POLICY DISCUSSION PAPER

Responsible Inclusion After Public Office

A risk-based framework for politically exposed persons, financial integrity and economic reintegration in Malawi

Vera Kamtukule, PhD

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CENTRAL PROPOSITION: ***Politically exposed person status is a risk indicator, not a finding of guilt. Malawi can protect the financial system while replacing blanket exclusion with documented, reviewable and proportionate risk management.***

Executive Summary

Malawi's anti-money-laundering framework correctly requires additional safeguards when a customer or beneficial owner is a politically exposed person (PEP). The policy problem arises when enhanced due diligence becomes indefinite or categorical exclusion: an account, credit application or business relationship is restricted because of status alone, rather than because a documented assessment found risks that could not be mitigated.

That outcome is not required by international standards. The Financial Action Task Force (FATF) describes PEP controls as preventive rather than criminal and calls for risk-based, case-by-case measures. Malawi's Financial Crimes (Money Laundering) Regulations, 2020 require risk-management systems, senior-management approval, enhanced monitoring, and reasonable measures to establish source of wealth and source of funds. Those obligations demand more work; they do not create a general prohibition on serving PEPs (FATF, 2013; Government of Malawi, 2020).

The paper proposes a Responsible Inclusion Framework built on six reforms: clear national supervisory guidance; periodic reassessment for former PEPs; a standard evidence pack that separates source of funds from source of wealth; reasoned decisions and internal appeals; better data and supervisory review of PEP outcomes; and structured dialogue with correspondent banks. A specialist PEP only bank may also be a solution but it is not recommended at this stage because concentration risk and correspondent-banking dependence could deepen exclusion. A supervised service model inside the existing banking system is the safer first step.

POLICY DECISION: ***The Reserve Bank of Malawi and the Financial Intelligence Authority should jointly issue risk-based PEP guidance and launch a 12-month supervised pilot with participating financial institutions***.

1. From testimony to policy problem

A 2026 report on The Cost of Politics in Malawi by Kayuni et al., provides an important explanation for why politically exposed persons in Malawi often seek access to finance, and why financial institutions face complex decisions. The report argues that it costs MK90-170 Million for a person to enter parliament, and substantial sums to sustain yourself in the same thereby exposing real financial pressure on the part of the politicians which sometimes push others to corruption and the creation of political patronage structures. This explains why political financing is a governance and leadership issue rather than simply an electoral one. This paper therefore discusses the intersection between banking, political exposure, governance and institutional integrity. The paper originates in a first-person episode of The Leadership Lab Africa describing the transition from public office to private economic life. The episode’s lived experience is used as a case narrative, not as proof of the prevalence of exclusion across Malawi’s banking sector. Its value is diagnostic: it identifies points where lawful caution may become opaque, prolonged or disproportionate.

The central distinction is simple. A high-risk classification means that a financial institution should understand and manage risk more carefully. It does not mean that misconduct has been established. FATF expressly states that PEP requirements are preventive and should not be interpreted to mean that all PEPs are involved in criminal activity (FATF, 2013). The consequences of misclassification extend beyond personal inconvenience. Where a former official cannot use ordinary banking channels, legitimate enterprise, payroll, supplier payments and investment may become harder to document. That can push activity away from the regulated system and reduce the transparency that anti-money-laundering controls are intended to create. FATF’s 2025 financial-inclusion guidance therefore asks authorities and financial institutions to consider both financial-crime risk and the risks created by exclusion (FATF, 2025a).

2. What the law and standards require

2.1 Malawi’s domestic framework

Section 2 of The Financial Crimes Act, 2017 defines a PEP as presidents, vice presidents, ministers, members of parliament, senior public officials, state owned enterprises executives, political party leaders, international organization officials, family members and close associates. Often times however, the list is narrowed to current and former members of the cabinet and current or former members of parliament. The Act further establishes Malawi’s core legal architecture for preventing and detecting money laundering and related financial crimes. The Financial Crimes (Money Laundering) Regulations, 2020 provide specific PEP controls. Regulation 7 requires reporting institutions to maintain appropriate systems to identify whether a customer or beneficial owner is a PEP; obtain senior-management approval before establishing or continuing the relationship; conduct enhanced ongoing monitoring; take reasonable measures to establish source of wealth and source of funds; and identify family members and close associates (Government of Malawi, 2017, 2020). However, section 6 of the Financial Crimes (Amendment) Act of 2023, provides that a person who contravenes section 17 concerning a reporting institution’s reliance on intermediaries or third parties when conducting customer due diligence is liable to a conviction to five years' imprisonment and a MK10 Million fine for a natural person and for a legal person/reporting institution, a fine of MK50 Million and a revocation of business license.

The regulations also define the concepts separately. Source of funds concerns the specific activity that generated the money used in a relationship or transaction. Source of wealth concerns the origin of the customer's overall wealth. This distinction supports a proportionate process: evidence for one transaction should not automatically become an impossible demand to reconstruct an entire lifetime, while an unexplained overall wealth profile should not be ignored merely because one payment has a plausible immediate source.

2.2 International standards

FATF Recommendation 12 requires normal customer due diligence plus appropriate risk-management systems, senior-management approval, reasonable measures to establish source of wealth and source of funds, and enhanced ongoing monitoring. For domestic PEPs, the enhanced measures apply in higher-risk business relationships. Requirements extend to family members and close associates (FATF, 2025b).

FATF guidance also rejects wholesale de-risking. A risk-based approach allocates stronger controls where risk is higher and simpler measures where assessed risk is lower. FATF's 2025 revisions strengthened this principle and encouraged proportionate measures that support access to financial services (FATF, 2014, 2025a).

2.3 Former PEPs: no automatic lifetime rule

FATF does not prescribe a universal fixed period after which a former official ceases to present PEP risk. Instead, institutions should manage risk on the basis of relevant factors, including the level and continuing influence of the former function, links to current officeholders, the nature of the requested product, transaction patterns, geography, adverse information, and the plausibility of the wealth profile. While this may be harder to prove, the obtaining situation is that usually a former official has a perpetual PEP risk profile. The appropriate policy response is therefore periodic reassessment with documented reasons and not permanent treatment at the maximum risk level and not automatic clearance after an arbitrary date.

3. Why exclusion can persist

Banks face legitimate incentives to be cautious as described above from the law. Failures can bring enforcement action for both the institution and individuals therein, reputational damage and threats to cross-border access. But the law requires them to conduct enhanced due diligence and continuous monitoring and not to avoid risk totally. Compliance work is costly, and uncertainty can make refusal appear safer and easier than a carefully controlled approval. It thus becomes easy for a bank to say no than to do the work of managing risk carefully. Yet this institution-level logic can produce a system-level failure when every bank responds to manageable risk by declining the relationship. Additionally, that refusal goes deeper than the individual as it affects everyone that is also connected to them.

Correspondent banking adds another layer. Malawian banks operate under real legal obligations both local and international. They therefore rely on foreign institutions for cross-border clearing and access to major currencies. International evidence shows that correspondent banks may withdraw or restrict relationships because of the combined effects of risk perceptions, regulatory expectations, enforcement exposure, compliance cost and profitability (IMF, 2017; IFC, 2017). Over the years, international banks have become sharper in their assessments based on a few individuals who turned out bad; so while a PEP may perceive a decision of a bank in their country as wholesome, they are just a fraction of decisions in a value chain. This does not prove that any particular decision in Malawi was directed from abroad. It does mean domestic reforms should be designed so they can be explained and defended to correspondent partners. It means that there must be a way of domesticating international regulations to make them suitable for a particular country's context because an entire country's wealth of former officials is currently living inside a gap between two ideas; high risk (which simply means look closer but don't close the door) and being guilty of something as though something was found against you.

The 2024 ESAAMLG follow-up report records Malawi's continuing work to strengthen technical compliance with FATF standards following legislative amendments. That progress creates an opportunity to pair stronger financial-integrity controls with clearer expectations against indiscriminate exclusion (ESAAMLG, 2024).

4. The Responsible Inclusion Framework

4.1 National supervisory guidance

The Reserve Bank of Malawi and the Financial Intelligence Authority should issue joint guidance stating that PEP status alone is not sufficient grounds for automatic rejection or termination. The guidance should provide a common risk-factor matrix, examples of acceptable evidence, escalation thresholds, monitoring options and expectations for documenting decisions. It should preserve institutional judgment while making that judgment reviewable.

4.2 Scheduled reassessment for former PEPs

Every former-PEP file should receive a documented reassessment at defined intervals for example at exit from office, after 12 months, and periodically thereafter while elevated risk remains. Reassessment should examine residual influence, current associations, changes in wealth or activity, adverse information, public asset declarations where lawfully available, and the performance of the account under monitoring. The schedule is a review trigger, not an automatic downgrade.

4.3 A standard PEP evidence pack

Banks and regulators should agree a standard, modular evidence pack. It should contain identity and beneficial-ownership information; public-service history; current occupation and business interests; a source-of-wealth narrative supported by proportionate evidence; transaction-specific source-of-funds evidence; tax or corporate records where relevant; declarations of close associates and family connections required by law; and consent for lawful verification. Alternative evidence pathways should be available where historic records were never created or are no longer obtainable.

4.4 Reasoned decisions and review

Institutions should give PEP customers a concise explanation of any additional documents required and, where legally permissible, the principal reason for a restriction or refusal. Each institution should maintain an independent internal review channel, separate from the initial decision-maker, with defined timelines. This is not a right to credit or an entitlement to override suspicious-transaction controls; it is a right to a coherent process.

4.5 Data, supervision and accountability

Regulators should collect anonymised data on PEP applications, approvals, restrictions, closures, review times and appeals. Data should be disaggregated by current/former status, product type and gender where lawful and useful. Supervisory review should test both under-compliance and unjustified blanket treatment. Public reporting should use aggregates and protect confidentiality.

4.6 Correspondent-bank engagement

The central bank and participating institutions should present the framework to key correspondent partners, explaining governance, documentation standards, monitoring controls and escalation procedures. A credible system should demonstrate that Malawi is not weakening scrutiny; it is making scrutiny more consistent, evidenced and auditable.

5. What not to do

A dedicated institution serving only PEPs may appear attractive because it could concentrate expertise. It would also concentrate exposure, create a reputational target, depend on correspondent banks that may be reluctant to support its client model, and allow ordinary banks to de-risk even more aggressively. The proposal should therefore remain a subject for structured feasibility study, not the immediate policy response.

Nor should Malawi adopt automatic ‘cooling-off’ that removes enhanced measures after a fixed date regardless of facts. The defensible model is a cooling-down pathway: regular reassessment, clear evidence of reduced risk, and proportionate controls. Equally, former officials should not expect prior status to substitute for documentation. Responsible inclusion requires reciprocal obligations dignity and procedural fairness from institutions; transparency and cooperation from customers.

6. Gender-responsive implementation

The source episode argues that women leaving public office may experience financial setbacks through gendered interpretations of competence and legitimacy. This is a plausible policy concern, but Malawi-specific evidence on post-office PEP treatment by gender is not presently established in the sources reviewed for this paper. The appropriate response is to measure before asserting prevalence.

That measurement matters in a wider context where women in Sub-Saharan Africa continue to face gaps in formal financial access, even as mobile money has expanded inclusion. World Bank evidence reports a regional account-ownership gender gap and notes Malawi among economies where mobile-money growth occurred alongside stagnation or decline in traditional bank-account ownership between 2017 and 2021 (World Bank, 2024a, 2024b). Regulators should therefore test whether PEP procedures have different approval rates, evidence burdens or processing times by gender, while protecting personal data and avoiding weaker financial-crime controls.

7. Implementation roadmap

Period	Lead actors	Deliverable	Success test
0–3 months	RBM + FIA	Joint working group; consult banks, PEPs, civil society and correspondents	Published terms of reference and baseline data plan
3–6 months	RBM + FIA	Draft guidance, risk matrix, evidence pack and review protocol	Public consultation and correspondent feedback completed
6–18 months	Selected banks	Supervised pilot across accounts, payments and selected credit products	Decisions documented; review times and outcomes measured
18–24 months	RBM + FIA	Independent evaluation and revised national guidance	Lower unexplained variance without higher control failures

Note. Timeframes are proposed for consultation; they do not alter statutory duties.

8. Monitoring indicators

Indicator	Why it matters	Safeguard
Median time to a PEP decision	Tests whether enhanced review is becoming operationally manageable	Report by product and current/former status

Indicator	Why it matters	Safeguard
Approval, restriction and closure rates	Detects blanket treatment and unexplained institutional variation	Do not treat a target approval rate as a quota
Appeals and reversals	Shows whether first-line decisions are robust	Protect suspicious-transaction reporting confidentiality
Files with documented source-of-wealth and source-of-funds analysis	Tests substantive compliance rather than checklist completion	Audit quality, not only presence
PEP-related control failures and regulatory findings	Ensures inclusion does not weaken integrity	Independent supervisory validation
Outcomes by gender	Tests the episode's gender hypothesis	Minimum cell sizes and strict privacy controls

Conclusion

Malawi does not face a choice between fighting corruption and allowing people who have served in public office to participate in legitimate economic life. The real choice is between a blunt system that avoids risk by excluding categories and a capable system that understands, documents and manages individual risk.

Responsible inclusion is harder than a blanket 'no'. It requires better evidence, clearer reasons, skilled compliance teams, supervisory confidence, customer cooperation and credible communication with correspondent banks. Those are demanding reforms. They are also more faithful to Malawi's regulations and the international risk-based approach than indefinite suspicion by status alone.

CALL TO ACTION: ***Launch a joint RBM–FIA consultation and supervised pilot. Measure the problem, standardise the process, protect confidentiality, and make each decision defensible on its own facts.***

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