Financial Regulations for Improving Financial Inclusion
(through Videoconference)

SESSION # 4
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

**Principles**
- Similar regulations for similar functions
- Regulations based on risk
- Balance between ex-ante and ex-post regulations

**Areas**
- Competition policies
- Level playing field
- Know-your-customer

Regulatory Recommendations for Financial Inclusion
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.
Rec: Interoperability should emerge as a market solution. If regulatory intervention is, however, needed, it should not be mandated either too early or too late.
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

Additional Regulatory Requirements (as risks increase)

- Providers of credit services
- Providers of store-of-value services (not backed by safe assets)
- Providers of store-of-value services (fully backed by safe assets)
- Payment services
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

Financial Integrity (fight against ML/TF)

Financial Inclusion

Risk-based approach
Accepted but lack of clarity on how to implement
KYC Rules: Examples of Recommendations

Strong National ID
Ex. Aadhaar system in India

Financial Integrity (fight against ML/TF)

Financial Inclusion

Risk-based approach
KYC Rules: Examples of Recommendations

- Strong National ID
- Financial Integrity (fight against ML/TF)
- Risk-based approach
- Financial Inclusion

Less-onerous KYC rules for basic account for low-income customers
Ex: Basic accounts in India and Peru
KYC Rules: Examples of Recommendations

- **Strong National ID**
- **Financial Integrity** (fight against ML/TF)
- **Financial Inclusion**
- **Risk-based approach**
- **Less-onerous KYC rules for basic account for low-income customers**
- **Graduated penalties**
  - Based on failure to comply with KYC due diligence requirements [not on number of violations]