Opening the Frontiers with Technology: Regulatory Environment

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Why is Regulation Important?

- Regulation will determine if branchless banking is legally permitted

- Which models are feasible and can they safely deliver the financial services to previously un- served and underserved poor people

Regulatory domains and risk of coordination failure

- Concerns underlying prudential regulation and supervision = ***only a fraction*** of the policy and regulatory issues

  Each domain is ***complex***

- Policy-making and regulatory authority for each domain ***operates*** more or less ***autonomously*** from the authorities for the other domains (and regulatory concerns/priorities may even conflict)
- Significant risk of ***coordination failure*** in policy making

‘Necessary but not sufficient’ preconditions

- **Without addressing these issues, transformational branchless banking may never even start**

  i) **Authorization to use *retail ‘agents’*(or whatever we call them…) as the cash-in/cash-out point and principal customer interface**

  ii) **Risk-based approach for combating money-laundering and terrorist financing…**

adapted to realities of remote transactions conducted through agents

Source:*CGAP/DFID/GSMA Focus Note 43*

‘Bank-based’ versus ‘nonbank-based’

- ***‘Bank-based’:*** A bank (or similar fully licensed and supervised financial institution) is the legal provider of the financial service

- ***‘Nonbank-based’:*** Customer has no legal relationship with a bank, and instead a non-bank entity is the financial service provider
  - Mobile network operator
  - (Also possible: non-bank issuer of prepaid cards)

- ***Who leads*** the bank-based model? ***Not necessarily the bank…***

What constitutes a proportionate regulatory approach?

- Existing regulation not drafted with convergence of banking, payments and telecommunications in mind

- Pace of change can be rapid

- Proportionate regulation ***balances costs and risks***

  But policy goals are not always aligned, so expect trade-offs

Next generation topics to think about now

- Looking ***beyond preconditions*** for transformational branchless banking:

  - Regulation to ***mitigate risk of catastrophic failure***

  - Issues that will affect ***scaling up*** and ***sustainability*** of branchless banking

- ***Issues:***
  - Appropriate regulatory space for the issuance of ***e-money*** and other stored-value instruments
  - Effective ***consumer protection*** (on a variety of fronts)
  - Inclusive ***payment system regulation*** and effective oversight as branchless banking reaches scale
  - Rules governing ***competition*** among providers and promoting ***interoperability***

Source: *CGAP/DFID/GSMA Focus Note 43*

What is DFID doing in this space?

- Pioneering work over last two years with models like M-Pesa in Kenya
- New Programme **FAST**: Facilitating Access to Financial Service through Technology
- Windsor Global Policy Forum
- Using new technology enabled financial services for social transfers

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Thank You