DEVELOPING & OPERATIONALIZING
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Regulation and Supervision of Non-Bank Financial Institutions

Juan Carlos Izaguirre
Senior Financial Sector Specialist
CGAP (Consultative Group to Assist the Poor)

Agenda

- Why is NBFI regulation and supervision important for financial inclusion?
- Potential regulatory and supervisory actions to consider in NFIS
- Challenges and opportunities of NBFI regulation and supervision
- Applications at policy and industry level
- Key technical resources

Why is NBFI regulation and supervision important for financial inclusion?

NBFI regulation and financial inclusion

- In many countries, NBFIs are the primary providers of financial services striving to attend unserved and underserved customers
- NBFIs need regulatory certainty to operate in a fast-changing financial sector
- Proportionate regulation sets basic requirements to ensure that sound NBFIs provide long-term, sustainable, and responsible financial services to the unserved and underserved
- Regulation contributes to greater consumer trust in NBFIs

NBFI supervision and financial inclusion

- Understand NBFIs' offering of financial services to unserved and underserved
- Monitor NBFI developments of relevance to financial inclusion, eg growth or evolution that warrants greater attention
- Special attention to NBFIs that, while not systemic based on the value of funds they intermediate, may be systemic due to the number and type of customers they serve
- Promote safety and soundness, and good conduct of NBFIs
- Identify and assess consumer risks
- Assess regulatory compliance and take enforcement actions

Importance of applying an I-SIP approach

- I-SIP is a structured framework to identify linkages – synergies and trade-offs – and help authorities be proportional, ie take measures that are most likely to arrive at the desired outcome considering the interrelationship among 4 key regulatory objectives:

I — **Inclusion:** Promote access, use, quality and customer wellbeing/impact

S — **Stability:** Preserve safety and soundness of individual providers and the system as a whole

I — **Integrity:** Prevent criminal exploitation of the financial system

P — **Protection**: Prevent harm to users of (formal) finance

Potential regulatory and supervisory actions to consider in NFIS implementation

Basel Committee Guidance on financial inclusion

- Guidance on application of BCPs to financial inclusion, built on:
- 2015 Range of practice survey on regulation and supervision of inclusive providers
- 2010 Guidance on application of BCPs to microfinance

- Guidance highlights the importance of looking at BCPs using I-SIP Approach
- Guidance focuses on 19 BCPs, identified as requiring additional guidance for proportionate application to inclusive providers

Application of Basel Core Principles to NBFIs

- Licensing and permissible activities
- Lower minimum initial capital requirement for small NBFIs that engage in narrower and simpler scope of activities –but high enough to ensure sustainability, financial capacity.
- Consider specific financial cooperatives issues (eg member commitments, withdrawable member shares in minimum capital)
- Consider specific MFI issues (eg governance requirements when there are non-profit and for-profit investors)
- Tiered criteria, commensurate with permitted activities/ risks
- List of registered, licensed and supervised institutions

Application of Basel Core Principles to NBFIs

- Corporate governance
- NBFIs to ensure culture and values are upheld by third parties
- Authorities to understand NBFI governance structures and practices different from banks (eg board members living abroad)
- Supervisors to issue guidance on expectations for sound corporate governance and how NBFIs can do self-assessments

- Capital adequacy requirements
- Specific measures may be adopted for NBFIs (eg CAR on a group or system basis, liquidity deposits in a second-tier entity)
- Higher CAR may be imposed to address weaknesses

Application of Basel Core Principles to NBFIs

- Cooperation and collaboration
- Formal and informal arrangements to: design rules, delineate responsibilities, minimize regulatory burden, share information

- Supervisory approaches
- Alternative approaches: collective and auxiliary supervision
- Use of external auditors

- Supervisory tools
- Communication of supervisory expectations
- Clearer instructions and guidance
- Use of technology

Application of Basel Core Principles to NBFIs

- Operational risk
- Policies and procedures governing selection, training, and oversight of agents (and other third parties) to address risks
- NBFIs' final responsibility to supervisors and customers for actions of third parties (eg agents)

- AML/CFT
- Proportionate or risk-based approach whereby NBFIs may use simplified CDD measures for lower risk products

- Consumer protection
- NBFIs' internal controls, IT systems, policies and procedures to ensure consumer protection / conduct risks are well managed

Challenges and opportunities of NBFI regulation and supervision

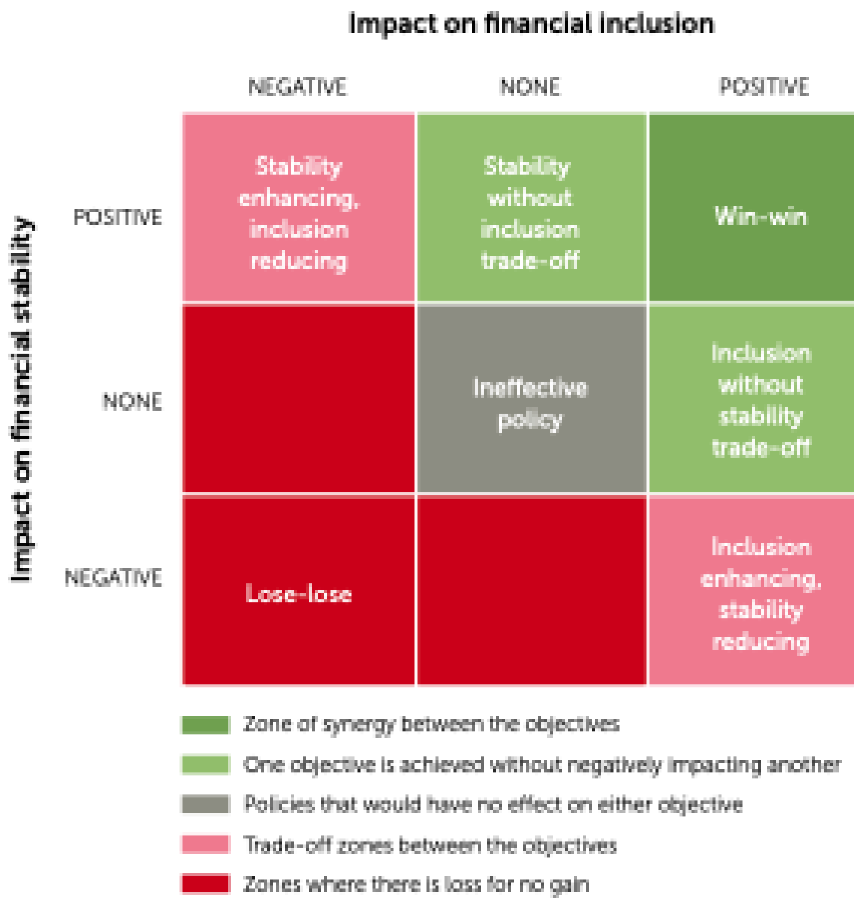
Challenges and opportunities

Challenges	Opportunities
Different business models	Collaborative market intelligence
Wide range of providers	Dialogue with industry
Different consumer engagements	Customer centricity
Numerous players	Different supervisory approaches
Increasing partnerships	Intra- and inter-institutional cooperation
Limited supervisory capacity	Supervisory technology
Broader conduct issues	Greater attention to culture and outcomes

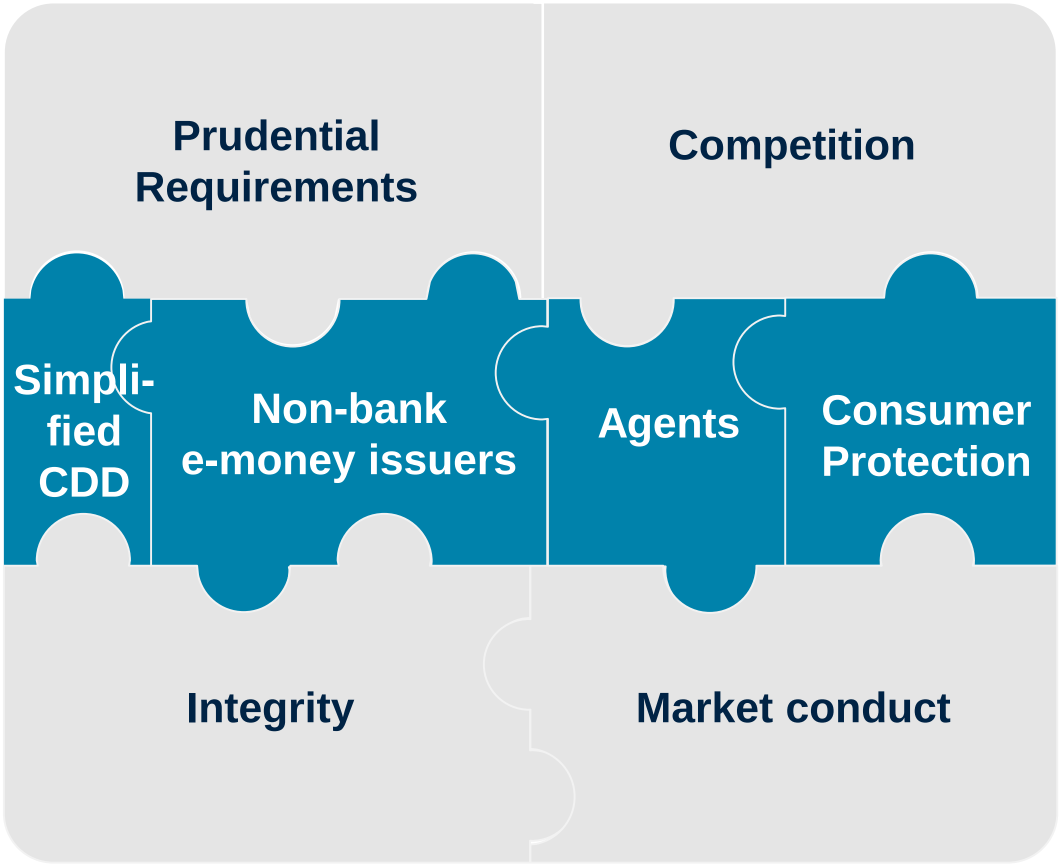
Applications at policy and industry levels

Policy level application: The I-SIP Approach

- Consider and weigh all four I-SIP objectives
- Understand the effects of a policy intervention on six pairs of linkages: Inclusion-Stability, Inclusion-Integrity, Inclusion-Protection, Stability-Integrity, Integrity-Protection, Protection-Stability
- Assess direct effects that a policy intervention has on an I-SIP objective, and the potential synergies and trade-offs between each linkage



Industry-level application: 4 basic regulatory enablers of digital financial inclusion



- Implement regulatory enablers to promote digital financial inclusion
- Enablers to consider the role that NBFIs can play in advancing financial inclusion:
  - Partnering with NEMIs
  - Using agents
  - Using simplified CDD
  - Applying consumer protection to DFS

Key technical resources

Key publications (I)

- Basel Committee on Banking Supervision, *Guidance on the application of the Core Principles for Effective Banking Supervision to the regulation and supervision of institutions relevant to financial inclusion*, September 2016
- Tomilova, Olga, and Myra Valenzuela, *Financial Inclusion + Stability, Integrity, and Protection (I-SIP): Policy Making for an Inclusive Financial System*, CGAP, Technical Guide, November 2018
- Staschen, Stefan, and Patrick Meagher, *Basic Regulatory Enablers for Digital Financial Services*, CGAP, Focus Note No. 109, May 2018
- Basel Committee on Banking Supervision, *Range of practice in the regulation and supervision of institutions relevant to financial inclusion*, January 2015

Key publications (II)

- Organisation for Economic Co-operation and Development, *G20 High-level Principles on Financial Consumer Protection*, October 2011
- Financial Action Task Force, *Revised Guidance on AML/CFT and Financial Inclusion*, November 2017
- World Bank Group, *Global Financial Inclusion and Consumer Protection Survey*, December 2017
- CGAP, *A Guide to Regulation and Supervision of Microfinance*, Consensus Guidelines, October 2012
- Cuevas, Carlos, and Juan Buchenau, *Financial Cooperatives: Issues in Regulation, Supervision, and Institutional Strengthening*, 2018

Thank you!

Questions?