobile Network Operators (MNOs), who were told it was impelled by police requests linking crime to weak KYC implementation. In response to the UCC directive, humanitarian agencies advocated for the inclusion of OPM – issued biometric ID cards as an acceptable ID form for refugees. This was approved a week after the directive was released. Humanitarians (in addition to other interest groups) also advocated to extend the deadline for re-registration of SIM cards, so refugees with mobile accounts would not lose access to services before their OPM-issued IDs arrived.

Subsequent UCC directives (issued in April, May, and August 2017) extended the verification and validation process for SIM cards, but communication on these extensions occurred just days before each re-registration deadline was set to go into effect, creating confusion and uncertainty. In some cases, MNOs had already deactivated unregistered SIM cards to comply with an earlier directive, only to learn the deadline for registration had been extended with a new directive.

As of September 2017, the OPM continues to issue their broadly-accepted form of ID and the need for an alternate ID form to obtain a SIM card is declining. However, another large influx of refugees – or a reduction in the OPM's ability to process registration and issue ID cards – could inhibit refugees' access to SIM cards and related mobile money services.

## IMPLICATIONS

### a. For refugees

Immediately after the UCC directive, many refugees could not register for a Ugandan SIM card, thereby preventing them from sending or receiving mobile money (including humanitarian cash transfers), or accessing other digital and mobile services. Furthermore, delays in communications about extensions to SIM card re-registration deadlines meant that thousands of refugees with established accounts had them cancelled by MNOs prematurely. Fortunately, the Ugandan Government undertook a large-scale biometric registration of refugees relatively quickly, facilitating access to acceptable IDs. Had the OPM-issued ID not been available, the UCC directive's impact could have been more severe.

### b. For aid agencies

Some humanitarian agencies that were delivering cash transfers had to revert to physical cash disbursements because their beneficiaries lacked approved documents and because the regulatory changes took place so rapidly. The UCC directive also forced aid agencies to re-register a large number of beneficiary SIM cards. This delayed cash disbursements and diverted staff time from meeting refugees' immediate needs.

### c. For MNOs

MNOs spent significant staff and agent time to re-register previously-held SIM cards, at their own expense. In addition, the uncertainty of when the regulations would go into effect – and how to meet them – likely encouraged refugee and Ugandan clients to use mechanisms other than mobile money for routine transfers, potentially impacting revenue.

## CONCLUSIONS

**Predictable and consistently applied regulations enable stable humanitarian programming.** Predictable application of KYC regulations allows humanitarian agencies to plan for ID needs and select suitable delivery mechanisms for humanitarian cash transfers. They also allow MNOs to comply with regulations and appropriately allocate staff and agent time. Inconsistently applied regulations, or sudden changes, can seriously disrupt delivery of humanitarian assistance.

**Advocacy to expand acceptable ID forms worked, but more is needed.** Dialogue between regulators and refugee advocates quickly corrected the need to include OPM-issued ID as a suitable ID form. Yet refugee advocates continue to encourage the acceptance of additional ID forms, since refugee families often wait several months between registering and receiving their formal, plastic biometric OPM card. This waiting period often occurs when refugees are most vulnerable and in need of humanitarian support.

**Early consideration of refugee-specific needs can prevent unintended consequences.** Overall, the Ugandan government's progressive approach to supporting refugees, including provision of government-issued biometric ID cards, is laudable.[4] A challenge is to ensure that other government actions (such as the UCC directive, which did not specifically target refugees) do not unintentionally undermine efforts to support refugees. In the future, regular contact and coordination between humanitarian agencies, relevant private sector entities, and government ministries can provide a platform to identify and accommodate humanitarian KYC challenges before they become a problem at scale.

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[1] Grossman, Jeremiah. August 2017. "Study on Know- Your-Customer Requirements for Digital Financial Services in Uganda" UNCDF. August 2017. http://mm4p.uncdf.org/study-know-your-customer-requirements-dfs-uganda

2 Ibid., 3.

3 Ibid., 6.

4 In addition to providing ID cards, the Ugandan government has also undertaken an ambitious refugee support program which has included facilitating access to land.

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# ELAN HUMANITARIAN KYC CASE STUDY: **PHILIPPINES**

## TIMELINE DATES

| 2008-2011 | NOVEMBER 2-11, 2013 | NOVEMBER 21 - DECEMBER 31, 2013 | MARCH 15, 2017 |
|---|---|---|---|
| Philippines Central Bank established risk-based and tiered KYC regulations | Typhoon Haiyan landfall | Temporary relaxation of ID requirements | Philippines Central Bank circular number 950 establishes protocols for relaxing KYC requirements in case of future disastrous calamity. |

## INTRODUCTION

**The Philippines mounted one of the world's largest humanitarian cash transfer responses following a devastating typhoon in 2013. The implementation of tiered and disaster-sensitive KYC regulations provide a useful case study on how countries can balance regulation and crisis response during and after natural disasters.**

## AN OVERVIEW OF THE HUMANITARIAN RESPONSE CONTEXT

In November, 2013, a powerful typhoon hit the central Philippines islands, killing over 6,000 people. The emergency inflicted substantial infrastructure damage, displacing around four million people and interrupting critical services and public institutions.

The initial humanitarian response phase lasted from late 2013 to mid-2014 and included over $36 million in cash transfers to affected individuals.[1] Over 45 Humanitarian agencies used cash transfers, and they relied on a number channels to deliver cash transfers, including remittance agencies and mobile money and mobile banking providers.

## KYC REGULATIONS – BEFORE THE EMERGENCY

Prior to the Typhoon (in 2008 and 2011), the Central Bank of the Philippines established risk-based and tiered KYC regulations for customers. This included a framework for applying reduced, average and enhanced due diligence based on the type of customer, and an expanded list of twenty-one forms of acceptable Identification Documents (IDs).[2] Although these mechanisms successfully increased the ability of Filipinos to meet KYC requirements in non-crisis circumstances, many Typhoon victims suddenly found themselves unable to produce required forms of ID due to the widespread destruction and loss of personal documents. As a result, many were unable to access existing or new financial accounts.

## SHIFTS IN KYC REGULATIONS

On November 21st, 2013, the Monetary Board of the Central Bank temporarily waived the requirement for "the presentation of official Identification Document (IDs) in processing transactions of victims of Super Typhoon Yolanda."[3] This relaxation of ID requirements was valid only until December 31st, 2013 and applied to transactions up to 50,000 PSP ($1,142 USD).

Once this memorandum lapsed (January 1st, 2014), Financial Service Providers involved in humanitarian cash transfers had to individually request the Central Bank to relax the KYC requirements in order to serve typhoon-affected customers that lacked required identity documents. This resulted in delays but also burdened the Central Bank.

During the emergency response, a national level Cash Working Group (CWG), was re-activated and included UN agencies, the Filipino Red Cross, international and national NGOs, government representatives and payments actors. The CWG served as a useful forum for information exchange and advocacy around KYC issues, both during and after the emergency phase. The CWG recommended establishing standing protocols that could temporarily relax KYC requirements in future catastrophic emergencies. This recommendation was accepted by the Central Bank and institutionalized through BSP Circular No. 950 on March 15, 2017. This regulation, titled "Relief in case of calamity", can be implemented in future emergency responses in the Philippines.

### FULL TEXT: CENTRAL BANK OF THE PHILIPPINES (BSP) CIRCULAR NO. 950

*Relief in case of calamity.* In case of a disastrous calamity and subject to a declaration by the Bangko Sentral on the applicability of this relief, any requirement for the presentation of valid ID shall be relaxed, subject to the following conditions:

(1) The amount of transactions shall not exceed P50,000.00 per day;

(2) The customer is either a permanent or temporary resident or who conducts business in a severely affected area which has been declared to be under a state of calamity by a complete authority;

(3) The customer shall submit a written certification, which need not be notarized, that he/she is a victim of the subject disastrous calamity and has lost his/her valid IDs; and

(4) The customer's account activities shall be subject to strict monitoring by the covered person to identify potential abuse of the relaxed requirement and any suspicious transactions shall be reported to the AMLC within the prescribed period.

## CONCLUSIONS

The Philippines case demonstrates that even in countries with proportional KYC rules in place, major emergencies can still necessitate additional regulatory accommodations. The proportional KYC rules, however, provided a strong starting point for large-scale cash transfer programs even in the midst of crisis. Many cash transfer recipients were able to access or obtain one of the 21 forms of ID required access financial accounts. As a result, aid agencies were able to take advantage of the Philippines well-developed ecosystem of formal, digital financial services.

[1] OCHA, "Philippines Cash Transfer Programming". http://reliefweb.int/sites/reliefweb.int/files/resources/phl-ocha-cash_transfer_programming_infographic-2015.pdf

[2] Philippines Central Bank (Bangko Sentral ng Pilipinas) BSP Circular No. 608 (Series of 2008) and Circular 706 (Series of 2011)

[3] BSP Memorandum No. M-2013-052, Monetary Board Resolution No. 1959