



FAQs on the Risk Management Framework

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Introduction

These FAQs are for the *risk management framework*, or 'RMF', for remittance services. The RMF includes the following four key tools.

1. [Risk Management Framework for Policymakers and Regulators](#)
2. [Risk Management Guidelines for Remittance Service Providers](#)
3. [Guidance for a Risk-based Approach \(RBA\) for Remittance Services Providers](#)
4. [Anti-money Laundering \(AML\) Guidance for Remittance Service Providers](#)

The RMF is product of the diagnostic assessments carried out by the UNCDF that involved extensive reviews and consultations in various countries of the regional economic communities (RECs) in Africa, where, UNCDF is working with public authorities, particularly RSPs' regulators, and supply-side stakeholders to improve remittance policies and availability of affordable, accessible, reliable, and tailored digital remittances and financial products to female and male migrants towards their economic inclusion, financial resilience, and reduced inequality. The main objective of this work is to improve the countries' existing and ongoing development of policies, regulatory frameworks, and risk management initiatives relating to remittance services. The goal is for the countries to build capacities to put in place suitable policies and risk management practices that will reduce or mitigate risks and therefore support the transition of remittances from cash-based to digital channels and from informal to formal ones, ultimately leading to increased volumes and efficiency of remittance flows, lower costs, greater access to finance, and financial resilience.

1) Risk Management Framework for Policymakers and Regulators

With a focus on migrant remittances and based on the ongoing efforts across Africa, UNCDF has observed the absence (or limited clarity) of risk-based approaches, identification systems, and the existence of de-risking practices affecting remittance services. These shortcomings have been observed to be significant impediments to reduced cost, speed, transparency, and affordable access to these services. The actions of policymakers and regulators affect the remittance service providers' (RSPs) risk management practices, either positively or negatively, particularly when formulating policies and supervisory frameworks. The risk-management framework for regulators would assist policymakers in policy formulation and regulators in issuing guidelines to remittance market players for identifying, evaluating, monitoring, and controlling key risks facing the remittance services. This framework can help to strengthen the policymakers' and regulators' capacity to develop, supervise, and monitor gender-

responsive and risk-based remittance policies that enhance market competition and innovation while safeguarding against risks to financial stability.

2) Risk Management Guidelines for Remittance Service Providers

The main objective of the risk management guidelines for RSPs is to shed light on RSPs' efforts in developing internal policies and risk management practices related to the remittance services they offer. The overarching objective is for the RSPs to put in place policies and risk management tools that will reduce or mitigate risks and therefore support the transition of remittance services from cash-based to digital channels and from informal to formal ones, ultimately leading to increased volumes and efficiency of remittance flows, lower costs, greater access, and financial resilience to men and women migrants and their families.

3) Guidance for a Risk-based Approach (RBA) for Remittance Services Providers

The RBA Guidance aims to assist regulators in putting in place effective risk management frameworks as well as guidance for RSPs in compliance with AML legislation, without imposing an unwarranted burden on lower-risk RSPs and restricting access to financial services to those seeking to use remittance services for their financial needs. This RBA guidance seeks to provide a practical tool that can facilitate the implementation of enabling regulatory frameworks for the provision of remittance services through the adoption of a risk-based approach as advocated by the Financial Action Task Force (FATF) Recommendations. It also comprises best practices and processes to guide RSPs on compliance with the FATF recommendations and national legislation on Anti-Money Laundering (AML)/ Countering Terrorist Financing (CFT) and Proliferation of Weapons of Mass Destruction (CPF).

4) Anti-money Laundering (AML) Guidance for Remittance Service Providers

The AML Guidance would help market players to put in place rules, procedures, and conditions for conducting customer due diligence (CDD) and/or KYC processes for remittance services.

Frequently Asked Questions

This FAQ section provides clear, concise insights into risk management frameworks. It compiles common questions along with their concise answers to help users quickly understand and navigate the RMF efficiently.

1. What is the Risk Management Framework (RMF) for remittance services?

The RMF is a guidebook designed to help regulators and remittance service providers (RSPs) identify, assess, monitor, and control key risks associated with remittance services.

2. How do policymakers impact the effectiveness of the RMF?

Policymakers shape policies, laws, and regulations that can either facilitate or hinder the effective implementation of risk management practices among RSPs.

3. Do the Risk Management Guidelines target nonbank remittance service providers only?

No. The core is remittance services. Remittance services are delivered by both banks and non-banks. The guidelines advocate for the application of this framework proportionally to the RSPs' type and size in all aspects.

4. How do I know if my remittance business is facing some risks?

Risks are always inherent in any business. Whether one knows it or not, risks are always there. Risks imply uncertainties about deviation from expected earnings or expected outcomes. In the provision of remittance services, there are potential challenges and uncertainties associated with the transfer of money from a sender to a recipient, or even disruption of the business from the external environment.

5. Why should I care if risks are just 'potential' and 'inherent' to my remittance business?

Prevention is better than a cure. It is better not to be caught unaware or taken by surprise. Risk management is a crucial process for remittance service providers to be alert, attentive, and mentally prepared for unexpected situations. It is critical to identify, assess, and design mitigation techniques for potential risks to minimize their impact on business assets, objectives, and targets. It is also important to have options of actions that can be taken to reduce the likelihood of a certain risk occurring or to minimize its potential impact if it does occur.

6. What is environmental scanning in the context of RMF?

Environmental scanning involves assessing both internal and external factors that may impact an RSP's operations and risk profile.

7. Which risks may my remittance business face?

Broad risk categories include liquidity, foreign exchange, interest rate, credit, and reputational risks.

8. What is liquidity risk in the context of remittances?

Liquidity risk is the possibility that the remittance service provider may fail to meet maturing obligations due to a lack of cash or near-cash assets that can easily be liquidated.

9. What is foreign exchange risk in the context of remittances?

Foreign exchange risk is the possibility of losses from exchange rate fluctuations due to various factors in the financial markets. Foreign exchange risk arises from fluctuations in currency values, which can affect the cost of sending remittances across borders.

10. What is interest rate risk in the context of remittances?

Interest rate risk is the potential losses from unfavourable movements of interest rates and adverse movements of prices in the market affecting the cost of operations and remittance fees. Changes in interest rates can also impact transaction costs for consumers.

11. What is credit risk in the context of remittances?

Credit risk is the potential for losses from the exposure of a counterparty unwilling to perform an obligation, or its ability to perform such an obligation is impaired.

12. What is operational risk in the context of remittances?

Operational risk is exposure from inadequate or failed RSP's internal processes, people, and systems that can lead to limited, deteriorated, or the breakdown of services, causing losses or the decline of earnings and capital.

13. What are the components of effective risk management practices for RSPs?

Components include environmental scanning, maintaining adequate human resources, and putting in place robust risk management tools and specific guidelines for managing different types of risks.

14. How can technology mitigate risks in remittance services?

Technology can streamline processes, enhance security measures, and improve compliance tracking, which reduces operational vulnerabilities. Technology solutions like automated reporting systems facilitate real-time tracking of transactions and adherence to regulatory requirements efficiently.

15. What role does data security play in managing risks for RSPs?

Ensuring robust data security measures protects sensitive information from breaches, which could otherwise lead to significant financial losses or reputational damage to an RSP.

16. How can these risks manifest in my remittance business?

These risks can manifest in various forms and can affect the remittance service provider, and/or the sender, and/or the recipient. With the development of new technologies and business models, there may be a possibility that the risk profiles of an RSP will vary and constantly change depending on the focus areas commanded by country or regional policies and regulations.

17. What are the focus areas that can determine a form of risk?

The focus areas that may shape risk management practices include operational resilience, governance, liquidity management considerations, investor and consumer protection, broader monetary and financial stability considerations, policies on banking, Anti-Money Laundering (AML)/ Countering Terrorist Financing (CFT) and Proliferation of Weapons of Mass Destruction (CPF), data security, and privacy.

18. What is meant by 'disproportionate supervision' in the context of RSPs?

Disproportionate supervision refers to overly stringent regulatory measures applied inconsistently across different types of service providers which may stifle competition or innovation.

19. How can a regulator address the disproportionate supervision?

Disproportionate supervision can be addressed using a risk-based approach (RBA).

20. What is a risk-based approach?

A risk-based approach (RBA) in the remittance business is a strategic and regulatory framework that is used to assess, identify, and manage risks associated with the remittance business activities based on a business model, size, complexity, and risk profile and the application of a balanced mix of supervisory tools. This approach is used to ensure compliance with risk management regulations while efficiently allocating resources to the most significant risks.

21. Why should the financial sector regulator get interested in risk-based supervision of RSPs?

Risk-based supervision has many benefits. One, it helps to ensure that the laws and regulations are proportionate to the value of cross-border transactions to promote

remittance services. Second, risk-based supervision of RSPs can easily detect suspicious transactions while allowing the regulator to focus resources on the most significant risks. Third, relevant international bodies like the Financial Action Task Force (FATF) recommend the use of a risk-based approach in Anti-Money Laundering (AML)/Countering Terrorist Financing (CFT) and Proliferation of Weapons of Mass Destruction (CPF) efforts and adhering to these standards can enhance a country's reputation in the global financial community.

22. Why should I be concerned with the risk-based approach as a remittance service provider?

A risk-based approach (RBA) to remittance services is employed to manage better and mitigate potential risks associated with the transfer of funds across borders. The RBA can help to easily detect suspicious transactions while allowing the RSPs to focus resources on the most significant risks. RBA, therefore, saves time, human resources, and money. This approach recognizes that not all customers or transactions pose the same level of risk, and it tailors compliance efforts accordingly.

23. What is a risk rating in the context of my remittance business?

Risk rating in the context of remittance services is an assessment of the level of risk associated with an RSP's operations and activities.

24. What is the importance of risk rating?

Risk rating helps regulatory authorities, financial institutions, customers, and other stakeholders understand the potential risks involved in using or partnering with the RSP. RSPs and regulators can use this rating to determine the level of due diligence required when conducting business with the provider. High-risk providers may face more stringent regulatory requirements and may find it challenging to attract customers and establish relationships with banks and other financial institutions.

25. How is the risk rating performed?

The risk rating typically assigns a score or category to the remittance service provider, such as low risk, moderate risk, or high risk.

26. Can the risk rating of my remittance business change over time?

Yes. It's important to note that risk ratings are dynamic and can change over time based on the provider's actions, changes in policies and regulations, and evolving risk factors. Therefore, continuous monitoring and assessment are essential in managing risk in the remittance industry.

27. What is risk ranking?

Risk ranking is a simpler and more streamlined approach to assessing and comparing the relative risk levels of multiple remittance service providers, used for prioritization or quick reference. Risk ranking involves categorizing providers into different risk tiers or levels based on a limited set of criteria. This categorization is usually based on high-level factors or indicators, and it doesn't delve into detailed assessments of each factor. The outcome of risk ranking is a list of remittance service providers ranked from highest to lowest risk based on the chosen criteria. Providers may be grouped into categories like "high risk," "medium risk," and "low risk." Risk ranking is valuable when there is a need to quickly identify which providers pose the most significant risk compared to others. It can help prioritize further assessments or actions.

28. What is a risk rating?

A risk rating is a more comprehensive assessment of a remittance service provider's risk profile. It aims to provide a detailed evaluation of various risk factors associated with the provider. Risk ratings involve analyzing multiple factors such as compliance with regulations, customer due diligence, transaction monitoring, geographic reach, technology and security, financial stability, reputation, ownership and management, and business model. Each of these factors is typically assessed individually and assigned a score or rating. The outcome of a risk rating is often a numeric score or a categorical rating (e.g., low risk, moderate risk, high risk) that reflects the overall risk level of the remittance service provider. Risk ratings are used by regulatory authorities, financial institutions, and other stakeholders to make informed decisions about whether to engage with a particular remittance service provider and to determine the extent of due diligence and risk mitigation measures needed.

29. What is the use of the RSPs' risk ratings and rankings?

Regulatory authorities and RSPs use the risk ratings and rankings internally to inform their decisions about engaging with specific remittance service providers, setting risk management policies, and determining the level of due diligence required when conducting business.

30. Where can I find risk ratings and rankings of remittance service providers in a certain market?

Risk rankings and ratings are usually not publicly available. They are generally used for internal purposes by regulatory authorities, RSPs, and other stakeholders involved in assessing and managing risk in the financial industry.

31. Why are risk ratings and rankings of remittance service providers in a certain market not published?

Here are some key reasons why they are not made public:

- **Confidentiality:** Risk ratings and rankings often involve sensitive and proprietary information about a remittance service provider's operation, compliance procedures, and risk management strategies. Disclosing this information publicly could pose security risks and potentially harm the provider's competitiveness.
- **Regulatory Considerations:** In many jurisdictions, regulatory authorities may have strict rules and regulations governing the disclosure of sensitive financial and risk-related information. These regulations are designed to protect the privacy and security of financial institutions and their customers.
- **Competitive Advantage:** Publicly disclosing risk ratings or rankings could give an advantage to some providers while disadvantaging others. Providers with higher ratings may use them for marketing purposes, while lower-rated providers could suffer reputational damage.
- **Dynamic Nature:** Risk ratings and rankings can change over time as a provider's risk profile evolves. Making them public might create confusion if the ratings are not regularly updated to reflect the most current information.

32. What can I find in open sources relating to risk ratings and rankings?

While the detailed risk assessments themselves are typically not made public, regulatory authorities may release general information or reports on the state of the remittance industry, including trends and common challenges. These reports often do not identify specific providers but provide a broader overview of industry risks.

33. Where can I find countries' money laundering and terrorist financing risk ratings and rankings?

Unlike all other risk categories, ML/TF/PF risks for a country can be publicly available because of their importance in financial integrity when it comes to cross-border transactions and the presence of authoritative national and international sources surrounding that aspect. Countries' ML/TF/PF risk ratings and rankings are typically determined by various sources and assessments conducted by national and international bodies. These assessments consider multiple factors and data sources to evaluate the levels of ML/TF/PF risks associated with a particular country. Some of the key sources of countries' money laundering risk ratings and rankings include, Financial Action Task Force (FATF) evaluation reports, international organizations' reports various international organizations, such as the World Bank, the International Monetary Fund (IMF), and the United Nations Office on Drugs and Crime (UNODC), government

agencies' reports, data and statistics reports, financial sector supervision reports, corruption and governance reports, etc.

34. What is de-risking?

This is the practice whereby RSPs terminate or restrict business relationships indiscriminately with broad categories of clients due to certain perceptions or broad risks rather than analyzing and managing the situation or risks in a targeted manner.

35. How does de-risking affect remittance services?

De-risking can lead to financial institutions terminating relationships with entire categories of clients without assessing individual risks, which can reduce competition and increase costs.

36. What is risk mapping?

Risk mapping is a tool used to identify, analyze, and prioritize risks within an RSP's operations.

37. What are the quantitative methods of risk measurement?

Quantitative methods involve using mathematical models and statistical analyses to assess potential risks quantitatively.

38. What are qualitative methods of risk measurement?

Qualitative methods rely on expert judgment and subjective assessments to evaluate risks based on experience and insights.

39. What is meant by 'risk weighting' within an RMF context?

Risk weighting summarizes the level of inherent risks associated with an organization's activities, along with how effectively those risks are managed over time.

40. How does an RSP determine its overall risk rating?

An overall risk rating is determined by evaluating inherent risks, quality of risk management practices, and predicting future risk directions.

41. What factors influence the direction of risk for an RSP?

Factors include anticipated changes in external environments, strategic shifts within the organization, and current management effectiveness.

42. Which external factors can influence the direction of risk for an RSP?

External factors include the following:

- Jurisdictional issues regarding authority over transactions spanning multiple countries alongside differing regulatory environments.
- Cross-border cooperation facilitates information sharing among regulators, which improves oversight and helps manage risks associated with remittance transactions.
- In high-risk corridors, RSPs may encounter increased regulatory scrutiny and de-risking due to potential money laundering concerns.
- Economic conditions such as exchange rates, employment levels abroad, or economic stability can significantly impact how much migrants send back home through remittances.
- Increased market competition typically leads to lower fees, improved service quality, and greater innovation in service offerings for consumers.

43. Which internal factors can influence the direction of risk for an RSP?

Internal factors include the following:

- Strong governance structures promote accountability among leadership, ensuring decisions made reflect best practices, thereby minimizing potential operational failures.
- Having a strategic plan helps RSPs align their operations with regulatory requirements while effectively managing risks associated with their business model.
- Training ensures that staff are knowledgeable about compliance requirements and best practices for identifying and mitigating risks effectively.
- Poor contract enforcement can lead to disputes between parties involved in transactions, which may increase operational costs and legal challenges for RSPs.
- Transparency fosters trust among consumers and regulators while promoting fair competition among service providers.
- High costs or limited access to formal banking systems often push consumers towards unregulated channels where oversight is minimal, but fees may be lower than formal options.
- Consumer feedback mechanisms can help to highlight areas needing attention or improvement, allowing policymakers to adjust regulations accordingly, ensuring better alignment with user needs.
- Establishing clear complaint resolution mechanisms ensures that consumer issues are addressed promptly and fairly, enhancing customer satisfaction.

- Lowering transaction fees, enhancing digital platforms for easier access, or providing educational resources about available options.
- Transparency regarding fees or processes makes consumers feel certain about service providers' reliability, leading them to use remittance services through formal channels.

44. What steps should be taken if an RSP identifies a high level of inherent risk?

If high inherent risks are identified, an RSP should enhance its risk management practices by implementing stricter controls or revising its operational strategies.

45. How does effective communication among stakeholders enhance RMF implementation?

Clear communication fosters collaboration among regulators, policymakers, and RSPs, which enhances understanding of risks and promotes collective problem-solving efforts.



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