LATVIJAS BANKA
EIROSISTĒMA

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Guidelines for ensuring effective financial inclusion

Introduction

In 2024, Latvijas Banka carried out a thematic review on the availability of payment accounts (hereinafter – the Inspection), within the framework of which it assessed such aspects as the formation of account opening and servicing costs, the procedure for not starting and terminating business relations and communication with customers, as well as the procedure for servicing low-risk customers. The verification was carried out in all credit institutions registered in the Republic of Latvia and branches of credit institutions of the European Union Member States that offer payment account service.

The observations and conclusions of the inspection, together with examples of good and poor practices, are summarised in these guidelines, which aim to inform financial market participants about Latvijas Banka's expectations regarding ensuring effective financial inclusion.

Summary

In general, the Inspection did not identify comprehensive disproportionate requirements and avoidance or unreasonable decision-making regarding cooperation with specific risk groups of clients. According to the explanation provided by credit institutions, decisions to terminate or refuse a business relationship are taken individually at the client's level, including ensuring the application of the four-eyes principle, as well as assessing possible risk mitigation measures, taking into account the set of risks inherent in the client. At the same time, certain situations indicate shortcomings in the practical application of the requirements, when credit institutions may had applied more proportionate

measures to manage customer risk, for example, in relation to the requirement of a strong link with Latvia for legal entities (hereinafter also – LEs), without assessing the substantive reasons for opening an account with a credit institution.

At the same time, the Inspection concluded that measures to ensure effective financial inclusion should be taken not only in strengthening the proportionate application of the requirements for the prevention of money laundering and terrorism and proliferation financing (hereinafter - the AML/CTPF), but also in other areas, for example, promoting communication with customers and applying a transparent pricing policy.

Denied and terminated business relationship

There is a positive trend – a decrease in the number of terminated business relationships (excluding one-time mass account closures of one credit institution in 2023).

In relation to legal entities with which business relations have been refused or terminated, the services provision, transport or logistics and construction sectors are most often affected, which at the same time are also emerging in the shadow economy sector.

Basic account service

An assessment of the information obtained in the framework of the Inspection, including statistical data on refused or terminated business relationships, concludes that, in general, the assets of a credit institution do not offer basic accounts, which in absolute terms is assessed as a significant disadvantage, but credit institutions have undertaken to take measures to improve the practice of offering basic accounts.

Clear information and communication

The review concluded that credit institutions should take measures to strengthen good practices in terms of improving the quality of communication. There is often a lack of timely and clear communication with customers, and it has also been found that not all credit institutions indicate on their websites clear information about the documents necessary for opening an account and the target customers.

Pricing policy

When comparing prices in the Baltic States, Latvijas Banka has found that for a legal entity an account package in Latvia is significantly more expensive than in Estonia.

The commission fee often does not indicate a specific amount or its interval, and as a result, potential customers are made it difficult to plan costs.

Verification of documents is censored and presented as a separate additional service within the framework of the account opening service. The commission fee for checking documents is not refunded if the account is not opened.

A compendium of good and poor practices

Ensuring financial inclusion

In the international and public space of Latvia, opinions are often expressed regarding the disproportionate application of the AML/CTPF prevention requirements and unjustified termination or non-commencement of cooperation with customers in order to avoid risk. Suspending or not starting cooperation with the aim of avoiding risk can have far-reaching consequences not only for a specific group of clients who are subject to exclusion from receiving financial services, but also have a negative impact on the financial system as a whole. Similarly, the unjustified suspension of cooperation may lead to a concentration of financial service providers, weaken competition and innovative growth, and increase the cost of financial services.

Against this background, it is essential that credit institutions ensure adequate financial inclusion in their activities by putting in place and implementing the relevant control mechanisms.

Good practice	Poor practice
Internal policies and controls to ensure financial inclusion have been developed and implemented in the credit institution, including mechanisms in place to manage the risk of clients at various risks, as well as the identification of the responsible person for ensuring financial inclusion. The designated responsible person is outside the scope of the AML/CTPF prevention responsibility to ensure an objective view of the interaction of processes.	The credit institution does not single out specific, targeted measures or established internal controls to ensure financial inclusion, relying on the functioning of the existing internal control system, which may include multi-level and complex decision-making that hinders the final decision.
The credit institution has developed various restrictive mechanisms for high-risk clients (transaction limits or restrictions, geography of transfers, basic account for natural persons (hereinafter also – NPs) in order to manage or mitigate the identified risk factors in a proportionate manner.	The credit institution has not developed mechanisms to manage the risk of high-risk clients, such as limited risk products or effective transaction limits and supervisory scenarios.

The credit institution conducts regular internal training for employees on the prevention of disproportionate avoidance of risk situations.	The training provided by a credit institution shall not cover the topic of avoiding disproportionate risk situations.
Within the framework of the assessment of the effectiveness of the operation of its internal control system, a credit institution shall assess whether the existing controls for the prevention of ML/TPF and the management of sanctions risk are not applied excessively and do not endanger financial inclusion.	Within the framework of the process of evaluating the effectiveness of the operation of its internal control system, a credit institution shall not assess whether the existing controls and requirements for the prevention of ML/TPF and the management of sanctions risk are not applied excessively and do not endanger financial inclusion.

The procedure for refusing and closing an account

In order to ensure effective financial inclusion and to prevent excessive risk-taking, it is essential to develop and put into practice proportionate, sound and risk-based decision-making procedures regarding business relationships with clients, including the provision of quality control mechanisms.

Good practice	Poor practice
A credit institution shall, before taking a decision to refuse or terminate a business relationship, offer a basic account to a natural person who meets the conditions for a basic account, documenting it accordingly in the conclusion of customer due diligence.	Upon establishing risk-increasing factors, the credit institution shall take a decision to refuse or terminate the business relationship without proactively offering the client – a natural person – the basic account.
Before deciding to terminate a business relationship, a credit institution shall assess the possibility of applying other, more proportionate risk management measures to customers who have not updated the Know Your Customer (hereinafter – KYC) questionnaire (for example, on service restrictions).	A credit institution terminates cooperation with a large number of customers for whom the KYC questionnaire has not been updated, without communicating with customers and without assessing the possibility of applying other, more proportionate and less restrictive measures for risk management, especially for low-risk clients, for example, by updating data from publicly available registers, assessing the compliance of the client's account activity with the declared information or applying service restrictions until the questionnaire is updated.
The credit institution shall objectively evaluate the possibilities of initiating or continuing cooperation with the client, including assessing the significance of the identified risk factors in the context of the information obtained within the framework of the initial customer due diligence, the purpose of opening an account (for new clients), the planned or existing services of the client and the amount of transactions in the credit institution, including the possibility to apply risk mitigation measures.	The decisions taken by the credit institution to refuse or terminate the business relationship are not clearly justified, the credit institution, upon finding risk-increasing factors, refuses or terminates the business relationship without assessing the materiality of the risk factors in the context of the information obtained within the framework of the initial customer due diligence, the purpose of opening an account (for new customers), the planned or existing services of the client and the amount of transactions in the credit institution, nor is the possibility of applying risk-reducing risks Measures.

	For example, a client is refused cooperation on the grounds of unclear origin of funds, but the impact of this identified risk factor in relation to the client's planned service in the credit institution and the size of transactions is not assessed, and the possibility of applying risk mitigation measures, such as applying enhanced transaction monitoring after opening an account, imposing payment restrictions, etc., is not assessed.
The procedure for the commencement of cooperation established by a credit institution does not provide for automatic refusal or termination of cooperation with customers who do not meet one single characteristic, but provide for an individual assessment, assessing the risks as a whole. For example, with regard to the condition of close ties with Latvia, a credit institution evaluates this concept in a broader context (for example, a potential investor who is still planning to establish a link with Latvia), as well as evaluates possible solutions for proportionate management of the identified risks.	A credit institution automatically refuses or terminates cooperation with customers who do not comply with one single characteristic without conducting a more detailed study, including, for example, without assessing the planned link with Latvia and the purpose of opening an account. The credit institution automatically terminates cooperation with citizens of Russia and Belarus who have expired their residence permit and who are subject to the European Union regulation on the deposit limit of 100 thousand. *in euros* , without assessing the possibility to assess the mitigating factors, including the services used by the client, the amount of transactions so far and the likelihood that such a threshold could be reached for the particular client (according to the client's profile, amount of income, actual transaction amount).
In a credit institution, quality control of decision-making has been developed in case of refusal or closure of an account, depending on the risks inherent in the client – a single-person decision of the customer service employee, the four-eyes principle.	The credit institution does not have a clear, uniform decision-making procedure for refusing or terminating a business relationship, or the procedure developed is incomplete, for example, it is not specified in which cases compliance with the four-eyes principle must be ensured.
The credit institution is provided with regular quality control of the decisions taken on refusals or closure of accounts, as well as in cases where shortcomings are identified, including excessive application of AML/CTPF requirements, the credit	A credit institution does not provide quality control over refusals of accounts or closure decisions, or is incomplete, relying on the four-eyes principle of decision-making or customer due diligence quality control. Upon establishing an excessive application of the AML/CTPF requirements, the credit institution

institution provides the necessary measures to raise awareness among employees.	does not take measures to raise awareness among employees.
The decisions taken to refuse or close the account shall be clearly documented, indicating a substantiated justification and the assessed possible risk mitigation measures, as well as the fact whether the client – a natural person – complies with the conditions for the basic account and whether it was offered.	The credit institution does not document the grounds for the decision taken to refuse or close the account or it is incomplete or unclear. It is not documented whether the possible mitigating or limiting mechanisms were evaluated in order to be able to effectively manage, mitigate or eliminate the identified risks, including whether the client – a natural person – complies with the conditions for the basic account and whether it was offered.

Communication with customers and assessment of complaints

In order for the client to be able to obtain the information of interest to himself or herself and to compare the approach of credit institutions in relation to the target clients and the requirements for opening an account, it is essential that information about its target customers is easily accessible on the website of the credit institution. This information helps a potential or existing client to independently come to a conclusion about compliance or non-compliance with the definition of the target client, thereby making communication between the credit institution and the client more efficient. The information on the website on the credit institution's risk appetite provides additional information to the customer (for example, if the credit institution has established zero tolerance for certain types of activities or sectors of activity or income generation and for violations of sanctions or attempts to circumvent sanctions).

The definition of the target client should be based on the business strategy and risk appetite of the credit institution and its level of detail depends on the breadth or specific range of clients the credit institution cooperates with, as well as on whether the cooperation with the client depends, for example, on its turnover, income level or range of services used, country of residence, region of activity.

The credit institution must regularly update information about the target customers on its website, including taking into account customer questions, submissions and complaints and feedback received from existing and potential customers.

Also, in order to promote clients' understanding of the application of the AML/CTPF regulatory requirements and to promote positive cooperation between the client and the credit institution, it is important for credit institutions to provide timely and substantive information to clients both in case of opening an account and during cooperation, as well as in cases where clients have submitted a complaint regarding decisions taken by the credit institution or customer due diligence requirements.

Good practice	Poor practice
On the website of a credit institution, information about the documents necessary for opening an account and the average duration of their consideration can be easily found. The information	The information available on the website of a credit institution regarding the documents necessary for opening an account is difficult to find or is not available at all, especially on the issue of the form of submission of

is presented in simple and understandable language, avoiding complex terms.	foreign documents, the period of validity of certificates.
Information describing its target customer is published on the website of a credit institution, such as: Target client – legal entity: • size of LEs (e.g. small and medium-sized enterprises, large enterprises); • countries of registration of LEs (for example, Latvia or the Baltic or European Union countries); • region of activity of LEs; • Sectors of activity of the LE (e.g. priority or focus sectors). Target client – natural person: • country or region of residence of the NPs (for example, Latvia or Baltic or European Union countries); • income level; • the range of services used by the NPs. A credit institution shall provide information on its website on the sanctions regimes it complies with, as well as specific characteristics that are exclusionary of cooperation (for example, sectors of economic activity of unacceptable risk, etc.).	Information on its risk appetite and target customers is not available on the website of the credit institution or is not easy to find or understand.
According to the situation, the credit institution provides the client with individual, explanatory and timely information about the KYC questionnaire or other AML/CTPF prevention requirements, avoiding quoting formal and general requirements of regulatory enactments. The credit institution, in communication with the client, does not use the reference to the requirements of the legislation, including the consequences specified in the legislation, as the main and primary justification for obtaining the information; it is indicated as secondary information in the text of the request or in the conversation (for example, in the reference or at the end of the text).	The explanations provided by the credit institution to customers about the essence of the KYC questionnaire questions and its necessity are formal and general, quoting the requirements of regulatory enactments, but without explaining the situation on the merits in a way that is understandable and acceptable to the client.

A credit institution ensures notification to the client of the need to fill out a KYC questionnaire or provide information about the transaction through several channels, providing the client with sufficient time to submit information. The form of communication of a credit institution is dialogue-oriented, kind, explanatory, while not disclosing information that the law prohibits disclosure to the client. A credit institution is responsive if the client wants to contact and clarify what is indicated in the request.	The credit institution informs the client about the need to fill out the KYC questionnaire or provide other necessary information only in one channel, and failure to submit information automatically without evaluation serves as a basis for terminating cooperation.
When conducting customer due diligence, the credit institution shall apply the scope and depth of the customer due diligence appropriate to the actual risks, including taking into account mitigating factors, such as the services used or planned by the customer or the size of transactions. The request for documents to the client is made on the merits in order to obtain the information necessary for the customer due diligence in accordance with the identified risk-increasing factors, assessed in the context of the risk of the client's services.	When conducting customer due diligence, measures applied by the credit institution, including the amount of information and documents requested, are excessive, the justification and purpose of the requested information in the context of the transactions carried out by the client is not clear, including the impact and materiality of the identified risks in the context of the client's planned or actual service in the credit institution is not assessed. For example, a client – a relative of a politically exposed person (hereinafter – PEP) who wishes to use a payment account and card in a credit institution – is requested to have an account statement from another credit institution registered in Latvia, as well as a detailed analysis of historical transactions and payments received in this credit institution, including by requesting additional information and documents justifying the transaction from the client, only on the basis of the fact that the client is a relative of PEP, In particular, no other risk-increasing factors were identified as part of the client's initial investigation.

The credit institution shall acknowledge receipt of the documents from the client and, depending on the specific circumstances, inform the client within a reasonable time whether the information provided is sufficient for the execution of the request and for making further decisions.	The credit institution shall not inform the client of the receipt of the requested information and of the follow-up, including failure to provide information on whether the documents and information provided are sufficient.
The credit institution shall inform the client of the reasons for opening or closing the account, to the extent possible, so as not to violate the regulatory requirements regarding undisclosed information.	The credit institution does not provide any kind of explanation to the client about the reasons for refusing or closing the account.
The credit institution ensures a high-quality process of evaluating complaints and providing answers: a clear complaint handling process has been developed, which also includes ensuring the four-eyes principle, the content of complaints is evaluated on the merits and the client is provided with a timely and explanatory response, including, if necessary, possible solutions to a specific problem situation are offered.	The approach of the credit institution to the complaints assessment process is superficial and formal, without going into the essence of the situation, the client is provided with a general and standardized response, including the lack of a clear procedure for the complaint assessment process and the compliance with the four-eyes principle is not ensured.
Quality control of the handling of complaints is ensured in a credit institution, for example, a quality check is carried out as a regular activity or included as a separate element in the scope of an internal or external audit.	The credit institution does not have quality control in place for handling complaints or is incomplete.
In a credit institution, statistical data analysis is carried out on the complaints received, for example, evaluating dynamics, the most frequent reasons for refusal, the most typical customer segments, etc., including informing the management of the credit institution about the results of the assessment.	The credit institution does not carry out statistical analysis of the complaints received, relying on compliance with the four-eyes principle in the complaints process, which, in the opinion of the credit institution, ensures sufficient control over the complaints received.
In a credit institution, a procedure has been developed for when the top management of a credit institution is informed about the handling of complaints and their dynamics.	A credit institution does not have a clear procedure for when the top management of a credit institution is informed about the handling of complaints and their dynamics.

General principles of cooperation with low-risk clients

It is essential for credit institutions to ensure not only financial inclusion, but also that the arrangements and principles established by credit institutions for dealing with clients, especially low-risk clients, are proportionate and risk-based. The application of excessive customer due diligence requirements that do not comply with the risk level does not comply with the objective of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing and may have a negative impact, for example, the client's access to the financial system may be unreasonably hindered, negative publicity may be created regarding excessive requirements of credit institutions in Latvia, which, accordingly, may affect the attraction of investors, as well as the resources of employees of the credit institution are inefficiently consumed, creating a risk of inadequate management of high-risk situations, etc.

Good practice	Poor practice
A credit institution has identified products, such as a basic account, which serve as a significant mitigating factor. In a credit institution, technical solutions have been created for the provision of a basic account by nature.	The credit institution has not established products or restrictions that serve as a material mitigating factor and no technical solutions have been established to secure the basic account on the merits.
The questions in the credit institution's KYC questionnaire have been developed according to a risk-based approach, for example by setting a reasonable threshold for cash transactions, upon reaching which the customer must provide additional information about the purpose of the use of the cash or its origin.	A credit institution's approach to the process of filling in the KYC questionnaire is not risk-based, for example, customers are asked to fill in information about the purpose of using cash or its origin, even in cases where the planned amount of cash transactions is immaterial.
A credit institution, when deciding on the scope and depth of a client's due diligence, shall apply a risk-based approach by requesting additional documents or information on the merits only after the basic information on the purpose, size, etc. of the transaction has been ascertained, so that the amount of documents to be requested is appropriate and proportionate to the risks	A credit institution's approach to the application of the scope of customer due diligence is not risk-based, for example, in the case of opening an account, a full range of documents is requested before the purpose of the account opening, the planned transactions, their size, etc., are clarified essential key information in order to be able to make an

inherent in the client and the planned transaction.	informed and risk-appropriate decision on the scope of the customer due diligence to be applied and whether additional documents are needed at all.
The credit institution has developed criteria upon the occurrence of which low-risk clients are subject to simplified customer due diligence measures, taking into account the recommendations provided by Latvijas Banka and practical examples provided in the developed guidelines[1] (paragraph 3.3.2).	The credit institution does not have a procedure for when simplified customer due diligence measures may be applied to low-risk clients.
A credit institution shall, within the framework of low-risk customer due diligence, including for updating customer data, use the databases at its disposal and analysis of transactions carried out in the account.	Within the framework of customer due diligence, including data updates, a credit institution shall not use the databases or information available to it, but shall obtain all the necessary information from the customer.
For a client – a PEP – the risk group is determined also taking into account the risk mitigation factors inherent in the client, such as the jurisdiction of the PRP, the significance of the PEP status, the size of transactions, etc.	Regardless of other, including risk-reducing factors, and the products used or the nature of the transactions carried out, a credit institution determines a high level of risk for customers – PRPs. Including family members of local PEPs as high-risk clients, who can often be digitally unskilled seniors with limited mobility, the credit institution requires them to complete an annual KYC questionnaire to keep an account, although in practice doing so is cumbersome and other risk factors do not exist.
The regular training of a credit institution includes the topic of compliance with the principle of proportionality in the process of customer due diligence for low-risk clients and the observed examples of good and poor practices.	A credit institution shall not include in the regular training plan the topic of compliance with the principle of proportionality in the process of customer due diligence for low-risk clients.
The quality control of customer due diligence files carried out by a credit institution also	A credit institution shall not conduct a quality review of customer due diligence cases in a

[1] Guidelines for the establishment of an internal control system for the prevention of money laundering and terrorism and proliferation financing and for the management of sanctions risk and customer due diligence, see Annex III.

includes low-risk customer due diligence files in order to verify the application of proportionate requirements.	focused manner with the aim of ensuring that the scope and depth of the customer due diligence are applied to low-risk clients in a proportionate manner.

Pricing policy

A fair, transparent and competitive pricing policy for the day-to-day services of credit institutions is essential to promote trust and access to services in the financial sector. Such a policy ensures that customers are not unpleasantly surprised by hidden or unreasonable fees, and thus contributes to financial inclusion and customer satisfaction. By openly setting clear account opening conditions (target customer, clear fee for opening an account) from the outset, credit institutions can save time and resources, promote healthy competition and promote innovation in the service offer.

Good practice	Poor practice
The fee for opening an account includes a document verification fee.	In addition to the commission for opening an account, the credit institution has established a commission for checking documents.
The credit institution has set a commission fee for opening an account (including verification of documents) and servicing separately for each category of customers – resident, non-resident, payment institution, etc.	A credit institution deceptively states that, in general, opening an account is free of charge, and only going into the price list and talking with the credit institution reveals that for certain categories of customers, before opening an account, the credit institution charges an additional fee for checking documents.
All fees charged for opening an account are reflected in the price list of the credit institution in one place.	All possible costs related to opening an account are not reflected in the price list in one place.
The commission fee is standardised or the price list provides for a clear maximum amount of the expected commission.	The price list shows an unspecified amount of commission, e.g. "by agreement", "individually", "minimum", without giving a specific or at least representative example of when any commission would apply.
The commission fee for opening an account and checking documents charged before opening an account is fully or partially refunded by the credit institution in case of refusal.	The commission charged before opening an account is not refunded by the credit institution even if the opening of the account is refused.

A credit institution provides for the application of a lower commission for opening an account and other services, if this is done through digital channels.	The client does not have an alternative option to open an account and receive other payment services remotely for a lower fee.
The mark-up (profit margin) on the service fee is evaluated and determined depending on whether the client falls into the category of target customers defined by the credit institution or not.	The mark-up (profit margin) is applied to the document verification commission, and not to the commission for opening an account.
In the price list next to the specified service fee there is a note that a discount may be applied to the fee.	If during the process of opening an account the commission fee may be changed by applying discounts, this information is not publicly available and there are no clear criteria by which discounts are applied.