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THE ROLE OF FINANCIAL INCLUSION IN STRENGTHENING AML/CFT FRAMEWORKS: BALANCING ACCESS AND SECURITY IN THE U.S. FINANCIAL SYSTEM

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ABSTRACT

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This paper examines the oscillating association between financial inclusion and the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) systems of the United States, with an emphasis on the issue of balancing access to finance and security regulations. Although banking services have been extended to the unbanked and underbanked, stringent anti-money laundering laws like Know Your Customer (KYC) and Customer Due Diligence (CDD) have ended up discriminating against the underprivileged members of society, such as low-income earners, immigrants, and the unbanked. This study seeks to examine the way inclusive financial systems can reinforce AML/CFT mechanisms, in a concomitant manner that guarantees fair economic inclusion. The study provides an evaluation of peer-reviewed articles, official reports, and policy documents through the lens of qualitative literature review methodology. It derives conceptual tensions and synergies between inclusion and regulation, puts a focus on technological interventions, and discusses successful case studies such as Kenya M-Pesa, the tiered KYC system in Mexico, or the U.S. Treasury Project REACh. Such cases show how new architecture and technologies, including biometrics, AI, and blockchain, can close the inclusion-security gap. The evidence suggests that financial inclusion can enhance AML/CFT performance by reducing reliance on the informal system, enhancing the transparency of transactions, by facilitating risk profiling. Nevertheless, the research also defines the critical gaps in its investigation, referring to the unintended exclusionary impacts of regulations and the experimental effects of AI and blockchain on compliance. Lastly, the research proposes dynamic regulatory frameworks, risk-based compliance, and integration of technology as possible paths to secure and inclusive finance. Such a balance will be the key to developing resilient, transparent, and fair financial ecosystems that will prevent financial crimes without stigmatizing vulnerable groups.

KEYWORDS: ***Financial Inclusion, Financial System, Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT), Know Your Customer (KYC), Customer Due Diligence (CDD), Financial Crimes Enforcement Network (FinCEN), Bank Secrecy Act (BSA), Suspicious Activity Reporting (SAR), USA PATRIOT Act, Blockchain, Artificial Intelligence (AI).***

1. INTRODUCTION

The past few decades have made financial inclusion an important goal for development (Berry, 2015). Financial inclusion mainly involves giving people or groups the ability to use financial services. Areas included in the financial system are banking, credit, insurance and savings (Berry, 2015; Appleyard et al, 2016). It is also explained by the World Bank as financial products available and utilized by the poor and vulnerable. Making everyone part of the financial system is key to economic development for all. This means focusing on not only having options for services such as savings accounts, credit, insurance, and payment systems, but also using them correctly, receiving good-quality services, and buying them easily (Demirgüç-Kunt et al., 2022).

Increasing financial services for all has been a main aim of U.S. policy for many years. Policy officials have been keen to ensure that the most vulnerable members of society get equal chances in using financial services by easing access, promoting financial education, removing biases, and improving rules (Aiyar, 2023).

It is widely agreed that when more people are financially included, poverty can be reduced, and people's well-being can be improved. Greater access to banks and financial institutions helps people secure education, create and run businesses, and reduce their risks (Aiyar, 2023). When financial services are broadened, savings increase, new skills can be learned for future employment, technology adoption becomes more common, and the economy grows in general (Jayasekara, 2021). Furthermore, because there is a strong link between low-

income communities and access to financial products, opening these opportunities may help decrease poverty and make income gaps smaller. According to Jayasekara (2021), in terms of microeconomics, offering financial inclusion services to households is likely to increase their savings and give them more opportunities to take out loans. Demirgüç-Kunt et al. (2022) in their publication demonstrate that being included in the financial system brings higher growth and better resilience to money matters, especially to those who have not used traditional financial services before.

To advance financial inclusion in the US, authorities have created economic programs that reduce financial barriers for people in marginalized communities (Jayasekara, 2021). In addition, financial inclusion relates to Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) efforts that keep financial crimes from happening. In the past few years, the efforts to promote inclusive finance and protect financial systems with AML/CFT measures have received a lot of attention in public and academic forums (Demirgüç-Kunt et al., 2022). The purpose of financial inclusion is to increase access to banking services for people who are not banked, increase their chances of being part of the economy, and minimize inequalities. In addition, Demirgüç-Kunt et al. (2022) mentioned that laws and institutions like the Financial Crimes Enforcement Network (FinCEN) and the Bank Secrecy Act (BSA) protect the financial system from being taken advantage of for money laundering or terrorist financing. These frameworks also make it necessary for financial institutions to identify their customers, oversee their activities, and notify authorities when they suspect something suspicious (Khelil et al., 2023). While these steps improve security, stricter laws could prevent people from low-income communities from getting the service, making it expensive. Although these objectives are said to complement each other, they face challenges when put into practice. Ensuring that everyone has access to financial services while following strict regulations remains a problem (Aiyar, 2023).

This paper looks at how financial inclusion helps to strengthen the AML/CFT rules used by U.S. financial institutions. The aim is to study existing research, discover difficulties, and suggest ways to balance financial inclusion and regulation.

2. LITERATURE

2.1. Theoretical Framework

Financial Inclusion

Financial inclusion, which involves access and use of formal financial services by the deprived citizens, is crucial towards ensuring there is equity in the economic development of countries (Adelaja, et al., 2024). It does not only entail the delivery of the basic services such as savings, credit, and insurance but go beyond it by focusing on the importance of service quality and affordability to guarantee meaningful involvement (Mujeri, 2015). Other studies highlight that improving financial access can play a major role in decreasing poverty and achieving sustainable development particularly in low-income economies (Danladi, et al., 2023).

AML/CFT Frameworks

The Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) system in the United States is mainly controlled by the Bank Secrecy Act (BSA), the USA PATRIOT Act and the regulatory system of the Financial Crimes Enforcement Network (FinCEN). The objective of these legal instruments involves detection, prevention, and punishment of unlawful money transmission, such as money laundering, shadow financing, and other financial crimes by taking strict compliance measures against financial institutions (Zagaris & Hong, 2024). The primary requirements are Customer Due Diligence (CDD), Suspicious Activity Reporting (SAR), Know-Your-Customer (KYC) procedures, which all improve the level of transparency in financial transactions (Sharman, 2017). In addition, the recent trends focus on data analytics, AI, and blockchain-based monitoring systems to reinforce the identification of transactions and regulatory reporting (Ahmed, 2025). Besides safeguarding the integrity of the U.S. financial system, these actions are also in compliance with AML/CFT guidelines adopted by global markets, known as the Financial Action Task Force (FATF) (Aidoo & AML, 2025).

Conceptual Tensions and Synergies

In as much as the financial inclusion efforts would lead to more effective operation of AML/CFT systems due to transformation of players in the informal economy into the regulated financial sector, it would come with several significant challenges. The inclusion of the underserved populations into formal banking systems will promote the monitoring of transactions, verification of identities, and reports something that can contribute to the enhancement of AML/CFT compliance frameworks (Zetzsche et al., 2020). Such processes however may be associated with high Know-Your-Customer (KYC) and Customer Due Diligence (CDD) procedures which can over-burden vulnerable groups that have no formal identification or addresses (Artingstall et al., 2016). Consequently, there is an increment of financial exclusion risk that drives some people to the use of more informal or unregulated channels unwittingly compromising AML/CFT goals (Aidoo & AML, 2025). Recent studies identified this paradox as a policy trade-off (striking a balance between the need to include people in the financial framework and efficiently enforce strong AML/CFT controls) that demands flexible regulatory frameworks and risk-based identification platforms and technology-supported solutions to minimize the compliance burdens without compromising financial integrity (Sahay et al., 2020).

2.2. Financial Inclusion and Its Economic Benefits

Financial inclusion also translates to a stable economy since it helps to make sure that individuals are engaged in the formal banking systems as opposed to using informal financial systems and making sure that they invest in the underprivileged communities that they live in (Demirguc-Kunt et al., 2022). The improvement of access to finance is equivalent to an improvement in economic growth, reduction of inequality, and improvement of financial literacy.

A study by the Federal Reserve and the FDIC estimated that in the United States, 4.5 percent of households were unbanked in 2021, and the rate is greater among low-income individuals, minorities, and immigrants. The barriers include the lack of trust in financial institutions, high fees, and the lack of records (Van der Cruijsen et al., 2023). In the meantime, policies (and community development financial institutions or CDFIs), technology (fintech), and policy reforms (like the Community

Reinvestment Act or CRA) have attempted to bridge this gap. Some scholars, like Servon (2017), argues that financial inclusion is a key to economic justice and mobility in the United States.

2.3. Government Initiatives and Policy Frameworks

The U.S. government has presented several programs to improve financial inclusion. The Community Reinvestment Act (CRA) asks banks to fulfill the credit requirements of low-income communities and ensures that the financial institutions provide services to the entire society. Also, the U.S. Department of the Treasury created a National Strategy for Financial Inclusion that identifies policies to increase access to transaction accounts, enhance financial literacy, and increase availability of affordable credit (Toh, 2022). Federal programs such as the Small Business Administration (SBA) loan programs and Special Purpose Credit Programs (SPCPs) have been observed to be very instrumental in availing financial resources to minority owned businesses and entrepreneurs. The initiatives are aimed at narrowing the divide between conventional banking services and marginalized communities to empower them economically and enhance entrepreneurship (Theodos et al., 2024; Korman, 2024).

2.4. AML/CFT Regulations and Their Exclusionary Effects

The unintended consequences of AML/CFT measures have often been referred to, especially the fact that these measures have a disproportionate effect on marginalized communities (Zetzsche et al., 2020). Although the regulations have a noble aim of combating financial crimes, including money laundering and terrorist financing, their strict enforcement has produced obstacles to persons without formal identification or fixed addresses (Aidoo & AML, 2025). Know Your Customer (KYC) requirements and Customer Due Diligence (CDD) thresholds are an important part of AML/CFT systems, which, however, may pose a barrier to access to financial service by the vulnerable populations, pushing them to unregulated finance, which poses greater systemic risks (Gibbs, 2017).

Financial inclusion is one of the important reserves of economic stability, enabling people to join formal financial systems and get fundamental services like savings accounts, credits, and guidelines. Nonetheless, AML/CFT laws tend to create undue strict identity verification obligations, which burden low-income people, refugees, and undocumented migrants. As Levi (2017) research, when people cannot fulfill such regulatory requirements, they can turn to informal financial networks, becoming more exposed to fraud, exploitation, and financial vulnerability.

Moreover, its concerns have been echoed by the Financial Action Task Force (FATF), which has stated that too strict AML/CFT measures may create financial exclusion. The 2017 guidance on financial inclusion by FATF stresses the importance of a risk-based approach to the matter, in which there should be flexibility in the KYC and CDD requirements, making sure that financial institutions may serve the underserved population segments, without compromising the security levels (Gelb & Castrillon, 2019).

2.5. Challenges in Financial Inclusion and AML/CFT Compliance

Although substantial achievements have already been recorded, the process of reaching the goal of the full attainment of financial inclusion and AML/CFT compliance still has some problems. One of its ilk is the unavailability of the traditional banking service in the low-income and rural areas (Kamal et al., 2025). The majority rely on the alternative fiscal services of payday loans and check-cashing services that are extremely costly in terms of charges and high interest rates.

Access to credit is also another issue in which most of the marginalized individuals lack a credit history to secure a loan. It has led financial institutions to think about how alternative models of credit scores (such as rent and utility payment histories) can be utilized to characterize creditworthiness. (Theodos et al., 2024).

With increased financial accessibility attributed to digital banking, mobile payments, online financial services, etc., there have been substantial risks of digital fraud, thus subjecting users to cybersecurity risks and identity theft. Increased use of online transactions has introduced gaps that malicious individuals manipulate to commit fraud in the form of phishing, malware, and synthetic identity theft (Hummer & Rebovich, 2023). Hasham et al. (2019) argued that automation and digitization of financial institutions increase cyber threat levels, and fraud losses incurred are approximately three dollars lost for every one dollar stolen. Moreover, cybercrime has also been boosted by AI, thereby allowing the attackers to use advanced phishing methods, which are more challenging to identify (Rajagopal, 2025). The emergence of mobile banking has also added to the risks of fraud since hackers identify vulnerabilities in mobile-based applications to steal valuable information. To counter the threats, financial institutions and banking organizations are now starting to introduce biometric authentication systems, artificial intelligence-based fraud prevention systems, and blockchain-based security systems to protect transactions and unauthorized access (Rao et al., 2025). Amidst such developments, regulatory infrastructure must continuously change to accommodate emerging cyber threats without constraining the financial inclusion of additional users. To improve resilience to cybersecurity attacks, multi-factor authentication, end-to-end encryption, real-time fraud monitoring, etc., can be useful towards ensuring that digital financial ecosystems are not vulnerable to emerging fraud risks (Singh, 2025).

The AML/CFT systems require financial institutions to undertake Customer Due Diligence (CDD), monitoring of transactions, and reporting of suspicious transactions. This is as much as is needed to enhance security; overly strict policies can end up shutting the low-income population, therefore, introducing a financial barrier (Luzadder & Long, 2017).

The banks and other financial institutions have been found not to balance the selection of risks and the financial inclusion efforts, thus resorting to conservative compliance strategies, which have proved to lock out the underserved populations. The strict Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) legislation requests the financial institutions to apply a strict Know Your Customer (KYC) and

Customer Due Diligence (CDD) principal, which might disproportionately affect the individuals, who lack official identification or do not sport an impressive financial history (Kaiser, 2024). This has been accompanied by the high compliance cost and regulatory uncertainty that is not enticing institutions to take up flexible risk-based models. In a mission to minimize the effects of the pressures, policymakers are demanding the shift to inclusive AML/CFT frameworks, where alternative credit scores, digital identity, and tiered KYC can be incorporated to make financial access inclusively oriented and security-focused (Smith, 2024).

2.6. The Role of Technology in Addressing AML/CFT Challenges

Biometric identification, blockchain, and artificial intelligence (AI) are the new technologies that might be considered a promising way to find the balance between financial inclusion and AML/CFT compliance. Biometric verification provides an opportunity to identify individuals without traditional identification documents in a secure way, which enables them to reduce exclusion to a minimum yet maintain the integrity of regulations (Zetzsche et al., 2020). Blockchain technology enhances the transparency of transactions, which may allow financial institutions to conduct surveillance and verify transactions without relying solely on traditional KYC (Arner et al., 2015). However, data privacy, cyber risk, and algorithmic bias are also issues relating to the solutions.

2.6. Case Studies and Best Practices

Kenya M-Pesa: As mentioned by Hannig & Jansen, (2010); Musango, (2018) and other scholars, M-Pesa is an electronic money transfer product, which allows the users to store value in the SIM cards of their mobile phone as a mobile account, in a form of electronic currency that can be used in various ways such as sending to other users, paying merchants and services and exchanging to and from cash. M-Pesa is a technology that has made financial transfers easy and effective. Endogenous developments of other products have been developed and released on this technological platform. The site offers a virtual network of savings, a virtual system for applying and getting short-term credit. Endogenously, this technological platform has evolved in four rounds of virtuous process: as a payment platform to a virtual banking and saving services; as a credit supply platform; and lastly, as a cross-border payment/transfers and international remittances platform. Quoted as an effective example of mobile financial inclusion, its incorporation within the regulatory framework has assisted in tracking the financial flow proficiently. One of the aspects that resulted in the fast growth and the availability of financial services to rural locations in developing nations is innovation in the delivery channels of the financial services, more specifically, the mobile transfer of money. Particularly, this is so in Sub-Saharan Africa (Hannig & Jansen, 2010). Donavon (2012) and Kikulwe et al. (2014), among others, demonstrated that Kenya has been one of the most successful nations in the mobile money technology through its M-PESA services.

KYC Tiered System Mexico: KYC Tiered System Mexico is a regulatory framework that seeks to strike a balance between financial inclusion and security by permitting distinction of access to financial services depending on risk categorization (Gelb & Castrillon, 2019). This model allows financial institutions to serve the underserved populations without violating Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) regulations (Gelb & Castrillon, 2019). Through the development of a tiered system, Mexico has developed a framework that allows the financial inclusion of low-income citizens and the reduction of risks of financial crimes (Navis et al., 2020).

U.S. Treasury: Project REACh: Project REACh (Roundtable for Economic Access and Change) is an innovative new project within the U.S. Treasury focused on barrier reduction and increasing access to credit and other aspects of finance through a public-private partnership. The Office of the Comptroller of the Currency (OCC) kicked off Project REACh to facilitate the elimination of systemic barriers that impede the full integration of underserved people into the financial system. Among its key goals is to address the issue of credit invisibility, which, therefore, applies to approximately 50 million Americans who do not have viable credit scores, thus cannot easily access affordable loans and other financial services. To eliminate this problem, Project REACh considers other options of credit assessment, like the inclusion of rental and utility payment histories into the credit analysis, and access to financial products will be fairer (Perry & Schnare, 2021).

Also, affordable homeownership because it understands that homeownership is amongst the main drivers of wealth generation (Stegman & Loftin, 2021). Project REACh seeks to increase the number of low- and moderate-income citizens who own their own homes by asking banks to transform some of their housing stocks into affordable housing by offering low-cost transfer and renovation loans to the banks. The other important aspect of the initiative is that it helps Minority Depository Institutions (MDIs), which are an important part of their communities, but usually face challenges with access to capital, modernization of their technology, and retaining talent. By forming strategic alliances, Project REACh can assist MDIs to stay competitive and keep servicing their communities in a proper manner. Additionally, the program ensures the development of small businesses, especially those owned by minorities, rural, and Native entrepreneurs, through technical assistance and contracting opportunities (Stegman & Loftin, 2021). Through the development of partnerships among financial institutions, regulators and community organizations, Project REACh is helping to make way for a more inclusive financial system that can benefit the underserved populations without compromising economic stability. Also, in the future, the program intends to instill financial technology (FinTech) solutions, such as the application of AI in credit assessment and blockchain-based financial security solutions, to regularly increase financial inclusion. Project REACh success underlines the applicability of market-based mechanisms to address financial inequalities and credit and access capital adequately and fairly (Perry & Schnare, 2021).

2.7. Research Gaps

Research on the beneficial effect of financial inclusion on AML/CFT systems compared to the adverse effect is minimal. Most of the overwhelming research examines the issue of financial inclusion as the potential vulnerability to the Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) efforts and investigates the risks of illegal

financial flows and fraud. However, empirical evidence, which indicates the way financial inclusion can confer empowerment to AML/CFT frameworks, is desirable. An added effect of the induction of the underbanked into the formal financial networks will also make their transactions more visible, enhance the rate of customer due diligence, and reduce the application of cash-based transactions, which are less visible to be tracked upon suspicion of foul play. Research into good financial inclusion policies that have facilitated AML/CFT controls like tiered Know Your Customer (KYC) systems would assist policymakers to strike the balance between supporting inclusion and not sacrificing the security of the regulation (McGough, 2016).

There are not enough empirical assessments of how effective AI and blockchain technologies are in terms of finding a balance between security and inclusivity. Artificial intelligence (AI) and blockchain have been identified as some of the technologies that have the potential to transform how financial security and risks are managed. By using AIs, algorithms can automate parts of the fraud detection process, authenticate the identity of customers, and track transactions in real time, allowing financial institutions to improve their compliance with AML/CFT laws, as well as increase security and efficiency. Blockchain offers unalterable records of transactions, which minimize the possibility of illegal financial transactions and simplify the process of digital identity verification. Despite these developments, little empirical work has been done to look at the effectiveness of AI and blockchain in practice in striking a balance between financial security and inclusion. The studies regarding the possibilities of the AI-driven risk analysis model to assist low-risk individuals in gaining access to financial services without excessive compliance friction and the capacity of blockchain-based solutions to offer alternative KYC systems are instructive in the context of how technologies can expand access to financial services, all the while under the conditions of high-level security measures (Navis et al., 2020).

The unintended effects of AML/CFT regulations regarding financial access by marginalized groups must be investigated. Even though the AML/CFT policies are essential in curbing financial crimes, they unintentionally create barriers to low-income earners, undocumented migrants, and other individuals without a traditional credit history. Stringent KYC and Customer Due Diligence (CDD) requirements may exclude individuals without government-issued identification cards from the informal financial systems where regulation has limited effect. Even those rules that should be followed closely can limit the ability of the minority depository institutions (MDIs) and community banks to lend to the populations that are considered risky and thus promote the growth of financial disparities without even realizing it. The ultimate impact of such exclusions, particularly how the concerned people operate within other financial ecosystems or become victims of predatory financial services, is seldom researched. Research in progress is needed to determine what can be done to AML/CFT policies to promote financial inclusion without triggering an increase in systemic risk (Gelb & Castrillon, 2019).

3. DISCUSSION & FINDINGS

The findings show that financial inclusion might assist in AML/CFT efforts rather than being risky to handle. The well-noticed points are:

• With transparent banking systems, the use of illegal financial systems will be minimized, and illegal transactions can be easily detected. Financial inclusion makes individuals and firms move their transactions that normally take place on an unregulated, informal cash basis into the formal banking system. This step will increase the transparency of transactions and enable the financial institutions to identify suspicious activity and meet the Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) requirements with greater efficiency. The banking services to the deprived population will do away with the tendency of the population to use the informal financial services that are hard to control, and which are the major avenues of illegal transactions. The financial institutions will also be able to possess better data collection that will assist them in identifying fraud in its early phases, along with indicating high-risk behavior. In a bid to maintain security without failing because of the availability of finances, regulators can intensify the customer due diligence (CDD) and Know Your Customer (KYC) policies in inclusive banking systems (Jayasekara, 2021).

Blockchain and AI are newer technologies that enhance fraud detection and improve identity verification processes for marginalized populations. AML/CFT compliance is changing with the help of artificial intelligence (AI) and blockchain technology, and financial inclusion is becoming safer and more efficient (Bello et al., 2024). The AI-based algorithms of fraud detection can examine the pattern of transactions in real time, discovering anomalies that could be related to money laundering or illegal financing. Risk-based customer verification may also be improved with the help of machine learning models, giving banks an opportunity to evaluate the creditworthiness of customers with alternative data sources, including rent payments, utility bills, and mobile financial transactions. Instead, blockchain technology offers unchangeable records of transactions, which lowers the risks of fraud and enhances transparency within any given financial network. Smart contracts also allow safe digital verification of identity, so that people who lack traditional identification documents can obtain banking services, but in a manner that meets regulatory requirements. Financial institutions must incorporate AI-powered fraud-preventing mechanisms and blockchain-powered identity management into their AML/CFT systems to ensure security without impeding access (Ahmed, 2025).

The collaborative model between financial institutions and regulators makes sure that the AML/CFT frameworks are dynamic to changes in the financial environment (McGough, 2016). Successful implementation of AML/CFT suggests that there should be close coordination of regulatory bodies, banks, fintech companies, and international financial organizations. The regulators need to implement dynamic regulations that would permit the financial institutions to put in place risk-based compliance plans so that low-risk people could have access to basic financial services, with high-risk transactions subject to greater examination. Periodic interaction between compliance officers and policymakers may provide a way of refining

AML/CFT regulations against the creation of over-restrictive policies that may inadvertently exclude vulnerable groups within the financial systems. There are collaborative efforts like Project REACh in the United States and the Financial Action Task Force (FATF) on financial inclusion that urge financial institutions to find a balance between accessibility and security. Along with that, the international collaboration at the AML/CFT endeavors makes sure that the cross-border financial criminal activities, including fraud and terrorist financing, are efficiently tackled without sacrificing the inclusiveness-oriented banking policies.

As much as there are risks, a successful execution of the financial inclusion strategies can promote security and not undermine it. The transparency of the banking channels will improve the monitoring of the transactions, the improvement of the technology will enhance the prevention of fraud, and the collaboration of the regulations will improve risk aversion and ease in getting finance. Policy makers need to optimize AML/CFT systems to enable comprehensive banking and still-tight security measures. With the support of AI-based solutions, blockchain transparency, and dynamic compliance models, financial institutions can make sure that inclusion initiatives facilitate economic activity without exposing financial crimes to higher risks.

4. CONCLUSION

This paper concludes that the goals of financial inclusion and AML/CFT are not mutually exclusive and that it is possible to strategically align those to establish a safe and fair financial system in the United States. Financial inclusion encourages transparency, monitoring capacity, and effectiveness of AML/CFT controls by means of reducing cash-based transactions by integrating an underbanked population into formal financial networks. Nevertheless, with uncompromising compliance demands, measures are made to be unintentionally disadvantageous to vulnerable sectors, a fact that may push them towards unregulated sources of finance. The paper advocates a greater reliance on risk-based regulation, alternative data to credit assessment, and more flexible KYC procedures that produce less exclusion at the cost of no reduction in oversight. The related technologies, namely artificial intelligence-enhanced fraud detection, blockchain-powered identity verification, and biometric verification, have been proposed as the tools that can help to mediate the possible incompatibility of inclusion and security. Kenya, Mexico, and the U.S. Treasury Project REACh case studies confirm that joint efforts of regulators, financial institutions, and community organizations should play an essential role in the design of adaptive and inclusive AML/CFT systems. Policymakers should focus on solutions that will enable them to tackle regulatory rigidity, advance financial literacy, and invest in technological infrastructure that will enable them to balance between compliance and inclusion. Through this, the U.S. will be able to foster access to finance by the underserved communities without compromising the integrity of its financial system against the risks of money laundering and terrorist financing. This research paper suggests continuous empirical research, comprehensive policy making, and international collaboration to better the regulatory environment and to create a more inclusive and safer financial future.

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