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Financial Regulations for Improving Financial Inclusion

(through Videoconference)

SESSION # 4

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Financial Regulations for Improving Financial Inclusion

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Purpose of a Report on Regulations for Financial Inclusion

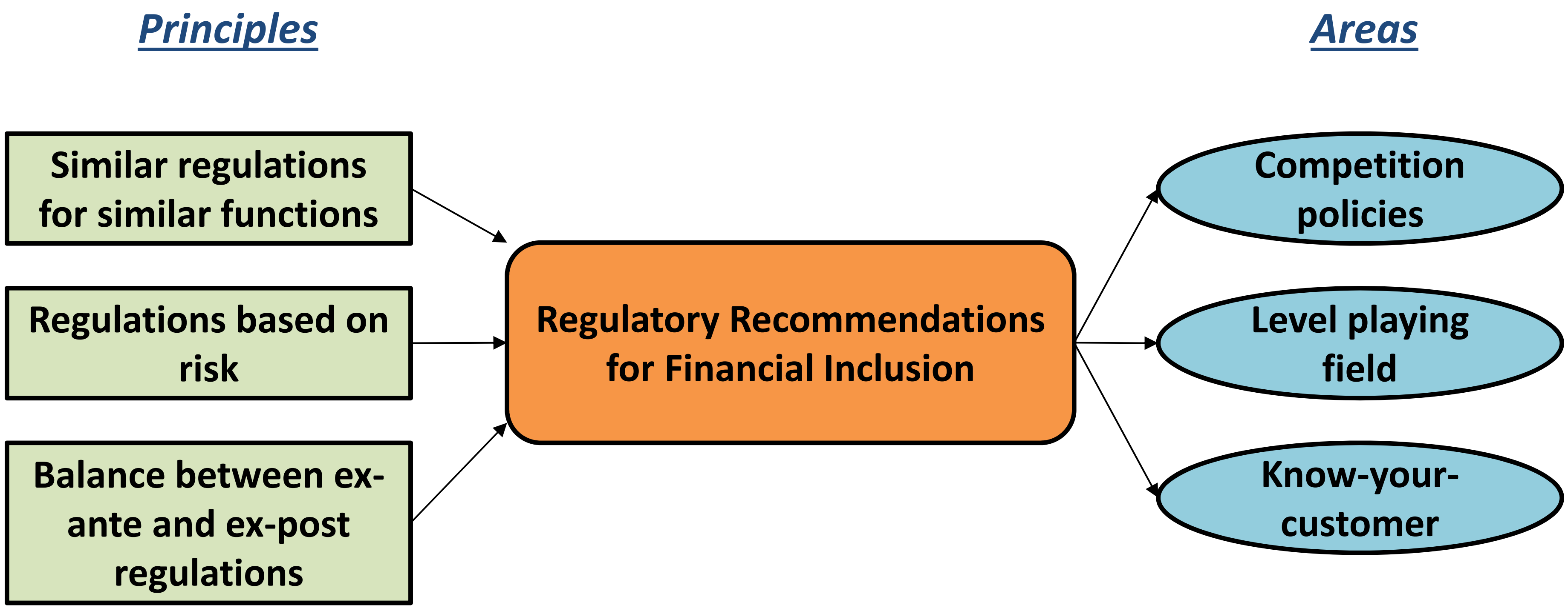
Improve Financial Inclusion (especially digital) through a Better Regulatory Framework.

Why the Emphasis on Regulation?

- Key to enable the private sector to successful adopt and adapt innovations in digital finance and encourage their use by low-income populations.

Pro-financial inclusion policies need to be compatible with the traditional mandates of financial regulation: stability and integrity of the financial system, and consumer protection.

Foundation of Recommendations from a CGD Task Force Report



Competition Policy

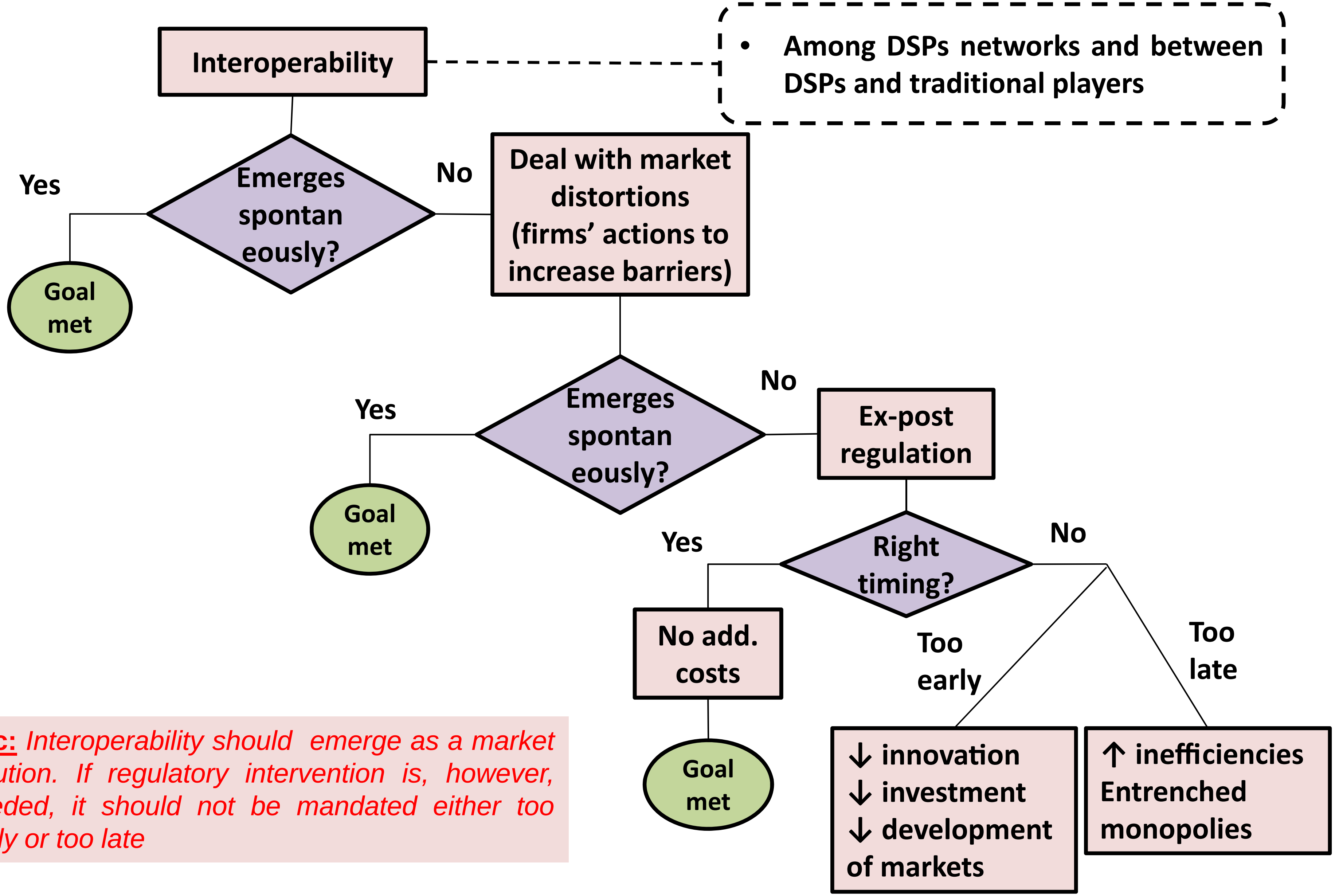
Matters greatly for financial inclusion because:

- Markets open to fair competition more likely expand to include potential consumers currently on the sidelines
- Helps ensure that the financial industry increase efforts to identify the needs of the underserved

The Goal:

- Allow and encourage entry of new, qualified providers of financial services, without deterring useful cooperation.

Competition Policy: Examples of recommendations



<u>Rec:</u> *Interoperability should emerge as a market solution. If regulatory intervention is, however, needed, it should not be mandated either too early or too late*

Competition Policy: Country Experiences

Interoperability as a market solution in Tanzania

- IFC facilitated an industry-wide process for interoperability **in the mobile payments market**
- Providers Airtel, Tigo, and Zantel agreed to interoperate and went live on September 2014. Vodacom joined in early 2016

Agent interoperability through ex post regulation in Kenya

- Because of the actions of a dominant player (Safaricom), M-Pesa agents were not serving other providers of mobile payment services
- In July 2014, Safaricom opened up its M-Pesa agent network to its rivals just before the Competition Authority of Kenya ordered such action

Leveling the Playing Field

Key for achieving digital financial inclusion because:

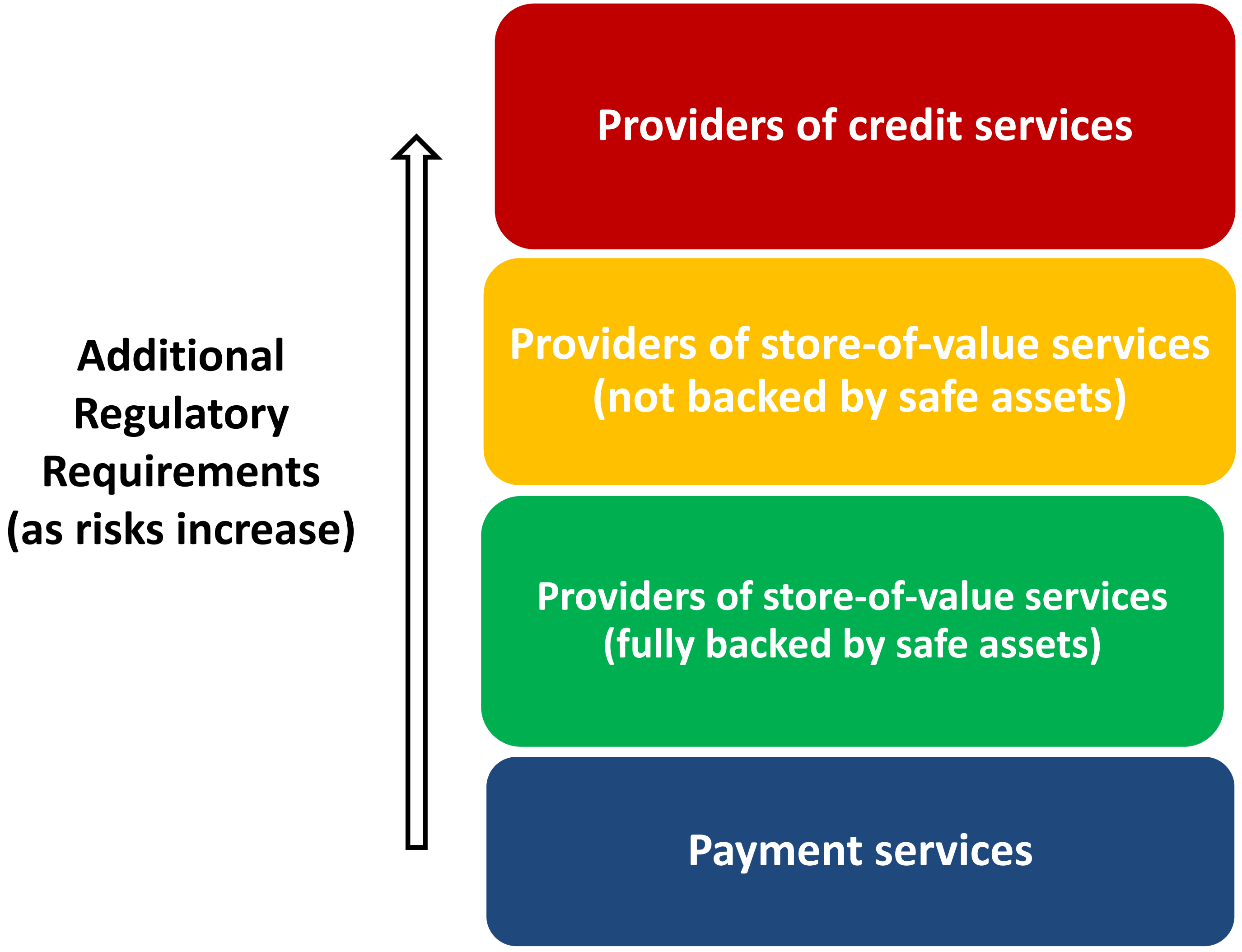
- Large variety of digital financial services providers and with different models
- Multiple regulators for providers of financial services (including telecommunication regulators)

The Goal:

Prevent that regulations create distortions (even if unintentionally) favoring some providers vs. others. Thus, ensure that functionally-equivalent digital services are regulated equally

In Indonesia, the playing field for e-money could be better leveled if the same rules for hiring e-money agents (especially mom & pop shops) were applied to large and small banks and MNOs

Leveling the Playing Field: Examples of recommendations



The Challenge of KYC Rules

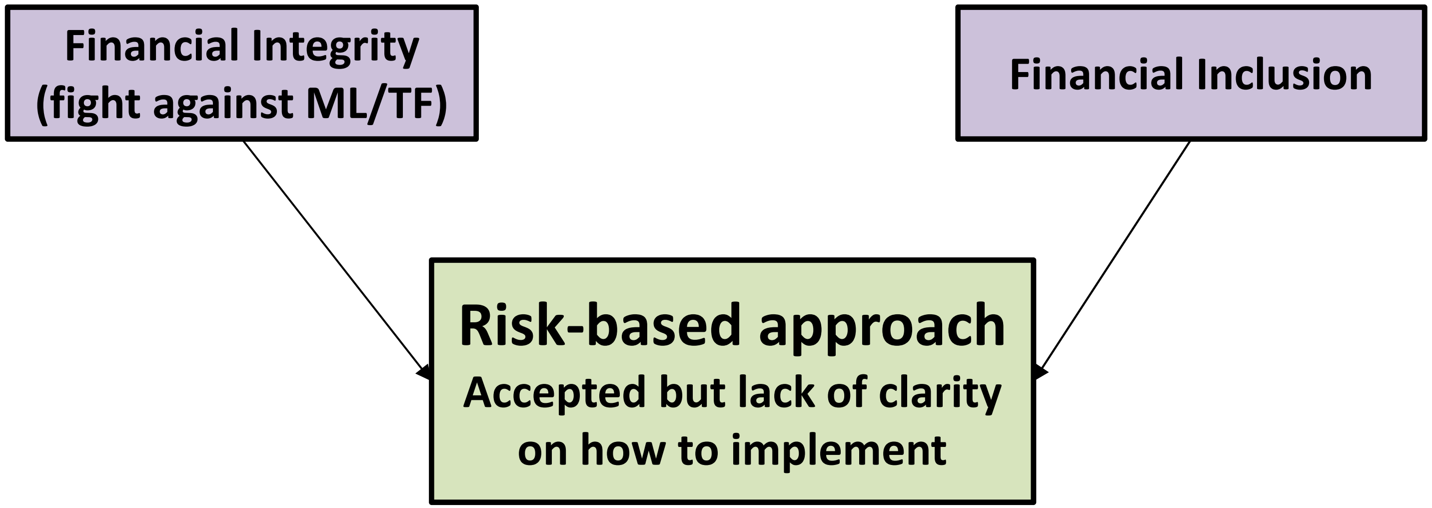
KYC rules can have positive and negative effects on financial inclusion:

- Providers that know their clients well may be more willing to extend their full range of financial services to them.
- Excessive KYC requirements can hinder financial inclusion as providers might find it too onerous to deal with the poor.

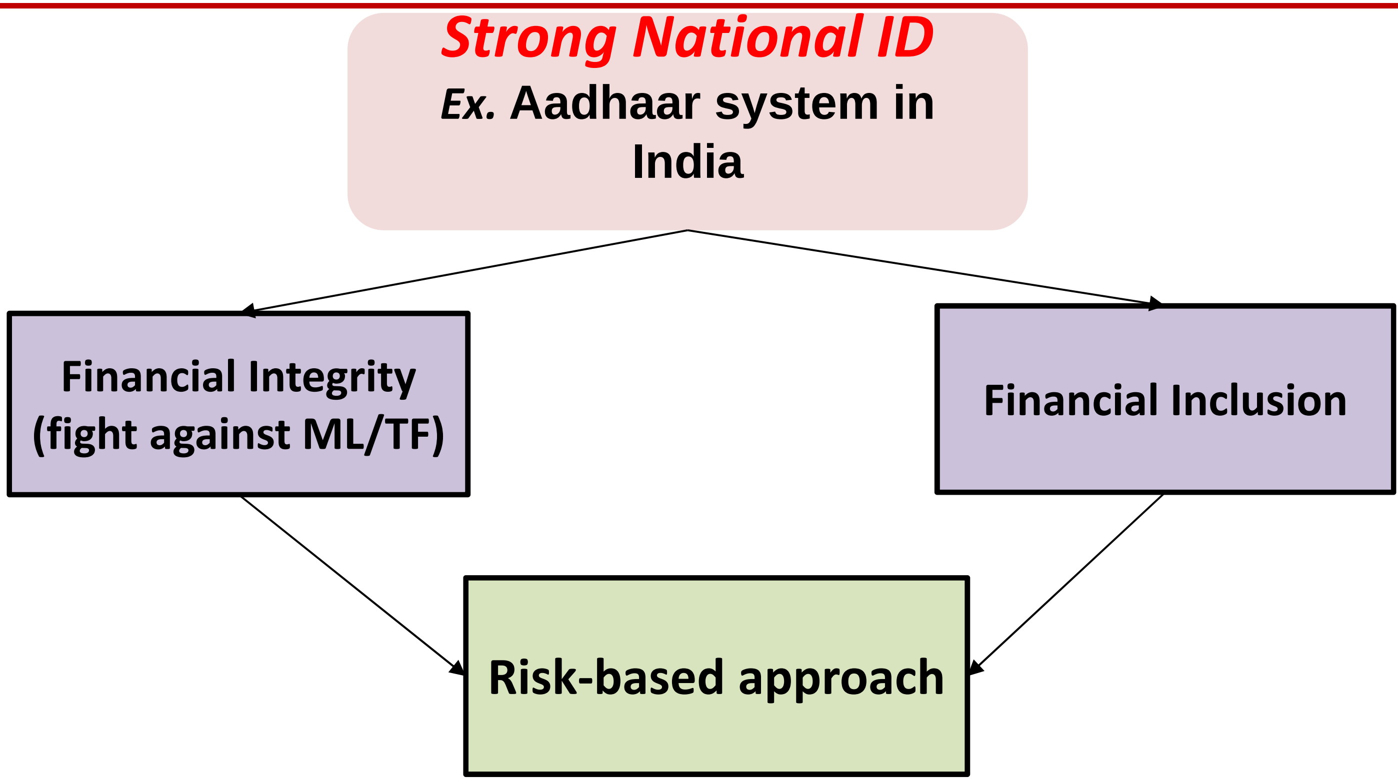
The Goal:

- Design KYC rules that are adequate to the task of maintaining financial integrity, yet do no create unnecessary barriers to financial inclusion.

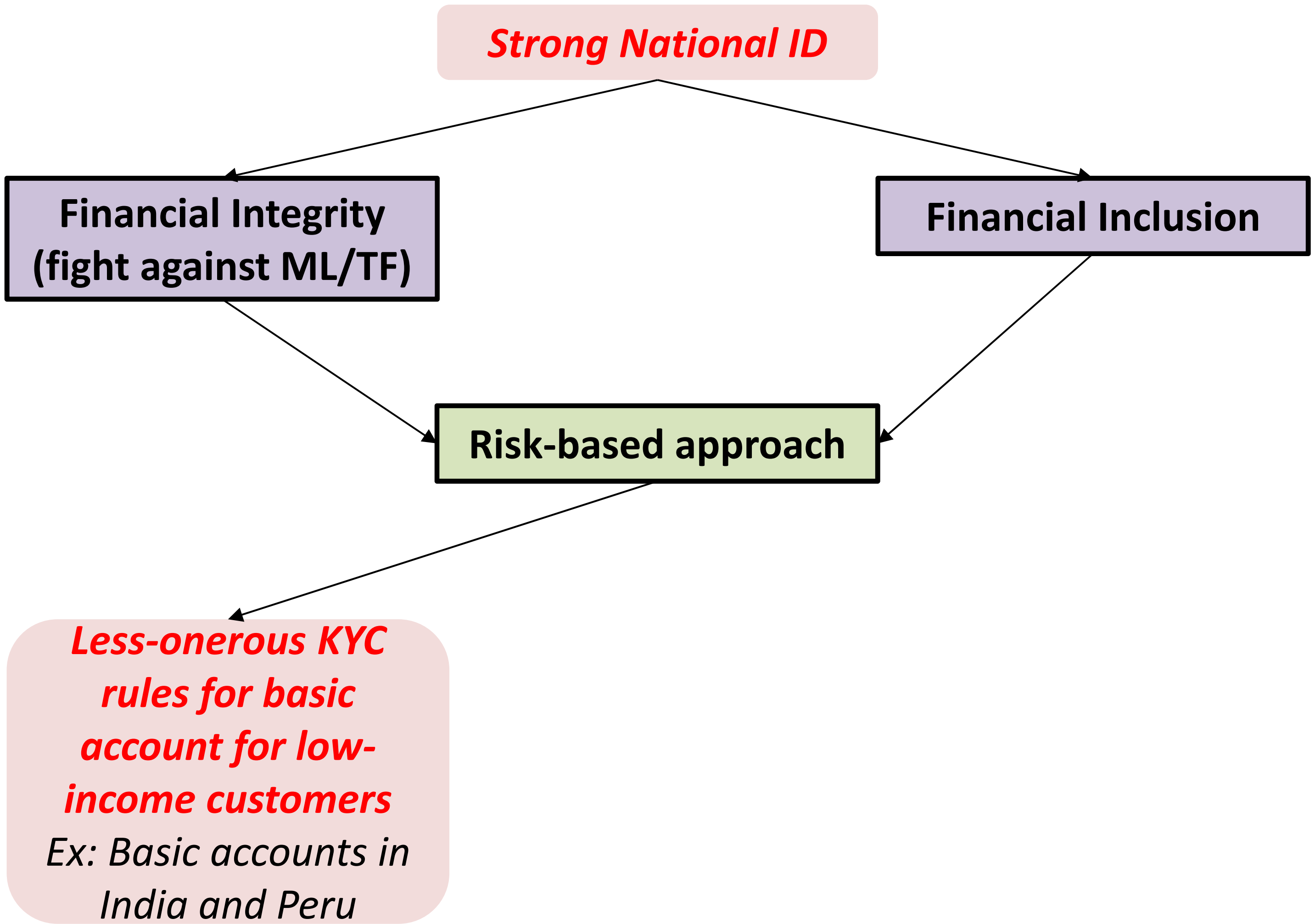
The Challenge of KYC Rules



KYC Rules: Examples of Recommendations



KYC Rules: Examples of Recommendations



KYC Rules: Examples of Recommendations