Global Standard-Setting Bodies and Financial Inclusion

The Evolving Landscape

March 2016

GPFI Global Partnership for Financial Inclusion

Prepared on Behalf of the G20's Global Partnership for Financial Inclusion

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LIST OF ABBREVIATIONS AND ACRONYMS

A2ii	Access to Insurance Initiative
AFI	Alliance for Financial Inclusion
AML/CFT	Anti-money laundering and combating financing of terrorism
ATM	Automated teller machine
B2P	Business-to-person
BCBS	Basel Committee on Banking Supervision
BCG	Basel Consultative Group
BCPs	Basel Core Principles
BIS	Bank for International Settlements
BTCA	Better Than Cash Alliance
CDD	Customer due diligence
CGAP	Consultative Group to Assist the Poor
CPMI	Committee on Payments and Market Infrastructures
CPSS	Committee on Payment and Settlement Systems
DSS	Data Security Standard
EMDE	Emerging market and developing economies
EMVCo	Consortium of American Express, Discover Financial Services, Japan Credit Bureau, MasterCard, UnionPay, and Visa
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FATF	Financial Action Task Force
FCA	Financial Conduct Authority (UK)
FIDO	Fast IDentity Online
FIAP	Financial Inclusion Action Plan
FIEG	Financial Inclusion Experts Group
FIRST	Financial Sector Reform and Strengthening Initiative
FSA	Financial Sector Assessment
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSI	Financial Stability Institute
FSRB	FATF-Style Regional Body
FSSA	Financial System Stability Assessments
G20	Group of Twenty
G2P	Government-to-person
GLEIS	Global Legal Entity Identifier System
GPFI	G20 Global Partnership for Financial Inclusion
G-SIFI	Global systemically important financial institution
GSM	Global system for mobile
GSMA	Groupe Speciale Mobile Association
IADI	International Association of Deposit Insurers
IADI CPs	IADI Core Principles

IAIS	International Association of Insurance Supervisors
ICPs	Insurance Core Principles
ICT	Information and communication technologies
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFI	International financial institution
IMF	International Monetary Fund
IOPS	International Organisation of Pension Supervisors
IOSCO	International Organization of Securities Commissions
ISO	International Organization for Standardization
ITU	International Telecommunications Union
ITU-T	ITU's Telecommunication Standardization Sector
JCB	Japan Credit Bureau
KYC	Know your customer
LEI	Legal entity identifier
MFI	Microfinance institution
MNO	Mobile network operator
MTO	Money transfer operator
NBFI	Non-bank financial institution
NGN	Next generation networks
NRA	National risk assessment
OECD	Organisation for Economic Co-operation and Development
P2B	Person-to-business
P2P	Person-to-person
PAFI	Payments aspects of financial inclusion
PCI	Payment card industry
PIA	Privacy impact assessment
PIN	Personal identification number
PKI	Public key infrastructure
POS	Point-of-sale
RBA	Risk-based approach
RCGs	Regional Consultative Groups of FSB
ROSC	Report on the Observance of Standards and Codes
SEC	Securities and Exchange Commission (US)
SIFI	Systemically important financial institution
SSB	Standard-setting body
USSD	Unstructured supplementary service data
UN	United Nations
UNSGSA	United Nations Secretary General's Special Advocate for Inclusive Finance for Development Her Majesty Queen Máxima of the Netherlands

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1. The remaining Implementing Partners of the GPFI are the Alliance for Financial Inclusion (AFI), the Better Than Cash Alliance (BTCA), the International Fund for Agricultural Development (IFAD), the International Finance Corporation (IFC), and the Organisation for Economic Co-operation and Development (OECD).

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Cover photo by Yew Kiat Soh

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EXECUTIVE SUMMARY

In just the few years since the October 2011 White Paper produced on behalf of the G20's Global Partnership for Financial Inclusion (GPFI), *Standard-Setting and Financial Inclusion for the Poor—Toward Proportionate Standards and Guidance* (2011 GPFI White Paper), recognition has grown as to the impact of the global financial sector standard-setting bodies (SSBs) on who gets access to what range and quality of formal financial services and at what cost. There is still far to go, but the advances are noteworthy. Appreciation has also grown as to the important role that digitisation of financial services plays in reaching financially excluded and underserved customers, and the implications of this development for the SSBs.

Financial inclusion has benefited from a strong political tailwind throughout this period, spurred by the advocacy of such influential voices as the GPFI's Honorary Patron and the United Nations (UN) Secretary General's Special Advocate for Inclusive Finance for Development (UNSGSA), Her Majesty Queen Máxima of the Netherlands, World Bank Group President Jim Kim, International Monetary Fund (IMF) Managing Director Christine Lagarde, and the Implementing Partners of the GPFI.[2] This advocacy has helped to mainstream the subject of financial inclusion within the work and thinking of the SSBs, underscoring the interconnections with their core concerns to protect the stability and integrity of financial systems and the interests of financial consumers, as well as the risks of financial exclusion.

This second GPFI White Paper aims to raise awareness of the changing landscape, to inform ongoing work by the SSBs and other global bodies, and to promote the integration of financial inclusion objectives into standards and guidance that can be applied effectively at the country level. The audiences include the SSBs and other relevant global bodies, country-level policymakers who apply SSB standards and guidance, assessors of country-level implementation of SSB standards and guidance, industry actors, and development professionals.

THE EVOLVING LANDSCAPE

In the past five years, the SSBs have taken fundamental steps on financial inclusion, acting on most of the observations and recommendations in the 2011 GPFI

2. The Implementing Partners of the GPFI are the Alliance for Financial Inclusion (AFI), the Better Than Cash Alliance (BTCA), the Consultative Group to Assist the Poor (CGAP), the International Foundation for Agricultural Research (IFAD), the International Finance Corporation (IFC), the Organisation for Economic Co-operation and Development (OECD), and the World Bank.

White Paper. The SSBs' attention to financial inclusion coincides with increasingly specific recognition of the concept of proportionality in their work. The application of proportionality to the regulation and supervision of financial institutions helps regulators and supervisors both to accommodate a diverse range of financial systems and providers of financial services, including those with potential to reach financially excluded and underserved customers, and to pursue financial inclusion alongside financial stability and the linked objectives of financial integrity and consumer protection.[3] Another development relevant to financial inclusion that is of great significance to the SSBs and other global bodies discussed in this White Paper is the rapid scaling in multiple markets of innovative digital approaches to reaching excluded and underserved households and micro and small enterprises—referred to as "digital financial inclusion".[4] Advancing financial inclusion, notably through innovative digital approaches, involves both challenges and opportunities that the individual SSBs cannot address on their own, calling for coordination and collaboration among them.[5]

FINANCIAL INCLUSION AND THE WORK OF THE FINANCIAL STABILITY BOARD AND STANDARD-SETTING BODIES

This White Paper considers primarily the standards and guidance of the following global bodies engaged in work relevant to financial inclusion: the Financial Stability Board (FSB), which exists as a coordinating body of SSBs with respect to financial stability, and six SSBs: the Basel Committee for Banking Supervision (BCBS), the primary SSB for supervisors of banks and other deposit-taking institutions; the Committee on Payments and Market Infrastructures (CPMI), the primary SSB with respect to payment systems, including retail payment systems; the Financial Action Task Force (FATF), the SSB responsible for protecting the integrity of financial systems by preventing financial crime, particularly through standards and guidance on anti-money laundering and combating financing of terrorism (AML/CFT); the International Association of Deposit Insurers (IADI), the SSB for deposit insurance systems; the International Association of Insurance Supervisors (IAIS), the primary SSB for insurance supervision; and the International Organization of Securities Commissions (IOSCO), the primary SSB for the securities sector.

3. Promoting financial inclusion through proportionate standards and guidance was the theme of the First GPFI Conference on Standard-Setting Bodies and Financial Inclusion, held at the Bank for International Settlements (BIS) in October 2012. The G20 Finance Ministers and Central Bank Governors referenced the conference as "a substantial demonstration of growing commitment among ... SSBs to provide guidance and to engage with the GPFI to explore the linkages among financial inclusion, financial stability, financial integrity, and financial consumer protection" (G20 (2012, paragraph 23)).
4. This topic was discussed at the October 2014 closed-door meeting on financial inclusion convened by the UNSGSA and Honorary GPFI Patron and the BCBS Chair and was the theme of the Second GPFI Conference on Standard-Setting Bodies and Financial Inclusion held at the BIS, also in October 2014.
5. Recognising these developments—and the fast-changing landscape for financial inclusion across G20 members and non-G20 members—the G20 Leaders, at their St. Petersburg Summit in September 2013, endorsed a recommendation calling upon the SSBs "to (i) continue their progress to integrate consideration of financial inclusion in their work, consistent with their respective mandates; (ii) participate in relevant activities of the GPFI and engage GPFI representation in relevant activities of the SSBs; and (iii) give attention to emerging issues in financial inclusion of relevance to multiple SSBs".

Financial Stability Board. Various FSB workstreams recognise—both implicitly and, in a few cases, explicitly—the important linkages among the objective of financial inclusion and the traditional objectives of financial regulation and supervision: financial stability, financial integrity, and financial consumer protection. While financial inclusion is not explicitly incorporated into FSB's core mandate, related issues arise in an increasing number of areas of FSB's work, including monitoring effects of agreed regulatory reforms in emerging market and developing economies (EMDEs), effective resolution regimes for financial institutions, shadow banking, and misconduct risks. FSB's six Regional Consultative Groups (RCGs) offer a valuable platform for dialogue with the 86 jurisdictions currently represented, providing important insights from beyond FSB's membership, including many EMDEs with high levels of financial exclusion and a strong policy commitment to financial inclusion.

Basel Committee on Banking Supervision. The 2012 revised *Basel Core Principles for Effective Banking Supervision* (BCPs) include a key revision of relevance to financial inclusion: the incorporation of the concept of proportionality throughout the revised Core Principles and their assessment criteria. In 2013, BCBS approved the establishment of a Workstream on Financial Inclusion under the auspices of its outreach arm, the Basel Consultative Group (BCG), to help BCBS gain an in-depth understanding of the different country contexts and constraints faced by both member and non-member jurisdictions and the unique market features associated with inclusive finance. Building on a Range of Practice Report issued in January 2015, the Workstream has released a BCBS guidance paper consultative document on the application of the revised BCPs to banks and other deposit-taking institutions engaged in activities relevant to financial inclusion; the final version is expected to be approved in September 2016.

Committee on Payments and Market Infrastructures. CPMI's recent work on retail payments issues covers payment aspects related to financial inclusion, such as remittances and innovative retail payments and instruments, most recently with the consideration of the role of non-banks in retail payments. CPMI and the World Bank Group created the Task Force on Payments Aspects of Financial Inclusion (PAFI Task Force) to analyse the role of payments and payment services in financial inclusion. A consultative report issued by the PAFI Task Force in September 2015 outlines seven guiding principles designed to assist countries that want to advance financial inclusion in their markets through payments; a final version of the report will be published in 2016.

Financial Action Task Force. In 2011, FATF recognised the relevance of financial inclusion as a means to mitigate the money laundering and terrorist financing risks of financial exclusion in a ground-breaking guidance paper *Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion*. Revised FATF Recommendations released the following year with a strengthened and clarified risk-based approach (RBA) at their core have far-reaching ramifications for financial inclusion, as does the 2013 *Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems*. In the wake of these developments, FATF is proceeding with a programme to update relevant guidance papers and develop new papers, including its guidance papers on the application of the RBA for the banking sector (2014), for virtual currencies (2015), and for money or value transfer services (2016) and a best practice paper on customer due diligence (CDD) and financial inclusion.

International Association of Deposit Insurers. Research conducted by IADI in 2013 constituted an important first step in scoping deposit insurance practices in relation to the wave of innovations seen as important for advancing financial inclusion. In addition to questions regarding deposit insurance for non-bank deposit-taking institutions such as financial cooperatives, the emergence and potentially rapid scaling in many EMDEs of digital deposit-like stored-value products triggers the question of their treatment for deposit insurance purposes. IADI's research agenda is expected to address this subject, including by considering issues related to compliance with the IADI Core Principles as revised in 2014.

International Association of Insurance Supervisors. The IAIS Insurance Core Principles (ICPs) include a broad and overarching concept of proportionality that allows for both regulation and supervision that promote financial inclusion. A comprehensive review of the ICPs, to be completed during 2016, is exploring further the concept of proportionality in insurance regulation and supervision, with results of the review to be reflected in the 2017 release of revised ICPs. An important follow-up paper to the 2011 revision of the ICPs is the *Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets,* issued in 2012. IAIS is currently working on several workstreams relevant to financial inclusion, including market conduct (with its *Issues Paper on Conduct of Business in Inclusive Insurance* approved in November 2015), mutual and community based institutions in insurance, and index insurance, several in collaboration with its Implementation Partner for inclusive insurance, the Access to Insurance Initiative (A2ii).

International Organization of Securities Commissions. IOSCO's work, both on its own and in cooperation with other global bodies, of greatest relevance to the responsible delivery of formal financial services to the financially excluded and underserved includes its activities focused on supporting sound and stable capital market development in EMDEs (which comprise almost three quarters of its members) and its increasing engagement on retail investments and investors (supported by IOSCO's Committee on Retail Investors). IOSCO has also pursued work on market-based SME finance (for example, its 2015 publication *SME Financing Through Capital Markets*), crowdfunding, impact of digitisation and innovation on capital markets, and social media and retail investing. IOSCO leads the SSBs in the consideration it has given to crowdfunding.

EVOLVING TOPICS OF RELEVANCE TO MULTIPLE STANDARD-SETTING BODIES

Since 2011, financial inclusion-related topics of relevance to multiple SSBs have increased in number and grown in importance. Much of the change accompanies the evolving phenomenon of "digital financial inclusion"—a theme that runs through all of the crosscutting issues discussed in this White Paper.

Digital Financial Inclusion—Opportunities and Risks

Financial and non-financial institutions are rapidly developing new ways of partnering to provide financial services digitally to excluded and underserved customers. Digital innovations are enabling financial institutions to reach customers in remote, hard-to-reach areas, including women (who globally figure disproportionately among those financially excluded and underserved), and are also reducing costs, making services both more sustainable to providers and affordable to consumers.

Digital financial inclusion starts with a transactional platform that combines the functionality of a payment instrument with that of a value storage account and has the potential to be accessed by customers through agents, which could potentially be individuals or any retail establishment. Via such platforms, a widening array of financial services specifically targeting excluded and underserved market segments, is being offered: savings, credit, insurance, even investment products.

The new approaches introduce new actors—many of them non-banks—and among these non-financial firms, such as mobile network operators (MNOs) and large retail networks. They present new or shifting risks of concern to multiple SSBs, including operational, settlement, liquidity, credit, consumer protection, and money laundering and terrorist financing risks. (New opportunities for fraud, both an operational risk and consumer protection risk, are a particular concern in the financial inclusion context.) The changing risk picture results primarily from five factors that distinguish digital financial inclusion: (i) new providers and new combinations of providers; (ii) digital technology; (iii) use of agents as the principal interface with customers; (iv) new products and services and their bundling; and (v) the profile of the financially excluded and underserved customers. Digital financial inclusion also implicates questions of core interest to technical standard setters (for example, the International Telecommunications Union, International Organization for Standardization, and industry arrangements among card networks and other payment providers), such as issues related to electronic funds transfer, telecommunications, and other technologies employed across the array of business models being used in digital delivery of financial services to excluded and underserved market segments.

Frontiers in Inclusive Financial Consumer Protection

An important aspect of the increased focus in recent years on financial consumer protection internationally has been the growing recognition that financially excluded and underserved customers present distinctive financial consumer protection challenges as compared with the "already served". Many risks associated with financial services are inherently challenging for consumers to assess and manage, and digital financial inclusion can elevate existing risks and create new challenges to effective consumer protection.

Increasingly, policymakers, regulators, supervisors, and the SSBs are recognising the link between market conduct and financial stability, and countries are putting in place or enhancing financial consumer protection regulation and supervision. However, addressing the frontier issues triggered by digital financial inclusion is at an early stage and is challenging for the SSBs to do unilaterally. Digital transactional platforms, which combine the functionality of payment instruments and value-storing transaction accounts, raise crosscutting consumer protection issues of interest to BCBS, CPMI, and IADI. Other consumer protection issues of crosscutting interest are triggered by the additional financial services that can be offered to financially excluded and underserved customers via digital transactional platforms (including credit and savings, of interest to BCBS and IADI, and insurance and investments, of interest to IAIS and IOSCO). Consumer protection is also of concern to FSB, because of the strong connections to financial stability and because of the more recent attention to misconduct.

FINANCIAL INCLUSION AND FINANCIAL SECTOR ASSESSMENTS

The inclusion of "effective and consistent incorporation of financial inclusion in financial sector assessments" as one of the 10 broad objectives of the revised GPFI Financial Inclusion Action Plan (FIAP) reflects a recognition that progress on mainstreaming financial inclusion in SSB standards and guidance is not enough. Progress on implementation must also be assessed.

SSB Compliance Assessments and Financial Inclusion

FATF is unique among the SSBs in that it conducts, or coordinates with the FATF-Style Regional Bodies, IMF, and the World Bank to conduct, AML/CFT assessments and mutual evaluations to assess countries' compliance with the FATF Recommendations.

Taking stock of limited resources and capacity for third-party financial sector assessments (among other factors), in recent years most of the other SSBs have developed assessment programmes aimed at determining how their standards are being implemented in practice by their members.

In contrast with the FATF assessment methodology, financial inclusion considerations have not yet figured significantly in the other SSBs' methodologies for standards-related self-assessments and peer reviews. One SSB, however—IAIS—has pioneered the adaptation of its ICP self-assessment methodology for use with respect to its 2012 *Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets* (IAIS (2012)), suggesting a model that other SSBs might consider replicating with appropriate modification with respect to their own standards observance methodologies and financial inclusion guidance.

Financial Sector Assessment Program and Financial Inclusion

The Financial Sector Assessment Program (FSAP), conducted jointly by the World Bank and IMF, is widely recognised as being among the most important instruments for carrying out a comprehensive and in-depth analysis of a country's financial sector, diagnosing potential vulnerabilities, and analysing financial sector development priorities.

Financial inclusion-related topics have increasingly been incorporated in FSAPs: of the approximately 210 FSAP exercises conducted between 2000 and 2015, over 70 per cent included a Technical Note covering aspects of financial inclusion. The findings and recommendations from financial inclusion assessments in the FSAPs are widely used by national authorities to inform the design, prioritisation, and sequencing of policy and legal reforms and related policy interventions such as the design of national financial inclusion strategies.

The World Bank Group has taken steps to help standardise the treatment of financial inclusion as a crosscutting theme in FSAPs, and not only as a focus of specialised Technical Notes (which can in turn provide more detailed guidance for the treatment of specific financial inclusion topics). This includes the development of a draft Guidance Note on financial inclusion for assessors, an important contribution to attaining the GPFI FIAP goal of reflecting increased understanding of the interdependence of financial inclusion, stability, integrity, and consumer protection in the methodologies and other tools employed in financial sector assessments.

OBSERVATIONS AND RECOMMENDATIONS

The White Paper concludes with observations that synthesise the broad themes introduced and with recommendations for further engagement. Evidencing increasing ownership of the issues, the SSBs have taken on workstreams and issued new guidance, acting on most of the observations and recommendations in the 2011 GPFI White Paper. Yet the landscape is evolving rapidly in respects that are relevant to future SSB action. Two developments have particularly far-reaching ramifications: first, deepened thinking about the potential for a proportionate approach to financial regulation and supervision to contribute to both financial inclusion and financial stability, as well as to the linked objectives of financial integrity and consumer protection; and second, the rapid scaling—in numerous markets—of innovative digital approaches to reaching excluded and underserved households and micro and small enterprises. As FSB, BCBS, CPMI, FATF, IADI, IAIS, and IOSCO are all affected by both of these developments, the high-level observations and recommendations address them all, as well as the other audiences to which this White Paper speaks.

Enhancing Coordination and Collaboration among SSBs on Financial Inclusion

In the face of ongoing rapid change in the financial inclusion landscape, close cooperation among the SSBs has become more important. The SSBs confront, and will continue to confront, a growing range of issues on which coordination and collaboration among them will be required to harmonise the development and application of their standards and guidance. This will be needed in order to treat similar emerging and shifting risks similarly and to make use of cross-sectoral lessons learned in the proportionate application of standards. Perhaps more importantly, it is needed to provide national policymakers, regulators, and supervisors with coherent frameworks of standards and guidance that can be applied proportionately across the full range of financial services and country contexts.

Considering Country Context

For some EMDEs with high levels of financially excluded and underserved households and micro, small, and medium enterprises, full compliance with current SSB standards may be a long-term goal. In such contexts, SSB guidance needs to accommodate widely varying financial market structures (especially with the advent of digital financial inclusion, introducing new non-bank actors including non-financial firms) as well as varying levels of policymaking, regulatory, and supervisory capacity.

Concept of Proportionality Applied to Financial Inclusion

There is broad consensus among SSBs that proportionate application of global standards is important for financial inclusion. This is reflected in revisions of standards that embed the concept in an overarching way. The current challenge is to determine how far global SSBs can go toward specifying "proportionality in practice", as this entails different approaches across jurisdictions (given varying country contexts) and across service providers (especially considering the evolving landscape of digital financial inclusion). Across all the SSBs—as well as the GPFI and its Implementing Partners and other global bodies such as IMF—there are myriad examples of analytical work aimed at deepening thinking about the potential for a proportionate approach to financial sector policymaking, regulation, and supervision to contribute both to financial inclusion and financial stability, as well as to the linked objectives of financial integrity and financial consumer protection. The risks of financial exclusion also merit consideration in this context.

Deepening Understanding of Changing Risks and Benefits of Financial Inclusion

The processes of increasing financial inclusion (especially digital innovation) will change the nature and sources of risks. The massive ambitions of some financial inclusion initiatives (whether based on innovative or more conventional approaches—or a combination) mean that these changes could also be massive in scale. At the same time, the economy-wide benefits of financial inclusion (including women's financial inclusion and the resulting economic participation), such as inclusive economic growth, efficiency, and increased welfare, have the potential both to offset these changing risks and to mitigate the risks of financial exclusion. For both these reasons—the risks and the benefits—the implications of increasing financial inclusion for country-level policymaking and for SSB standards and guidance are potentially significant.

Deepening Understanding of Financial Exclusion Risks

The potential ramifications of high levels of financial exclusion for institutional and systemic stability and integrity, and the relationship between financial sector regulation and financial exclusion, remain little studied by the SSBs and other global bodies. This also goes for the relationship between financial consumer protection and financial integrity regulation and ensuring the trust needed for excluded and underserved customers to join the formal financial system by choice.

Without a better understanding of the drivers and specific risks of financial exclusion—as well as the relationship among financial sector regulation, supervision, enforcement, compliance, and financial exclusion—policymakers at the country level are challenged to calibrate regulatory and supervisory measures aimed at optimising the linkages among financial inclusion, stability, integrity, and consumer protection. The SSBs themselves face similar challenges, especially given the important cross-border dimensions of financial exclusion risks. A better understanding of financial exclusion drivers and risks is important both to the design of proportionate SSB standards and guidance at the global level and to proportionate regulation, supervision, and enforcement at the country level.

Competition and Interoperability

Developing digital payment services that serve the financially excluded and underserved requires consideration of competitive dynamics early on, because of the potential network effects. The same holds true of digital transactional platforms. A compelling argument can be made during the early stages of development of digital transactional platforms that policymakers should focus their attention on ensuring that interoperability is technologically feasible, while also ensuring that they have both the necessary information and regulatory power to intervene when there is evidence that a dominant position is being exploited. The extent to which customers of competing digital financial service providers are able to transact business with each other, and the role—if any—that regulation and regulators, payment system overseers, or supervisors should play in working towards this objective, are fundamental issues in digital financial inclusion.

Customer Identity and Privacy

Customer identification and verification and related CDD measures help enable providers of financial services to offer appropriate customer services and at the same time to prevent crimes such as fraud, money laundering, and terrorist financing. FATF's adoption of a mandated RBA and its recognition of simplified CDD where risks are assessed as lower provide countries with policy options that greatly reduce the challenges to financial inclusion posed by identification and verification requirements. Despite the progress in the revised FATF Recommendations, AML/CFT challenges remain.

The technology used in digital financial inclusion enables innovative tools, including new approaches to data and analytics, to address financial inclusion barriers created by document-based identification and verification measures. As digital financial inclusion increases, however, more individuals and institutions are handling more personally identifying data of customers than ever before. Innovative technological developments are taking place that can provide the means to securely identify users without requiring the massive and continuous sharing of personal information as required by the current identification and verification measures that underpin modern financial services, while supporting financial inclusion and a level playing field for providers.

Crowdfunding—Bypassing Traditional Financial Intermediaries

In the financial inclusion context, crowdfunding refers to a market-based financing technique where funds are raised from large numbers of individuals or legal entities in small amounts, bypassing traditional financial intermediaries, and using mobile phones and online web-based platforms to connect with borrowers, whether to fund a business, a specific project, or other needs. Crowdfunding potentially holds promise for several reasons: it can be a quick way to raise funds with potentially few regulatory requirements; it can be cost-efficient and can produce a good return for the lender; and its potential market reach is limited only by access barriers to the platform and regulatory restrictions where applicable. At the same time, retail investors whose funds are being lent—especially small, potentially unsophisticated individual investors—face a number of risks. These risks include lack of transparency and information on the borrower, fraud, borrower default, failure of the platform's technology, and cyber-attack. In the case of a digital transactional platform used for person-to-person (P2P) lending, both lenders and borrowers may be new to formal finance, and thus the consumer protection concerns are on both sides of the transaction.

The challenge before financial regulators is to put into place regulation that encourages the development of new financing techniques, thereby supporting economic growth, while protecting both retail investors providing the loan funds and potentially the borrowers making use of the loans, while bolstering consumer confidence and trust. Regulators will be concerned with market-level issues such as whether the product in question is an investment that is, or should be, subject to securities regulation, licensing capital and other regulatory requirements of the entity that owns the website housing the platform, and borrower identification requirements for purposes of AML/CFT regulation. Regulators will also be concerned with financial consumer protection issues such as due diligence responsibilities of platform providers, suitability, lender and borrower education, transparency of product terms (to both borrower and lender), borrower informed consent, consent for use of customer data for other purposes, recourse, and resolution of technical issues when using third-party disbursement channels such as MNO-issued e-money. At the global level, although only IOSCO has conducted significant research (and none of the SSBs has yet issued guidance on crowdfunding), several SSBs have either relevant work in progress or an interest based on their core mandate.

De-risking and Financial Exclusion

There is concern among national regulators and policymakers and the SSBs regarding the large-scale termination or restriction of relationships and lines of business by banks seeking to avoid (rather than to continuously manage) the relevant compliance, operational, and reputational risks as envisaged under the proportionate and risk-based approaches of global standards. The scope and drivers of the phenomenon—referred to by banks as “de-risking”—are complex and relevant aspects have not yet been fully studied and publicly documented. At the same time, the effects on affected communities and countries could not only undermine financial inclusion but also potentially hold broader implications for the global financial system and for poverty reduction and economic development efforts.

De-risking is tied in part to concerns about money laundering, terrorist financing, and sanctions. However, key stakeholders describe a much more complex dynamic involving profitability concerns (which in turn are affected by prudential and market conduct issues) and integrity issues. In addition to potential bank correspondent withdrawal, concerns over terminations of business relationships have also been raised in relation to a range of financial inclusion-relevant customers, notably cross-border remittance providers and humanitarian organisations.

FATF and FSB have voiced concern that de-risking may lead to increased financial exclusion. FATF is sensitive to the risk that such termination could lead affected users to resort to opaque, informal channels to transact or move to less regulated or lower capacity formal institutions that may not be as capable of mitigating the relevant risks.

To better understand the scope and drivers of de-risking, the G20 requested the World Bank to conduct research on bank account closures of cross-border remittance providers. In January 2015 the FSB agreed to a work plan that included examining, together with the World Bank and CPMI, the extent of potential withdrawal from correspondent banking relationships, its implications for financial exclusion, and possible steps to address this issue. In November 2015, the FSB agreed to an action plan, working in partnership with the World Bank, CPMI, and FATF to examine and address the withdrawal of international banks of correspondent banking services (FSB (2015e)). (See Part IV F, "De-risking and Financial Exclusion".)

Emerging Issues in Supervision and Financial Inclusion

With progress on financial inclusion, financial supervisors are facing important challenges to carry out their mandates effectively in the context of an increasingly complex financial sector landscape, with evolving risks and multiple types of actors, products, services, and channels. These challenges include limited legal powers, lack of expertise and knowledge about new actors and products and underlying risks, limited staffing and insufficient resources, the need to balance financial inclusion-related objectives with core mandates, and supervisory overlaps, gaps, inefficiencies, or uncertainty, resulting from the increasing role of functional and sectoral authorities.

Supervisory frameworks developed for simpler circumstances may leave important actors and activities outside the supervisory perimeter and may open new opportunities for regulatory arbitrage. In multiple jurisdictions, financial supervisors are being called upon to work with other government entities to adapt their legal, regulatory, and supervisory frameworks and redefine their supervisory perimeter, for example, through the creation of new categories of financial institutions or by assigning to financial supervisors the responsibility for financial institutions that were previously under the remit of other authorities. Increased financial inclusion thus calls for strong supervisory coordination, not only among financial supervisors, but also with policymakers and non-financial authorities and non-governmental stakeholders. There is also a call for enhanced coordination among SSBs and other global bodies, in order to ensure that standards and guidance are fully consistent and that the rules provided are clear and coherent.

I.
INTRODUCTION

"Digital financial inclusion can be a game changer for unserved and under-served low-income households as well as micro- and small enterprises. The regulatory, supervisory, and standard-setting challenges—and likewise the solutions—include those we currently face, and others we can only imagine as billions of new digital finance users go online. We have the opportunity—and indeed the responsibility—to prepare for both the risks and the rewards of the digitisation of financial services".

—**Jaime Caruana,** General Manager, Bank for International Settlements (BIS), welcoming remarks to the Second Global Partnership for Financial Inclusion (GPFI) Conference on Standard-Setting Bodies and Financial Inclusion, 30–31 October 2014.

In just the few years since the publication of the GPFI's October 2011 White Paper *Standard-Setting and Financial Inclusion for the Poor—Toward Proportionate Standards and Guidance* (2011 GPFI White Paper), recognition has grown as to the ways in which standards and guidance of the global financial sector standard-setting bodies (SSBs)[6] affect who gets access to what range and quality of formal financial services and at what cost. There is still far to go, but the advances are noteworthy. Appreciation has also grown as to the important role that digitisation of financial services plays in reaching financially excluded and underserved customers, and as to the implications of this evolution for the SSBs.

The strong political tailwind behind financial inclusion at both the national and global levels has been spurred by the advocacy of such influential voices as the United Nations (UN) Secretary General's Special Advocate for Inclusive Finance (UNSGSA), Her Majesty Queen Máxima of the Netherlands, the Honorary Patron of the GPFI, World Bank Group President Jim Kim, International Monetary Fund (IMF) Managing Director Christine Lagarde, and the Implementing Partners of the GPFI.[7] The force of this advocacy has helped to main-

6. "Standards" is used in this White Paper to connote the generally high-level norms that the Financial Stability Board (FSB) and the six SSBs discussed have each formally adopted, and that are variously referred to by the SSBs as "Principles", "Core Principles", "Recommendations", and "Special Recommendations". Where they are binding, the term also encompasses assessment methodologies. "Guidance" is used in this White Paper to connote a wide range of subsidiary advisory, interpretative, or analytical documents below the level of normative standards, which could include, depending on the document, methodologies (if advisory in nature), general guidelines, applications, issues papers, working papers, and other similar documents. The term "guidance" does not include purely descriptive documents that do not aim to influence regulatory or supervisory practices.
7. The GPFI Implementing Partners are the Alliance for Financial Inclusion (AFI), Better Than Cash Alliance (BTCA), Consultative Group to Assist the Poor (CGAP), International Finance Corporation (IFC), International Fund for Agricultural Development (IFAD), Organisation for Economic Co-operation and Development (OECD), and the World Bank.

stream the subject of financial inclusion within the work and thinking of the SSBs, underscoring the interconnections with their core concerns to protect the stability and the integrity of financial systems and the interests of financial consumers, as well as the risks of financial exclusion.

Alongside these developments, rapid scaling in many markets of innovative digital approaches to reaching financially excluded and underserved households and micro and small enterprises, together with recent evidence of the importance of digital services to achieving financial inclusion,[8] call attention to the dynamically changing landscape to which the standards and guidance of the SSBs must adapt. The new actors introduced—such as mobile network operators (MNOs), "fintech" companies, and the fast-growing number and range of non-financial firms serving as retail agents—also implicate a new set of global bodies, specifically those setting technical standards that have potentially critical roles to play in advancing financial inclusion and managing emerging challenges that go along with such seismic change.

Notwithstanding the progress, it would be premature to declare victory. This second GPFI White Paper aims to raise awareness of the changing landscape and to frame issues that will inform ongoing work by the SSBs and other global bodies to integrate financial inclusion objectives into standards and guidance that can be applied effectively at the country level. The audiences include the SSBs and other relevant global bodies (their secretariats, members, and observers), country-level policymakers who apply the SSB standards and guidance, assessors and evaluators who appraise the implementation of SSB standards and guidance at the country level, and industry actors who adjust their operations to comply. The audiences also include development professionals who increasingly recognise that achieving the potential of financial inclusion as a tool for inclusive growth calls for understanding the linkages of inclusion to sound financial sector policy.

This Introduction constitutes Part I of this White Paper. Part II provides background on the evolving landscape of financial inclusion, summarising progress since the 2011 GPFI White Paper and underscoring the high-level themes that remain important. Part III discusses financial inclusion in the context of seven relevant global bodies: the Financial Stability Board (FSB) and six financial sectors SSBs (the Basel Committee on Banking Supervision (BCBS), the Committee on Payments and Market Infrastructures (CPMI), the Financial Action Task Force (FATF), the International Association of Deposit Insurers (IADI), the International Association of Insurance Supervisors (IAIS), and the International Organization of Securities Commissions (IOSCO)). Part IV explores evolving topics of relevance to multiple SSBs, focusing on developments since 2011 and issues on the horizon, particularly those triggered by digital financial inclusion.[9] It also discusses relevant work of technical SSBs and industry arrangements not addressed in the 2011 GPFI White Paper. Part V examines the treatment of financial inclusion in the context of financial sector assessments. Part VI sets forth observations and recommendations flowing from the discussions in Parts I, II, III, IV, and V.

8. The 2014 Global Findex data show that "in East Africa, for example, where mobile money accounts are most common, these accounts increased overall account penetration by 9 percentage points to 35 per cent while the share of adults with an account at a financial institution remained steady at 26%" (Demirgüç-Kunt et al (2015)).
9. "Digital financial inclusion" is defined and explained in Part IV A, "Digital Financial Inclusion—Opportunities and Risks".

II.

THE EVOLVING LANDSCAPE

A. FINANCIAL INCLUSION: DEFINING THE POLICY OBJECTIVE

The progress in advancing financial inclusion since 2011 includes considerable attention to defining the policy objective and improving and refining the means for measuring its achievement. The G20 Financial Inclusion Indicators, for example, aim to provide countries with a high-level method for measuring their relative position and benchmarking change over time. The multi-faceted nature of the subject, its complex linkages to other policy objectives, the varying situations of countries pursuing financial inclusion, among many other factors, defy a simple, static, "one-size-fits-all" definition. There is nonetheless a need for a common understanding of what is meant by "financial inclusion" that works across the range of SSBs and audiences to whom this White Paper is addressed (see Box 1, "'Financial Inclusion': An Updated Working Definition").

B. SUPPORT FOR SSB ACTION FROM THE G20, THE GPFI, AND OTHER GLOBAL ACTORS

With consistent encouragement from the G20, the SSBs have taken steps that are fundamentally relevant to financial inclusion, acting on most of the observations and recommendations in the 2011 GPFI White Paper. Evidencing increasing ownership of the issues, they have taken on workstreams, revised their standards, and issued new guidance of relevance, as summarised in Part III, and have participated in international events that have deepened their relationship with the GPFI[10] and their interest in financial inclusion.[11]

Recognising these developments—and the fast-changing landscape for financial inclusion across G20 members and non-G20 members—the G20 Leaders, at their St. Petersburg Summit in September 2013, endorsed a recommendation calling upon the SSBs "to (i) continue their progress to integrate consideration of financial inclusion in their work, consistent with their respective mandates; (ii) participate in relevant activities of the GPFI and engage GPFI representation in relevant activities of the SSBs; and (iii) give attention to emerging issues in financial inclusion of relevance to multiple SSBs".

10. The GPFI was created by the G20 Leaders at the Seoul Summit in 2010; the G20 FIAP was initially endorsed at the same time.
11. This includes three closed-door meetings on financial inclusion, in 2011, 2012, and 2014, among the Chairs and Secretaries General of the SSBs covered in the 2011 GPFI White Paper (BCBS, CPMI, FATF, IADI, and IAIS), convened by the UNSGSA (Honorary Patron of the GPFI) and the Chair of BCBS. It also includes two GPFI conferences on SSBs and financial inclusion hosted by the Financial Stability Institute at the BIS in Basel, in 2012 and 2014, the latter in which IOSCO participated as well.

BOX 1

"FINANCIAL INCLUSION": AN UPDATED WORKING DEFINITION[a]

"Financial inclusion", as the term is used in this White Paper, refers to a state in which all working-age adults[b] have effective access to the following financial services provided by formal institutions: credit, savings (defined broadly to include transaction accounts), payments, insurance, and investments. However, formal products and providers do not in all cases offer customers better value than informal products and providers, as may be indicated where there is access but limited or no usage by financially excluded and underserved customers.[c]

"Effective access" involves convenient and responsible delivery of services that are responsive to the needs of financially excluded and underserved customers, at a cost affordable to the customers and sustainable for the providers. The demonstration of effective access is usage. The fact that a customer can access services offered by a formal financial service provider does not mean she or he is "financially included". For this, the conditions of "effective access" must be met.

"Financially excluded and underserved" refers to those who do not have access to or are underserved by formal financial services. An estimated 2.0 billion adults worldwide do not have a savings or credit account with a bank or other formal financial institution (Demirgüç-Kunt et al (2015)). This figure, however, is only a rough proxy for the number of persons worldwide who are financially excluded, as it sheds no light on factors such as the quality, affordability, sustainability, cost, or convenience of the savings and credit accounts to which others have access and it does not measure access to payment services, insurance, or investments.

"Responsible delivery" involves both responsible market conduct by providers and effective financial consumer protection oversight. The specific characteristics of excluded consumers have significant implications for effective consumer protection regulation and supervision, and therefore relevance for SSB guidance. Relevant characteristics include limited experience with, and sometimes distrust of, formal financial service providers, lower levels of education and financial capability, few formal providers to choose from, and often remote locations.

"Formal financial institutions" refers to financial service providers that have a recognised legal status and includes entities with widely varying regulatory attributes, subject to differing levels and types of external oversight.

a. This working definition is adapted from the 2011 GPFI White Paper.
b. This focus on working-age adults is not intended to ignore the distinct financial service needs of youth, those in old age, or small and medium enterprises. Similarly, it should be acknowledged that it does not capture gender-linked barriers to financial inclusion.
c. There are particular challenges to women's financial inclusion, given, for example, difficulties in account opening, among other constraints. The 2014 Global Findex database shows that women in developing countries are less likely to have an account than men, even after controlling for income and other individual characteristics. In developing economies, the gender gap remained nine percentage points in 2014, as reflected in the 2014 Global Findex survey results, unchanged since the previous 2011 survey (Demirgüc-Kunt et al (2015, p 5)).

This call shaped revisions to the G20 Financial Inclusion Action Plan undertaken during the Australian G20 Presidency in 2014, resulting in commitment to two objectives of direct relevance:

> "Mainstream financial inclusion in the work of the standard-setting bodies and other relevant global bodies and increase understanding of the interdependence of financial inclusion, stability, integrity, and consumer protection";
>
> and
>
> "Encourage effective and consistent incorporation of financial inclusion in financial sector assessments".

The Terms of Reference of the GPFI Subgroup on Regulation and SSBs guide the GPFI in working towards these objectives. These include a key sub-objective responding to the G20 Leaders' call: the "institutionalisation of a standing mechanism for collaboration among the SSBs and other relevant global bodies" on financial inclusion.[12]

12. Two additional developments within the GPFI during this period merit mention for their relevance to the Leaders' 2013 call regarding the SSBs: the creation of the Subgroup on Financial Consumer Protection and Financial Literacy in 2013 and the Subgroup on Markets and Payment Systems in 2014. The Terms of Reference call for the new subgroups to work jointly with the Subgroup on Regulation and SSBs on matters involving regulation and standard setting.

Two further developments since the 2011 GPFI White Paper are of special importance in this context. First, in October 2013, the World Bank Group convened leaders to put forward a vision for achieving universal financial access by 2020 and a far-reaching initiative to pursue this goal.[13] Highlighting the importance of digital approaches, World Bank Group President Jim Yong Kim framed the opportunity as follows: "Universal access to financial services is within reach—thanks to new technologies, transformative business models and ambitious reforms.… As early as 2020, such instruments as e-money accounts, along with debit cards and low-cost regular bank accounts, can significantly increase financial access for those who are now excluded" (World Bank (2013b)). In a dialogue with the UNSGSA and Honorary GPFI Patron during the October 2013 event, during which the importance of scalable digital solutions was underlined, Kim also noted that financial inclusion can be a powerful accelerator of economic progress, and can help achieve the World Bank Group's goals of eliminating extreme poverty and building shared prosperity.

The second important development relates to the objective of the revised G20 Financial Inclusion Action Plan to work towards effective and consistent incorporation of financial inclusion in financial sector assessments. In June 2014, Christine Lagarde, Managing Director of IMF, which conducts the Financial Sector Assessment Program jointly with the World Bank (see Part V B, "Financial Sector Assessment Program and Financial Inclusion"), delivered a speech at the launch of Mexico's National Financial Inclusion Strategy highlighting the importance of financial inclusion to effective monetary policy, financial stability, and inclusive growth (Lagarde (2014)). The landmark address coincides with other moves across IMF to explore these issues in its work, such as the September 2015 release of an IMF Staff Discussion Note, *Financial Inclusion: Can it Meet Multiple Macro-Economic Goals?* (Sahay et al (2015)).[14]

C. GREATER RECOGNITION OF THREE HIGH-LEVEL THEMES

The 2011 GPFI White Paper introduced three linked, high-level themes for the SSBs to consider in their approach to standards and guidance relevant to financial inclusion. Recognition of the importance of all three has grown in the period since.

First, financial *exclusion* carries risks within SSBs' spheres of interest. (The 2011 GPFI White Paper highlighted the importance of this topic to FATF, IAIS, and BCBS, though the subject is important to the others as well and is of special importance to FSB, as discussed further in Part III A, "Financial Stability Board".) The risks include threats to financial integrity and international security (such as the money laundering and terrorist financing risks of cash transactions, often across borders, through informal providers), social and political stability, and even potentially financial instability (such as civil unrest touched off by pyramid schemes organised as informal savings and investment opportunities that triggers lack of confidence in the banking system). (See also Part IV F, "De-risking and Financial Exclusion".)

13. See http://www.worldbank.org/en/topic/financialinclusion/brief/achieving-universal-financial-access-by-2020.
14. IMF has issued also a number of reports addressing financial inclusion issues at the regional and country levels.

Second, the processes of increasing financial inclusion will change the nature (and sometimes also the level) of risks. These changes result from a variety of factors, including the characteristics of currently financially excluded customers (which differ from the "already served" with which the SSBs are most familiar), as well as the nature of the products, services, and providers capable of reaching them, and especially the innovative approaches needed to accomplish significant increases in financial inclusion, as discussed in Part IV, "Evolving Topics of Relevance to Multiple Standard-Setting Bodies". The benefits of financial inclusion, such as economic growth, efficiency gains, and increased welfare, both offset these changing risks and mitigate the risks of financial exclusion.

Third, the country context in which SSB standards and guidance are being applied matters. Two parameters in particular merit reflection: the current nature and level of financial exclusion in the country in question and the capacity of policymakers, regulators, and supervisors to implement SSB standards and guidance. For some countries, particularly lower-income countries, with high current levels of financially excluded households, full compliance with existing SSB standards and guidance may be a long-term goal. Thus, while SSBs' normative standards relevant to increasing financial inclusion may be designed to be applied flexibly in all country contexts, advisory guidance that considers the implementation challenges encountered in varying country contexts may be needed.[15] (See Part IV G, "Emerging Issues in Supervision and Financial Inclusion".)

D. PROPORTIONALITY AND THE LINKAGES AMONG FINANCIAL INCLUSION, STABILITY, INTEGRITY, AND CONSUMER PROTECTION

The SSBs' attention to financial inclusion coincides with increasingly specific recognition by the SSBs of the concept of proportionality[16] in their work, as advocated in the 2011 GPFI White Paper. Promoting financial inclusion through proportionate standards and guidance was the theme of the First GPFI Conference on Standard-Setting Bodies and Financial Inclusion, held at the BIS in October 2012. The Second GPFI Conference on Standard-Setting Bodies and Financial Inclusion, held at the BIS two years later, in October 2014, carried this theme forward in the specific context of digital financial inclusion. Released just prior to the second conference, the GPFI 2014 Financial Inclusion Action Plan (FIAP) calls upon the GPFI to engage with SSBs to progress the implementation of proportionate application of global standards, noting the considerable progress on this front among the SSBs.

15. One particularly significant global initiative has drawn attention to, and served to advance, financial inclusion at the country level. The adoption of the Maya Declaration by members of the AFI in September 2011 has resulted in 57 countries making specific, measurable commitments to financial inclusion geared to their respective country context. The latest Maya Declaration progress report was published in December 2015 (AFI (2015b)). The Maya Declaration was welcomed by G20 Leaders in their communiqués of 2012 and 2013.

16. The concept of "proportionality" has been developed varyingly by the SSBs in standards and guidance in the context of their different mandates. It involves the balancing of risks and benefits against costs of regulation and supervision to the regulator, the supervisor, and to the regulated and supervised institutions. See GPFI (2011). This means that regulators and supervisors can accommodate a diverse range of financial systems and providers of financial services, including systems where financial products are delivered through non-traditional channels.

An issues paper prepared for the first conference explored for the first time the potential for a proportionate approach to financial inclusion policymaking to contribute to financial stability, as well as to the objectives of financial integrity (ie preventing financial crime, particularly money laundering and terrorist financing), and financial consumer protection (GPFI (2012)), studying the linkages among these four policy objectives.[17]

In their November 2012 communiqué, the G20 Finance Ministers and Central Bank Governors called the first conference "a substantial demonstration of growing commitment among . . . SSBs to provide guidance and to engage with the GPFI to explore the linkages among financial inclusion, financial stability, financial integrity, and financial consumer protection".[18] Since that time, more work has been done by IMF and the World Bank, among other institutions, to explore these linkages further, as well as the linkages between financial inclusion and the goals of financial stability and inclusive growth.[19] The linkages theme will be considered further at the Third GPFI Conference on Standard-Setting Bodies and Financial Inclusion, to be held in Basel in October 2016.

E. DIGITAL FINANCIAL INCLUSION: INCREASING THE STAKES, AND THE OPPORTUNITIES, FOR COLLABORATION AMONG SSBS

One of the developments relevant to financial inclusion that is of greatest significance to the SSBs and other global bodies discussed in this White Paper is the rapid scaling in multiple markets of innovative digital approaches to reaching excluded and underserved households and micro and small enterprises, including women. The G20 made reference to the phenomenon at the 2013 St. Petersburg Summit, calling upon the GPFI to explore how its potential can be harnessed.[20] Acting on this call, the GPFI Forum in September 2014 was organised around the topic.[21] Its crosscutting importance was also acknowledged by the senior leadership of the SSBs participating in the October 2014 closed-door meeting on financial inclusion convened by the UNSGSA and Honorary GPFI Patron and the BCBS Chair, and later the same month it was the theme of the Second GPFI Conference on Standard-Setting Bodies and Financial Inclusion held at the BIS.

At both of the October 2014 Basel gatherings, participants took stock of the emergence of numerous varieties of digital transactional platforms combining product features of payment instruments and transaction accounts, allowing

17. The paper discusses how in promoting inclusion financial regulators can optimise linkages among these four distinct policy objectives, so as to maximise the synergies among them and minimise trade-offs and other negative outcomes.
18. G20. Communiqué of Ministers of Finance and Central Bank Governors of the G20 (Mexico City, 4-5 November 2012).
19. For a further information on this work, see, for example, Cull et al (2012), Dabla-Norris et al (2015), Han and Melecky (2013), Karpowicz (2014), Sahay et al (2015), and Todoroki et al (2014).
20. "In coordination with the GPFI, we will explore in 2014 options to strengthen financial inclusion work in developing countries and targeted actions to harness emerging mechanisms such as electronic payments and mobile technology that can significantly improve access" (G20 (2013b)).
21. See, for example, *The Opportunities of Digitizing Payments,* prepared under the leadership of the BTCA, Bill & Melinda Gates Foundation, and the World Bank Development Research Group, which presents a synthesis of the evidence that the widespread adoption of digital payments in all their forms, including international and domestic remittances, can be instrumental in reaching the goals of the G20 (Klapper and Singer (2014)).

poor people to transact economically through agents in small amounts (key to helping them manage their characteristically uneven income and expenses). The potential for additional financial products tailored to these market segments—savings, credit, insurance, even investment products—to be offered via these platforms was also recognised. It was acknowledged that these developments introduce new market participants and allocate roles and risks (both new and well-known) in different ways as compared with traditional delivery of retail financial services. (See Part IV A, "Digital Financial Inclusion—Opportunities and Risks".)

The need for the SSBs to be proactive in recognising the financial stability, integrity, and consumer protection implications of the exciting and radical changes on the horizon was also acknowledged, as were the many crosscutting issues calling for collective engagement by the SSBs triggered by the shifting risk picture, as discussed further in Part IV.

F. PROGRESS IN NUMBERS, BUT OLD AND NEW CHALLENGES ACCOMPANY NEW OPPORTUNITIES: A CALL FOR NEW COLLABORATION

The 2014 data from the World Bank's Global Findex survey show great progress just since 2011 in the number of working-age adults with access to—and actively using—two basic components of formal finance: a transaction account or loan from a formal provider.[22] The survey results also shed light on the importance of innovative digital delivery in achieving this progress: in multiple markets, digital transactional platforms are driving account growth.[23] The same data also serve as a reminder that the progress is uneven: in many of the poorest countries and sub-regions with the highest percentages of excluded and underserved households and enterprises, such basic, well-known development challenges as physical, political, and food insecurity, and the lack of electricity and mobile telecommunications infrastructure, mean that digital financial inclusion will not be the answer in the short term in such countries and regions, as evidenced by low numbers of mobile phone accounts.[24] Progress on digital financial inclusion is also uneven between genders, in part due to women's lower levels of mobile phone ownership (World Bank et al (2015, p 25)).

Another manifestation of innovation with vast potential for financial inclusion is the emergence of crowdfunding, as discussed in Part IV E, "Crowdfunding—Bypassing Traditional Financial Intermediaries". The spread of ever-cheaper smartphones means even those approaches which rely on the internet will in time be within reach of hundreds of millions—even billions—who are currently excluded and underserved.

Against the promise of such end-to-end means of conducting retail financial transactions, new challenges must also be weighed, such as the problems of

22. In the case of account ownership, 700 million adults worldwide became account holders, bringing the percentage of adults with an account from 51 per cent to 62 per cent. (Demirgüç-Kunt et al (2015)).
23. The 2014 Global Findex survey shows that in sub-Saharan Africa, the only region with significant overall penetration of mobile money accounts, "mobile money drove the growth in overall account penetration from 24% in 2011 to 34% in 2014" (Demirgüç-Kunt et al (2015)).
24. The 2014 Global Findex survey indicates, for example, that in west-central sub-Saharan Africa, between 0 and 4 per cent of adults have a mobile money account. (See Demirgüç-Kunt et al (2015).)

uninformed or inexperienced agents with little or no knowledge of the products offered, unsuitable products, and over-indebtedness (all of which is discussed in Part IV B, "Frontiers in Inclusive Financial Consumer Protection"). Such challenges may lead new consumers to leave the formal sector and return to informality (sometimes referred to as "re-exclusion"). In addition, the past few years have witnessed the troubling exit of global banks from traditional correspondent banking and the closure of remittance companies' bank accounts, the dimensions, drivers, and potential ramifications of which are discussed in Part IV F, "De-risking and Financial Exclusion". The potential ramifications of these phenomena, of course, extend well beyond financial inclusion, suggesting the need for new approaches to thinking about and calibrating risk, including the threat to the broader inclusive development agenda if entire classes of transactions and jurisdictions are suddenly left without viable access to the global financial system.

These are not challenges that the individual SSBs can address on their own, nor can they seize the opportunities alone. Instead, both the challenges and opportunities call for the kind of foresight that the SSBs have shown in the past in developing structures for issuing joint guidance,[25] as well as the recognition of the need for coordination on financial stability issues that resulted in the G20 establishment of FSB during the 2008–2009 global financial crisis.[26] Pending the institutionalisation of a standing mechanism for collaboration among the SSBs and other relevant global bodies on financial inclusion as called for in the Terms of Reference of the GPFI Subgroup on Regulation and SSBs, the Subgroup itself is well positioned to carry out this function.

25. For example, as discussed in the 2011 GPFI White Paper, faced with the emergence of global financial conglomerates in the 1990s, the Joint Forum was created among BCBS, IAIS, and IOSCO to deal with the many crosscutting issues raised by multinationals simultaneously active in banking, insurance, and securities markets. While a decision was made to sunset the Joint Forum in 2014 given developments such as the creation of FSB, the joint guidance developed by the three SSBs remains highly useful to country-level policymakers, regulators, and supervisors.
26. This need was recognised by Jaime Caruana, General Manager of the BIS, in his welcoming address at the Second GPFI Conference on Standard-Setting Bodies and Financial Inclusion (Caruana (2014)).

III.

FINANCIAL INCLUSION AND THE WORK OF FSB AND STANDARD-SETTING BODIES

The 2011 GPFI White Paper addressed five SSBs—BCBS, CPMI, FATF, IADI, and IAIS—and the relevance of their standards and guidance to financial inclusion and vice versa. This White Paper adds information on two additional bodies: FSB and IOSCO.[27] In all seven cases, recognition has grown as to the importance of their work to the question of who has access to and uses what range and quality of formal financial services and at what cost. All seven bodies are also engaged in current work on crosscutting topics of relevance to multiple SSBs discussed in Part IV. In view of the FSB's mandate and distinctive coordinating role with respect to the other SSBs, it is discussed first. The remaining six bodies are discussed in alphabetical order. The membership of all seven bodies and relevant affiliated bodies is presented in Appendix A.

A. FINANCIAL STABILITY BOARD

FSB was established in April 2009 as the successor to the Financial Stability Forum (FSF)[28] in the context of the G20 Leaders' response to an urgent need to increase coordination during the global financial crisis. With an expanded membership—24 Member jurisdictions (including all of the G20 countries and the European Union) and 10 other international bodies[29]—and a broadened mandate to promote financial stability, FSB provides a strong institutional basis for promoting a global financial system that is resilient and fosters confidence and growth. FSB acts as a coordinating body for national authorities (ministries of finance, central banks, supervisors, and regulators), international financial

27. The International Organization of Pension Supervisors (IOPS) is not discussed separately in this White Paper, although the issues relevant to financial security in old age for financially excluded and underserved customers overlap with relevant work of the SSBs covered, particularly IAIS and IOSCO.
28. FSF was established in 1999 by the G7 Finance Ministers and Central Bank Governors to bring together national authorities responsible for financial stability in significant international financial centres, sector-specific international groupings of regulators and supervisors, international financial institutions charged with surveillance of domestic and international financial systems, and committees of central bank experts concerned with market infrastructure and its functioning.
29. FSB classifies four member organisations as international financial institutions (BIS, IMF, OECD, and the World Bank) and six as SSBs (BCBS, the Committee on the Global Financial System, CPMI, IAIS, the International Accounting Standards Board, and IOSCO). FSB's report to the 2014 G20 Brisbane Summit called for broadening FSB engagement to enable non-member authorities to be involved in the work of FSB's committees and working groups through membership or individual meetings. Membership and outreach were expanded in March 2015 to increase representation of emerging market countries by adding authorities from the five emerging market and developing economies (FSB (2014e)).

institutions (IFIs), and SSBs that work on financial sector policies. FSB has also established six Regional Consultative Groups (RCGs) to bring together financial sector authorities from FSB member and non-member jurisdictions to exchange views on vulnerabilities affecting financial systems and on current and potential initiatives to promote financial stability regulatory issues relevant to emerging market and developing economies (EMDEs). The membership of FSB and the RCGs is listed in Appendix A.

As currently framed, FSB's mandate is to: (i) strengthen financial systems and increase the stability of international financial markets; (ii) identify systemic risks in the financial sector, frame financial sector policy actions that can address these risks, and oversee implementation of the responses; (iii) coordinate at the international level national financial authorities and SSBs as they work toward developing strong regulatory, supervisory, and other financial sector policies; (iv) foster a level playing field by encouraging consistent implementation of these policies across sectors and jurisdictions; and (v) coordinate the application of global standards in the broad policy areas of macroeconomic policy and data transparency, financial regulation and supervision, and institutional and market infrastructure.

In the period since its establishment, the emphasis of FSB's work has shifted from the development of immediate, crisis-related policy reforms to broader oversight of the global financial system and preventative measures to head off future instability. At the 2012 Los Cabos Summit, the G20 Leaders reinforced its financial stability mandate, including its role in standard-setting and in promoting the implementation by FSB members of international standards and of agreed G20 and FSB commitments and policy recommendations.

FSB has designated 14 standards issued by other international bodies as key standards for sound financial systems.[30] The FSB has also issued the *Key Attributes of Effective Resolution Regimes for Financial Institutions* (Key Attributes) as part of the set of policy measures to address systemically important financial institutions that was endorsed by the G20 in November 2011 to address the problem of firms that are "too big to fail". The genesis of the Key Attributes recognises the fact that effective resolution for many systemically important providers of financial services goes beyond the mandates of the individual SSBs, the work of which the FSB is called upon to coordinate, as discussed further below.

FSB and Financial Inclusion

Since as far back as 2009, the G20 has recognised that even a well-regulated and stable financial system cannot contribute to national economic activity, promote job creation, increase income, and boost shared prosperity, if it excludes the majority of citizens. This recognition led to the establishment of the G20 Financial Inclusion Experts Group (FIEG) and its successor, the GPFI, to work towards financial inclusion alongside the traditional objectives of financial regulation and supervision: financial stability, financial integrity, and financial consumer protection. Various FSB workstreams over this period have recognised—

30. http://www.financialstabilityboard.org/what-we-do/about-the-compendium-of-standards/standards/key_standards/#mepolicy. The FSB Compendium of Standards includes both key standards that the FSB has designated as deserving priority implementation, depending on country circumstances, and other standards that are complementary in nature and cover particular functional areas. The Compendium lists the various economic and financial standards that are internationally accepted as important for sound, stable, and well-functioning financial systems. Included in the key standards are core standards (standards designated by the FSB as key for sound financial systems and deserving of priority implementation depending on country circumstances) of the six financial sector SSBs included in this White Paper.

both implicitly and, in a few cases, explicitly—the important linkages among these four policy objectives.[31]

While financial inclusion is not explicitly incorporated into FSB's core mandate, related issues arise in an increasing number of areas of FSB's work. Among these, the following areas of work merit mention:

Monitoring effects of agreed regulatory reforms in EMDEs. In October 2011, FSB, IMF, and the World Bank issued *Financial Stability Issues in Emerging Market and Developing Economies,* which addresses issues that are important for countries beyond FSB's membership and has been followed by subsequent annual reports. One of the five financial stability issues addressed in the report is the expansion of the regulatory and supervisory perimeter, in recognition of the increasingly important role of small-scale non-bank lending and deposit-taking institutions. Bringing such institutions within the regulatory perimeter is directly relevant to financial inclusion, given the role that such institutions play in reaching financially excluded and underserved population segments. In response to the call by G20 Leaders in the Los Cabos Summit in 2012, FSB has begun to monitor, in collaboration with IFIs and SSBs, the effects of internationally agreed regulatory reforms on EMDEs. In its 2014 monitoring note on this topic (FSB (2014d)), the FSB notes that, given their different starting points, EMDEs will need to continue to make calls for appropriate use of the existing flexibility in international standards (including through the application of the concept of proportionality) and technical assistance by IFIs and SSBs to enable policymakers to implement reforms in a way that is appropriate to their particular circumstances.

In March 2015, FSB organised an EMDEs Forum to identify and discuss policy and implementation issues of importance to EMDEs that FSB should address. Implementation challenges reported by EMDEs, as they implement the internationally agreed reforms, were also discussed in the FSB first annual report to the G20 on the implementation and effects of the G20 financial regulatory reforms (FSB (2015f)). The report notes, in particular, that no major unintended consequences have been identified to date from the implementation of reforms in EMDEs. However, some EMDEs face challenges in implementing the reforms or are affected by spill-overs from implementation in home jurisdictions of global financial institutions. FSB, working with SSBs and IFIs, will continue to monitor the effects on EMDEs and assist them in implementation.

Key Attributes of Effective Resolution Regimes for Financial Institutions. The Key Attributes, adopted in 2011 and amended in 2014, set out the agreed essential features for resolution regimes that should be implemented in all jurisdictions, in particular for financial institutions that could be considered systemically significant or critical in the event of failure.[32] FSB has taken steps to promote the implementation of the Key Attributes beyond jurisdictions represented within its membership, including conducting workshops with the RCGs for Asia and for sub-Saharan Africa (FSB (2014c, p 6)).

31. Links between financial consumer protection in credit and financial stability have been a particular focus. See, for example, FSB (2011a, p 1): "As the crisis showed, the effects of irresponsible lending practices can be transmitted globally through the sale of securitised risk, particularly mortgages which are by far the largest single credit for many consumers".
32. The development by the FSB of the Assessment Methodology for the Key Attributes is on-going.

The scope of the Key Attributes covers any financial institution that could be systemically significant if it fails (FSB (2014a, p 6)). This could apply to firms targeting financially excluded or underserved population segments that, in many EMDEs, are numerous and significant as providers to this market segment. The new business models emerging with digital financial inclusion discussed in Part IV A, "Digital Financial Inclusion—Opportunities and Risks", which involve complex relations among banks, non-banks, insurers, and non-financial firms such as MNOs, call for new thinking regarding the determinants of systemic significance and thus potentially also on the application of the Key Attributes.

Transforming Shadow Banking into Resilient Market-based Finance. Over the past five years, FSB has led the development of a high-level policy framework and roadmap for the oversight and regulation of "shadow banking", defined broadly by FSB as credit intermediation involving entities and activities outside of the regulated banking system, or non-bank credit intermediation in short (FSB (2014b, p 1)). FSB recognises that shadow banking, if appropriately conducted, provides a valuable alternative to bank financing and supports real economic activity. In this regard, establishing a system-wide monitoring framework to track development in the shadow banking system and developing policy measures to reduce excessive build-up of leverage and maturity/liquidity mismatching are crucial. The FSB has consistently called for the application of proportionality in developing the policy measures; through addressing the financial stability risks associated with non-bank credit intermediation, it hopes to transform shadow banking into resilient market-based finance, while strengthening the oversight and regulation of such entities and activities.[33] *Transforming Shadow Banking into Resilient Market-based Financing: An Overview of Progress and a Roadmap for 2015,* issued in 2014, underscores that non-bank financial institutions (NBFIs) are important in providing a valuable alternative to bank funding. Its most recent monitoring report introduces a focus on activity-based economic functions of non-banks, allowing for a narrow measure of shadow banking for policy purposes ((FSB (2015g)). Based on the findings of a peer review of its policy framework for shadow banking entities, to be published in the first half of 2016, FSB will evaluate the case for further policy recommendations and report to the G20 (FSB (2015b) and FSB (2015g)).

Misconduct Risks. In March 2015, FSB launched a comprehensive work plan to address misconduct risks, which are seen to have risen to a level that has the potential to create systemic risks. Misconduct threatens to undermine trust in financial institutions and markets, thereby limiting some of the hard-won benefits of the initial reforms (FSB (2015a)). It is further recognised that the implications of misconduct, and sanctions against it, could be far-reaching, including withdrawal from correspondent banking, hosting of remittance providers' bank accounts, and many other cross-border transactions of direct and indirect relevance to financial inclusion, as discussed in Part IV F, "De-risking and Financial Exclusion". The FSB work plan aims to coordinate efforts to address emerging

33. For a discussion of shadow banking in the context of inclusive finance, see Lyman, Shrader, and Tomilova (2015).

vulnerabilities from misconduct;[34] a progress report was issued in November 2015 (FSB (2015c)).

Correspondent Banking. In its report to the G20 on actions taken to assess and address the decline in correspondent banking, FSB notes that the loss of correspondent banking services can create financial exclusion, particularly where it affects flows such as remittances, which are a key source of funds for people in many developing countries. This report presents four action points that will be implemented in partnership with other organisations to further examine the dimensions of the decline and implications for financial inclusion and financial stability; clarify regulatory expectations, including through more guidance by FATF; support domestic capacity-building in jurisdictions that are home to affected respondent banks; and strengthen tools for due diligence by correspondent banks (FSB (2015d)).

Regional Consultative Groups. FSB's six RCGs provide a valuable platform for dialogue with the 86 jurisdictions currently represented, providing important insights from beyond FSB's membership, including many EMDEs with high levels of financial exclusion and a strong policy commitment to financial inclusion. The RCGs share their views and perspectives on FSB policy initiatives with the FSB at its Plenary meetings and have, for example, published reports on such issues as the impact of systemically important financial institution (SIFI) regulations on Asia, shadow banking in both the Americas and Asia regions, and the effect on host countries (which many EMDEs are) of balance sheet consolidation and risk management practices of global banks.

There has been an increased focus on financial inclusion issues at RCG meetings. At the December 2015 meeting of the RCG for sub-Saharan Africa, members discussed the importance of financial inclusion, focusing on steps to promote financial inclusion in individual countries, how the objectives of financial inclusion could be aligned to that of financial stability, what the primary challenges being faced are, and what further policy options can be explored by ministries of finance, central banks, and supervisory and regulatory authorities. The RCGs have also been focusing on the impact on financial inclusion from the potential withdrawal of correspondent banking services by some large international banks and the risks of increased financial exclusion. At the October 2015 meeting of the RCG for Asia, members discussed the challenges arising from the need to promote financial inclusion whilst combating money laundering and countering terrorist financing. The RCGs for Middle East and North Africa, Americas, and sub-Saharan Africa held roundtables to discuss these issues in October and December 2015, respectively.

B. BASEL COMMITTEE ON BANKING SUPERVISION

Established in 1974 as the Committee on Banking Regulations and Supervisory Practices in response to disruptions in the international financial markets, BCBS

34. This FSB workstream examines, among other things, (i) how the incentives created by reforms to risk governance, compensation structures, and benchmarks have helped to reduce misconduct and whether any additional measures are needed; and (ii) together with the World Bank and other relevant bodies, the extent of potential withdrawal from correspondent banking, its implications for financial exclusion, as well as possible steps to address this issue (Carney (2015)).

is the primary global standard setter for the prudential regulation of banks and provides a forum for cooperation on banking supervisory matters. Its mandate is to strengthen the regulation, supervision, and practices of banks worldwide with the purpose of enhancing financial stability (BCBS (2013)). BCBS issues standards and guidance developed by consensus among its members, and while they have no legal force, the expectation is that individual national authorities will implement them. In this way, BCBS encourages convergence towards common standards and monitors their implementation, but without attempting to achieve detailed harmonisation of supervisory approaches.

To involve a wider group of countries, BCBS encourages cooperation between its members and other banking supervisory authorities. BCBS expanded its membership in 2009 to include the full membership of the G20 and again in 2014 to include several non-G20 countries as members or observers. The membership is listed in Appendix A. The Basel Consultative Group (BCG) serves, under BCBS, as a forum for deepening BCBS engagement with non-member countries, supervisory groups, international organisations, and other bodies. BCG's membership is also listed in Appendix A. Contacts are further strengthened by the biennial International Conference of Banking Supervisors.

Key Financial Inclusion Issues

Although initially focused on internationally active banks of significance to the stability of the global financial system, BCBS standards and guidance have evolved to be a global reference point for regulation and supervision of banks and other deposit-taking institutions in all jurisdictions. The *Basel Core Principles for Effective Banking Supervision* (BCPs), in particular, are a generally recognised benchmark for assessing the quality of jurisdictions' supervisory systems and for identifying future work to achieve a baseline level of sound supervisory practices, including in the context of assessments conducted by the World Bank and IMF under the Financial Sector Assessment Program (FSAP), discussed in Part V B, "Financial Sector Assessment Program and Financial Inclusion".

BCBS issued revised BCPs in 2012. In preparation for the review of the BCPs, the BCBS sought to achieve the right balance in raising the bar for sound supervision while retaining the BCPs as a flexible, globally applicable standard. Revised BCP 1 sets out the promotion of safety and soundness of banks and the banking system as the primary objective for banking supervision. At the same time, it recognises that jurisdictions may assign additional responsibilities to the banking supervisor, explicitly including financial inclusion and financial consumer protection, provided they do not conflict with this primary safety and soundness objective.

A key revision of relevance to financial inclusion is the incorporation of the concept of proportionality throughout, in the revised BCPs and their assessment criteria (BCBS (2012, pp 1 and 74)). This enables the revised BCPs and their assessment criteria to accommodate a diverse range of banking systems (BCBS (2012, p 1)). This change is fundamental to recognising the importance of country context, as discussed in Part II C, "Greater Recognition of Three High-Level Themes", including such factors as the current nature and level of financial exclusion in the country in question and the capacity of policymakers, regulators, and supervisors to implement SSB standards and guidance.

The proportionate approach also allows for assessments of compliance with the BCPs that are commensurate with the risk profile and systemic importance of a broad spectrum of banks and other deposit-taking institutions, from large internationally active banks to small, non-complex institutions offering deposits and deposit-like products (BCBS (2012, p 1)). This, too, is fundamentally important to financial inclusion, given the significance in many countries of smaller banks and non-bank deposit-taking institutions in reaching currently excluded and underserved customers. Moreover, it provides a basis for applying the BCPs to the increasingly diverse array of providers, discussed in Part IV A, "Digital Financial Inclusion—Opportunities and Risks", offering digital deposit-like stored-value products,[35] and potentially other financial products targeted to the needs and capacity of currently financially excluded customers.

The concept of proportionality does not imply dilution of requirements under the BCPs. Rather it puts supervisors in a position to adapt approaches to accommodate the full range of providers relevant to financial inclusion, and to the potentially rapid changes in scale taking place in some markets with the advent of digital financial inclusion (GPFI (2014c)).

C. COMMITTEE ON PAYMENTS AND MARKET INFRASTRUCTURES

Created in 1990 as the Committee on Payments and Settlement Systems (CPSS), CPMI promotes the safety and efficiency of payment, clearing, and settlement systems and related arrangements, thereby supporting financial stability and the wider economy.[36] CPMI is a global standard setter in this area. It monitors and analyses developments in these arrangements worldwide, both within and across jurisdictions, aiming to strengthen regulation, policy, and practices. In this context, CPMI serves as a forum for central bank cooperation in related oversight, policy, and operational matters, including the provision of central bank services. Among the core standards and guidance provided by the CPMI are *Central bank oversight of payment and settlement systems* (CPSS (2005)) and *Principles for financial market infrastructures* (CPSS and IOSCO (2012a)). Among its activities, CPMI also maintains relationships with non-member central banks to share experiences and views and to promote the implementation of CPMI standards and recommendations beyond CPMI member jurisdictions, either directly or by supporting regional bodies as appropriate.

It is recognised that central banks take an interest in retail payments as part of their role in maintaining the stability and efficiency of the financial system. Although most retail payment systems are not considered systemically important, their potential weaknesses with regard to the safety, security, and effi-

35. The term "digital deposit-like stored-value product" as used in this White Paper includes e-money and other digital transactional platform account balances described in Part IV A, "Digital Financial Inclusion—Opportunities and Risks" that do not meet the definition of a deposit in the country in question. It does not include retail customers' repayable funds such as shares in a financial cooperative or loans from a retail customer to a financial institution that do not meet the definition of a deposit.

36. In September 2013, in light of its standard-setting activities and the associated greater public scrutiny, CPSS reviewed its mandate. The new mandate was approved by the Global Economy Meeting (bimonthly meeting of Governors of 30 BIS member central banks in advanced and emerging market countries), which also endorsed the renaming of CPSS to CPMI. Both changes became effective as of 1 September 2014.

BOX 2

OVERVIEW OF BCBS ACTIVITIES, PROCESSES, FORUMS, AND PUBLICATIONS RELEVANT TO FINANCIAL INCLUSION

Workstream on Financial Inclusion

In 2013, the BCBS approved the establishment of a standing Workstream on Financial Inclusion under the auspices of the BCG. The broad goal of the Workstream is to help the BCBS gain an in-depth understanding of the country context and constraints faced by both member and non-member jurisdictions and the unique market features associated with inclusive finance.[a] Its mandate calls for consideration of cross-sectoral issues to form an overall risk picture of financial inclusion as relevant to banking supervisors. The Workstream looks at the full range of financial products relevant to excluded and underserved customers that banks and other deposit-taking institutions deliver, given their potential impact on risk. It also considers issues related to consumer protection and anti-money laundering and combating financing of terrorism (AML/CFT), in both cases from the perspective of new risk exposures.

Range of Practice Survey

Upon its establishment, the BCG Workstream on Financial Inclusion commenced work on a range of practice survey on current regulatory and supervisory practices with respect to deposit-taking institutions and other financial institutions relevant to financial inclusion. The range of practice survey included questions on six categories of financial service providers, financial inclusion developments (including policy approaches to addressing financial inclusion and innovations in digital financial inclusion), current regulatory and supervisory approaches regarding the application of selected BCPs particularly relevant to financial inclusion, and financial consumer protection. Valid responses were received covering 59 jurisdictions across the income spectrum, representing every geographic region. Range of practice survey results include approximately 2,000 pieces of data from each respondent, including extensive narrative responses.

Range of Practice Report

Analyses of the survey results were summarised in *Range of practice in the regulation and supervision of institutions relevant to financial inclusion* (BCBS Range of Practice Report), published by BCBS in January 2015. The BCBS Range of Practice Report provides the most comprehensive snapshot to date of current regulatory and supervisory approaches towards the evolving landscape of deposit-taking financial institutions engaged in outreach to excluded and underserved customers.

Financial Inclusion Guidance

Building on the BCBS Range of Practice Report, the Workstream on Financial Inclusion has released a BCBS guidance paper consultative document, applying the revised BCPs to banks and other deposit-taking institutions engaged in activities relevant to financial inclusion. The guidance paper (final version expected to be approved in September 2016) examines the risks presented by supervised deposit-taking institutions and innovations in digital financial inclusion through the lens of the BCPs, guiding prudential supervisors in the application of a proportionate regulatory and supervisory approach. Guidance specific to non-bank deposit-taking institutions reinforces the importance of the proportionate regulation and supervision of such institutions (recognising that in some countries, non-bank deposit-taking institutions, while not systematically based on the value of funds they intermediate, may take on a systemic dimension based on the number and type of customers they serve).[b]

a. The BCBS's formal engagement on financial inclusion commenced in 2009, with a survey conducted to identify the range of practice in both BCBS member and non-member jurisdictions with regard to regulating and supervising microfinance activities by banks and other deposit-taking institutions. The survey informed the BCBS guidance *Microfinance Activities and the Core Principles for Effective Banking Supervision* (2010 Guidance), which applied the 2006 version of the BCPs to microfinance activities.

b. See also BCBS "General guide to account opening", Appendix IV in BCBS (2016), discussed in Part IV D, "Customer Identity and Privacy". Although the scope of this guide is much broader, it has implications for financial inclusion.

ciency of these systems could nonetheless impact the financial system and the economy. Accordingly, within its mandate, over the years CPMI has increasingly addressed issues in retail payments.

CPMI's work on retail payments issues also covers payment aspects related to financial inclusion, such as remittances and innovative retail payments and instruments most recently with the consideration of the role of non-banks in retail payments. Innovations in retail payments, in many contexts linked to financial inclusion, can raise policy issues for central banks. These may include the following:

- The need to collect data on innovations and their providers, which may at times require additional resources, new data collection methods, and collaboration with other authorities;
- Possible reform of the payments oversight function to address new providers and new operations associated with innovative products and services, including increased attention to non-banks;
- The need to reform central bank systems to keep up with the technology used in innovations or to support the reform of the payments system infrastructure, for example, to increase interoperability (see Part IV C, "Competition and Interoperability"); and
- Cooperation with other authorities that have responsibility over new providers involved in the provision of innovative services (such as the telecommunications authority) or responsibility for enacting new regulations.

Key Financial Inclusion Issues

Payment services are a component in the delivery of all other financial services. Expanding access to payment services can therefore be a critical enabler of financial inclusion. In recent years, advances in technology, innovation in business models, and new approaches to private-sector stakeholder engagement have created opportunities for rapid expansion in access to payment services.

The entry of new types of providers and arrangements offering new types of payment instruments and delivery channels raises issues for payment regulators and CPMI. In particular, digital transactional platforms—which may combine the functionality of a payment instrument with the value-storage capability of a transaction account—introduce new market participants, alongside banks and a widening array of non-banks (including non-financial firms such as MNOs). These new actors, which often use non-bank retail agents as the primary customer interface, bring with them risks (both new and well-known), as discussed further in Part IV A, "Digital Financial Inclusion—Opportunities and Risks".[37]

Additionally, for financial inclusion, interoperability of the predominately proprietary innovative systems with other retail payment systems as well as within the same payment stream or instrument are critically important for several reasons. Interoperability can potentially lower costs to providers, reduce entry barriers, and improve the value proposition of innovative digital financial services for financially excluded and underserved customers, which in turn can drive uptake and increase usage. (See Part IV C, "Competition and Interoperability".) Increased interoperability calls for central banks to consider the following:

- Broadening their focus to include new types of financial service providers, new products and services, and new business models;
- Introducing new tools for effective oversight of the new retail payment systems; and

37. As discussed in Part IV A, "Digital Financial Inclusion—Opportunities and Risks", when digital transactional platforms are used to offer additional financial services beyond payments and value storage, additional market participants are likely to be introduced, bringing with them additional types of risk to consider.

- Adjusting regulation as necessary to address new risks, addressing possible inconsistencies among the requirements applicable to different providers, and ensuring a level playing field for banks and non-banks.

CPMI's work in the area of retail payments includes due consideration of the policy goal of financial inclusion and seeks to support that objective, to the extent that the implementation of relevant CPMI standards and guidance leads to a larger share of the population benefiting from better quality payment services at a lower cost.

CPMI standards and reports address many issues that are central to financial inclusion, such as the following:

- *Cost-efficiency of payments,* encouraging central banks to foster availability of services that are most effective for the particular market by ensuring availability of efficient clearing and settlement services and by supporting the development of effective infrastructure arrangements that have the potential to reduce the costs for processing payments;
- *Safety and trust in money—and e-money—as the medium of exchange,* promoting safe clearing and settlement systems and safe payment instruments;
- *Innovation in retail payments* and the consequent encouragement to central banks to address legal and regulatory impediments to innovation;
- *Competitive payment markets,* calling on central banks to foster competitive market conditions and behaviours;
- *Promoting open and fair access to payment systems,* provided that adequate risk-mitigation measures are in place to ensure participants do not threaten the safety of the system;
- *Ensuring continued safety, reliability, and efficiency* of the national payments system through effective oversight;
- *Improvements in cross-border remittance markets,* through implementation of the *General principles for international remittance services* (CPSS and the World Bank (2007)); and
- *Promoting broader access to and usage of financial services,* through putting into practice the guiding principles presented in the Payments Aspects of Financial Inclusion (PAFI) Task Force consultative report, *Payment aspects of financial inclusion,* designed to assist countries that want to advance financial inclusion in their markets through payments (CPMI and the World Bank (2015)).

D. FINANCIAL ACTION TASK FORCE

The International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation: The FATF Recommendations (FATF (2012a)) sets standards for national regulation on anti-money laundering and combating the financing of terrorism and financing of the proliferation of weapons of mass destruction (generally referred to as AML/CFT), covering a broad range of financial service providers, as well as certain non-financial businesses and professions at risk of exploitation for financial crime. The FATF definition of "financial institution" is activity focused rather than institutional focused and covers the full range of products and providers relevant to financial inclusion.

BOX 3

OVERVIEW OF CPMI ACTIVITIES, PROCESSES, FORUMS, AND PUBLICATIONS RELEVANT TO FINANCIAL INCLUSION

Innovations in Retail Payments

In May 2012, CPMI issued a report titled *Innovations in retail payments*. The report, which catalogues innovative developments in retail payments in CPMI member countries, identifies common characteristics and appropriate ways of classifying innovations, elaborates on drivers for and barriers to innovation, and delineates potential issues and challenges for central banks. The report identifies financial inclusion as one of the factors for several types of innovations aimed at providing cheaper and/or simpler services, namely, (i) special limited-service bank accounts or prepaid accounts with non-banks; (ii) business correspondents/agents; and (iii) the use of mobile phones and payment cards as new means for transaction initiation and authentication (with smartcards enabling offline authentication).

The report notes that the role of non-banks is increasing and cooperation among various market players is gaining importance. In this context, central banks are, in most cases, no longer the only authorities with an interest in payments. The relevant authorities include oversight, supervision, and other market regulators. To address security, safety, solvency of providers, efficiency, innovation, and financial inclusion, cooperation is needed among the relevant authorities at the national and international levels, in both the financial and relevant non-financial sectors, including telecommunication regulators and competition authorities.

Non-banks in Retail Payments

In September 2014, CPMI published *Non-banks in retail payments*.[a] This report delineates four categories of non-banks in retail payments: (i) front-end providers, (ii) back-end providers, (iii) operators of retail payment infrastructure, and (iv) end-to-end providers.[b] It uses this categorisation as a framework for a review of the main factors influencing the presence of non-banks in retail payments: (i) increased competition, new technology, and the potential for cost-savings leading to more outsourcing of back-end services; (ii) changing customer needs and the competitive advantages that some non-banks have in providing front-end services (such as an MNO with its telecommunications access channel); and (iii) the regulatory environment, which may prevent non-banks from offering front-end services. The report then addresses the implications for efficiency and risk, describes the various regulatory and oversight approaches towards non-banks, and summarises the main issues for central banks and other authorities.[c] The report recognises non-bank involvement in payment services as a potentially enabling factor for achieving financial inclusion objectives.

The report's treatment of competition and cooperation issues is of particular relevance to financial inclusion. For example, competition from non-banks can result in financially excluded and underserved customers having access to payment instruments (or more attractive alternatives to payment instruments offered by banks), such as stored-value products offered by MNOs. Banks and non-banks can also cooperate to improve financial inclusion, such as the use by banks of non-bank agents to reach financially excluded and underserved customers. Finally, competition from non-banks can have a catalysing effect on banks' interest in financial inclusion.

Because the degree to which non-banks are involved in retail payments varies widely among jurisdictions, the report has not identified any single preferred approach central banks may take in relation to non-banks in retail payments. However, given the interest of central banks in retail payments and the growing importance of non-banks in providing retail payment services, the report suggests that central banks and other authorities may wish to note and consider the implications of the issues that are analysed in the report, including risk and level-playing-field issues, and take action as appropriate in their jurisdictions.

CPMI–World Bank Task Force on Payment Aspects of Financial Inclusion

CPMI and the World Bank Group created the Task Force on Payments Aspects of Financial Inclusion (PAFI Task Force) to analyse the role of payments and payment services in financial inclusion. The group was mandated to examine demand- and supply-side factors affecting financial inclusion in the context of payment systems and services, and to suggest measures that could be taken to address these issues. PAFI Task Force members are senior representatives from CPMI central banks, non-CPMI central banks active in the area of financial inclusion, the World Bank Group, IMF, and multilateral development banks. The PAFI consultative report, *Payment aspects of financial inclusion*, was issued in September 2015; a final version of the report will be published in 2016.

The analysis of the Task Force suggests that financial inclusion efforts should aim to promote access by individuals and businesses and their use of at least one transaction account operated by a regulated payment service provider. This account should allow them to fulfil most, if not all, of their payment needs, and to store some value safely; it should also serve as a gateway to other financial services.

The report outlines seven guiding principles designed to assist countries that want to advance financial inclusion in their markets through payments. These guiding principles are: (i) commitment from public and private sector organisations; (ii) a robust legal and regulatory framework underpinning financial inclusion; (iii) safe, efficient, and "widely reachable financial and ICT infrastructures"; (iv) transaction accounts and payment products that effectively meet a broad range of transaction needs; (v) availability of a broad network of access points and interoperable access channels; (vi) effective financial literacy efforts; and (vii) the leveraging

BOX 3 *continued*

of large-volume and recurrent payment streams, including remittances, to advance financial inclusion objectives (CPMI and the World Bank (2015, p 2)).

Digital currencies

The CPMI published a report titled *Digital currencies* in November 2015 (CPMI (2015)). The report notes that digital currencies, and especially those which have an embedded decentralised transfer mechanism based on the use of a distributed ledger, are an innovation that could have a range of impacts on various aspects of financial markets and the wider economy. These could include potential disruption to business models and systems, as well as facilitating new economic interactions and linkages. Currently, such schemes are not widely used or accepted, and they face a series of challenges that could limit their future growth. However, some digital currency schemes have demonstrated that their underlying technology could feasibly be used for peer-to-peer transactions in the absence of a trusted third party. Such technology may have potential to improve some aspects of the efficiency of payment services and financial market infrastructures in general. In particular, these improvements might arise in circumstances where intermediation through a central party is not currently cost-effective. This report highlights the possible implications of interest to central banks arising from these innovations.

Further Work on Retail Payments

A CPMI working group on retail payments is working on new developments in the field of retail payments, including faster payments.

a. The report defines a non-bank as "any entity involved in the provision of retail payment services whose main business is not related to taking deposits from the public and using these deposits to make loans". The definition thus excludes savings banks, financial cooperatives, and credit unions. However, the report would include the following institutions (even if they have a banking license) as a non-bank: "an institution whose primary business is accepting funds from customers to provide payment services, rather than using these deposits to make loans" and "an institution that in the course of its business offers payment services and extends credit, but does not accept customer deposits" (CPMI (2014, p 4)).

b. CPMI based its categorisation on the following three characteristics (although other characteristics were identified that are relevant to categorising non-banks in retail payments: payment instruments offered, ownership, and regulatory status): (i) the stage in the payment chain in which the non-bank is involved (pre-transaction creation of initial arrangements required for payment processing, authorisation, clearing, settlement, post-transaction); (ii) type of service provided (front-end and/or back-end); and (iii) relationship with banks.

c. The main issues are concentration and the ability of authorities to spot concentration issues; outsourcing-related challenges to oversight and risks posed to providers; operational complexity due to the multiple providers involved and the application of different regulatory requirements to non-banks (vs banks); consumer protection issues (privacy and data protection, unavailability of customer funds due to liquidity issues); level-playing-field issues; potential lack of influence of and input from non-banks on regulatory issues.

The FATF Recommendations set standards for action to be implemented by countries according to their particular risks and legal frameworks. They focus on the minimum that countries must do, but they are nevertheless ambitious and, in some cases, represent mutually agreed objectives rather than a description of current practice.

FATF, an inter-governmental body established in 1989, is organised as a task force-style body, the mandate of which is revisited from time to time by FATF members. Non-members are indirectly represented by nine FATF-Style Regional Bodies (FSRBs) that are associate members of FATF, representing jurisdictions in Africa, Asia and the Pacific, the Caribbean, Europe, Eurasia, the Middle East and North Africa, and Latin America. FATF also has 22 representative international bodies that serve as observers, including IMF, the World Bank, BCBS, IAIS, IOSCO, and the Organisation for Economic Co-operation and Development (OECD). The members and observers of FATF and the FSRBs are listed in Appendix A.

FATF and the FSRBs use a mutual evaluation mechanism to assess the extent to which their member countries have implemented the FATF Recommendations (see Part V A1, "FATF and FATF-Style Regional Bodies Mutual Evaluations"). The assessment process is also undertaken by the World Bank and IMF using the same standard evaluation methodology. All FATF and FSRB members have formally committed to implementing the FATF Recommendations and to participating in mutual evaluations of their compliance.

FATF publishes lists of countries that are assessed as having strategic AML/CFT deficiencies. The lists identify jurisdictions that other countries should subject to proportionate and effective risk mitigating countermeasures. Countermeasures may include enhanced regulation and supervision or even a limitation of business relationships with the identified country or persons in that country. The lists also identify jurisdictions that have not made sufficient progress in addressing AML/CFT deficiencies or have not committed to an action plan developed with FATF to address them. Financial institutions are generally required to apply enhanced due diligence measures to business relationships and transactions with persons, including financial institutions, from such jurisdictions. The countermeasures and general risk mitigation measures can have significant repercussions for listed countries.

Key Financial Inclusion Issues

FATF, Financial Exclusion Risk, and Financial Inclusion

Financial exclusion poses a threat to the objectives of FATF's mandate. Because financial inclusion brings more customers and transactions from the untraceable world of cash into the traceable world of formal financial services, it bears a highly complementary relationship to FATF's core objective of AML/CFT.

Applying an overly cautious approach to AML/CFT safeguards can have the unintended consequence of excluding legitimate businesses and consumers from the formal financial system, giving rise to financial exclusion-related integrity risks. Especially relevant are the following:

(i) The challenge of identifying and verifying the identity of poor, financially excluded, and often undocumented customers;

(ii) The challenge of servicing financially excluded or low-income persons posing a higher risk, for example, due to their customer profile or geographic location; and

(iii) The potential for AML/CFT compliance to increase the costs of delivering formal financial services to such customers.

In 2011, FATF recognised the relevance of financial inclusion as a means to mitigate financial exclusion risks to its broader financial crime combating objectives and issued a ground-breaking guidance paper *Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion* (FATF (2011)).[38]

This paper, revised in 2013 to reflect the 2012 FATF Recommendations,[39] recognised financial exclusion as a money laundering and terrorist financing risk—the first time that one of the SSBs has explicitly identified financial exclusion as an important risk. The paper guided countries and institutions to adopt AML/CFT measures that would advance financial integrity as well as financial inclusion utilising the limited flexibility afforded by the version of the FATF Recommendations adopted in 2003.

FATF's engagement with this theme deepened when it revised its standards in 2012 and when its views regarding the risks posed by financial exclusion

38. This paper was produced jointly with the World Bank and the Asia-Pacific Group, the FSRB for the Asia and Pacific region.
39. See FATF (2013a) for the revision.

were endorsed by the FATF Ministers. In their statement accompanying the renewal of FATF's mandate for 2012–2020 (FATF (2012b)), the Ministers acknowledged that financial exclusion represented a real risk to achieving effective implementation of the FATF Recommendations. Relevant risk mitigation measures are now present in the FATF Recommendations, its mutual assessment methodology, and guidance issued by FATF.

The 2012 Revised FATF Recommendations and Related Guidance

The revised FATF Recommendations strengthen and clarify FATF's risk-based approach (RBA) to AML/CFT regulation, supervision, and compliance. Previously the RBA was a policy option; in the revised FATF Recommendations, the RBA is mandatory and treated as fundamental to the design of AML/CFT regulatory and compliance measures.

The adoption of the RBA responds to the need for effective and efficient money laundering and terrorist financing risk mitigation. In recognition of the wide variation in country contexts, discussed in Part II C, "Greater Recognition of Three High-Level Themes", including variability among countries' and institutions' potential exposure to money laundering and terrorist financing risks, the RBA requires country-level policymakers and financial service providers to identify, assess, and understand their own specific risks and design appropriate risk-mitigation measures within the framework set by FATF (Lyman and Noor (2014)). The RBA in particular enables countries to adopt effective risk-mitigation measures that target their resources more effectively and apply preventative measures that are commensurate to the nature of risks in order to focus their efforts in the most effective way.

As outlined in FATF Recommendation 1, applying RBA requires countries to undertake comprehensive assessments that identify and assess the money laundering and terrorist financing risks faced by the country. FATF has provided non-binding guidance on how national risk assessments can be undertaken (FATF (2013b)). Different countries may therefore choose different ways to undertake comprehensive assessments, in a single process or a series of thematic or sectoral assessments, informed by a regional assessment where relevant. A similar risk assessment obligation extends to financial institutions, which are required to identify and assess the money laundering and terrorist financing risks relevant to their products, services, and customers.[40]

The relevance of FATF's RBA for financial inclusion lies in the potential to adjust AML/CFT requirements where risks are found to be lower. For example, countries are explicitly allowed to create limited exemptions from AML/CFT obligations where there is a proven low risk of money laundering or terrorist financing. They are also enabled to allow financial institutions to simplify their customer due diligence (CDD)[41] measures where risks are assessed as lower.

40. The World Bank has developed an analytical tool for countries seeking to conduct a self-assessment of their money-laundering/terrorist-financing risks at the national level that is now being used worldwide. (See description in World Bank (nd).) The national risk assessment (NRA) tool is delivered to countries through a technical assistance programme, with the World Bank providing guidance and support during the self-assessment period. The World Bank NRA tool (an internal document) contains a module on financial inclusion (Module 9, Financial Inclusion Product Risk Assessment Module (FIRM)).

41. Though FATF uses the term CDD, other SSBs generally use the analogous, yet conceptually distinct term "know your customer" (KYC). See, for example, CPSS (2012, p 34).

More basic CDD (called "simplified CDD" in this paper) is allowed within the framework of FATF Recommendation 10. CDD measures include customer identification and verification, identification and verification of beneficial ownership, understanding the purpose and nature of the business relationship and the ongoing scrutiny of the business relationship, and transactions to ensure that these are consistent with the institution's knowledge of the customer. When financial institutions assess the risk of their products, services, and customers, higher and lower risks will be identified. Where risks are assessed as higher, enhanced CDD measures must be applied; where risks are lower, countries may allow institutions to apply simplified CDD measures. FATF Recommendation 16, which addresses the requirements related to wire transfer activity, also allows countries to simplify CDD in relation to cross-border wire transfers where transactional value is below USD/EUR 1,000.

Of particular importance is that FATF's examples of potentially lower-risk situations reference the objective of financial inclusion: "Financial products or services that provide appropriately defined and limited services to certain types of customers, so as to increase access for financial inclusion purposes" are specifically noted as a potential example of lower risk products and services (FATF (2012a, p 65)). Where the risks of money laundering or terrorist financing are assessed as lower, countries may allow financial institutions to apply simplified CDD measures that are commensurate with the lower risk factors identified. FATF has recognised the following examples of CDD simplifications that may be appropriate, depending on the context and nature of the risks:

- Verifying the identity of the customer *after* establishing the business relationship, for example, if account transactions rise above a defined monetary threshold;
- Reducing the frequency of updating personal particulars of customers;
- Reducing the degree of ongoing monitoring and scrutinising transactions, based on a reasonable monetary threshold; and
- Not collecting specific information or carrying out specific measures to understand the purpose and intended nature of the business relationship, but inferring the purpose and nature from the type of transactions or business relationship established.

It is important to note that simplified CDD measures are not acceptable whenever there is a suspicion of money laundering or terrorist financing, or where specific higher-risk scenarios apply.

Mutual Evaluation Methodology

The relevance of financial exclusion risk is also reflected in FATF's country compliance assessment methodology for AML/CFT mutual evaluations. The *Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems* (2013 FATF Methodology) was adopted in February 2013 for application in the post-2012 round of evaluations (referred to as the "Fourth Round of Mutual Evaluations" for FATF member countries).

The 2013 FATF Methodology is used by FATF, FSRBs, IMF, and the World Bank to assess compliance by FATF and FSRB members[42] with the FATF Rec-

42. Occasionally non-members are assessed as well, via the FSAP umbrella (for example, the World Bank's recent assessment of Democratic Republic of Congo).

BOX 4

OVERVIEW OF FATF ACTIVITIES, PROCESSES, FORUMS, AND PUBLICATIONS RELEVANT TO FINANCIAL INCLUSION

General Guidance Papers

Following the adoption of the 2012 revised Recommendations, FATF embarked on a programme to revise relevant guidance papers and publish new guidance papers. FATF guidance is non-binding and does not override the purview of national authorities. The guidance papers do, however, provide important perspectives regarding FATF expectations and often provide examples of approaches from different FATF members.

From a financial inclusion perspective, the following are particularly relevant:

FATF Guidance—Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion (February 2013), jointly authored by FATF, the Asia Pacific Group on Money Laundering, and the World Bank,[a] is an updated version of the initial ground-breaking 2011 guidance paper that addressed a range of matters relevant to financial inclusion from an AML/CFT perspective. The paper provides support in designing AML/CFT measures that meet the national goal of financial inclusion without compromising the measures protecting the integrity of the financial system.

FATF Guidance—National Money Laundering and Terrorist Financing Risk Assessments (February 2013) supports the design of country-level risk assessments. The guidance is important to financial inclusion as an effective national risk assessment is vital to understanding country-level risks of money laundering and terrorist financing, enabling countries to develop an appropriate risk-based AML/CFT regulatory and supervisory approach.

FATF decided in October 2015 to draft a best practice paper on CDD and financial inclusion that will illustrate how its standards enable the alignment of financial integrity and financial inclusion objectives. The paper will highlight simplified due diligence measures that advance financial inclusion objectives while mitigating risks appropriately.

Risk-based Approach and Similar Sector-Specific Guidance

FATF also began reviewing its set of RBA guidance papers to bring them in line with the requirements of the revised FATF Recommendations, to reflect its new mandatory nature, and to incorporate the experience gained by public authorities and the private sector with an optional RBA over the years. The theme of financial inclusion runs throughout the RBA guidance papers developed thus far, generally with references made to the 2013 financial inclusion guidance paper. Relevant RBA guidance papers include the following:

Risk-Based Approach Guidance for the Banking Sector (October 2014) outlines the principles involved in applying the RBA to AML/CFT in banking. In a section devoted to financial inclusion, the guidance flags financial exclusion as one factor to consider in a holistic assessment of risk. As in the case of previous guidance, it notes that RBA may help foster financial inclusion, especially in the case of low-income individuals who experience difficulties in accessing the regulated financial system. FATF has stated explicitly that this guidance is to be read in conjunction with the financial inclusion guidance paper (FATF (2014b)).

Risk-Based Approach Guidance for Virtual Currencies (June 2015) discusses the potential that virtual currency-based products and services may have for financial inclusion and highlights that this should be taken into account by countries when considering how to regulate virtual currencies.

Best Practices Paper on Combating Terrorist Abuse of the Non-Profit Sector (Recommendation 8) (June 2015) highlights that countries should work with their financial sector and supervisory authorities to foster a mutual understanding of what constitutes appropriate implementation of the RBA in the context of the non-profit sector and should work towards facilitating financial inclusion objectives.

Guidance for a Risk-Based Approach: Money or Value Transfer Services (FATF (2016)) was issued in early 2016. In addition, work is underway on a paper addressing correspondent banking in relation to money or value transfer services.

a. See FATF (2013a). The 2013 publication was preceded by *Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion*, produced jointly with the World Bank and the Asia-Pacific Group, the FSRB for the Asia and Pacific region, in 2011 (FATF (2011)).

ommendations. While in the past countries were assessed primarily on technical compliance with the standards, the 2013 FATF Methodology complements the technical compliance assessment with an assessment of the *effectiveness* of the country's AML/CFT framework to mitigate its money laundering and terrorist financing risks. As part of the effectiveness assessment, assessors may, where relevant, probe aspects relating to financial exclusion risk, including financial inclusion policy and practices. (See Part V A1, "FATF and FATF-Style Regional Bodies Mutual Evaluations".)

E. INTERNATIONAL ASSOCIATION OF DEPOSIT INSURERS

IADI was formed in May 2002 to enhance the effectiveness of deposit insurance systems by providing guidance and promoting international cooperation for the benefit of those jurisdictions seeking to establish or improve a deposit insurance system. Members share their knowledge and expertise through participating in international training events, conferences, and other forums. IADI currently brings together 79 deposit insurers from 76 jurisdictions. IADI's members are listed in Appendix A.

Under the leadership of its Executive Council, IADI carries out its work via seven Standing Committees. In addition, Regional Committees have been created for Africa, Asia-Pacific, the Caribbean, Eurasia, Europe, Latin America, the Middle East and North Africa, and North America to reflect regional interests and common issues through the sharing and exchange of information and ideas, linking together jurisdictions facing common challenges.

The *IADI Core Principles for Effective Deposit Insurance Systems* and their compliance assessment methodology (IADI CPs), which were revised in 2014, set the global standard for best practices in deposit insurance. The IADI CPs are used by jurisdictions as a benchmark for assessing the quality of their deposit insurance systems and for identifying gaps in their deposit insurance practices and measures to address them. The IADI CPs are also used by IMF and the World Bank in the context of FSAPs to assess the effectiveness of jurisdictions' deposit insurance systems and practices. The IADI CPs are included among the FSB key standards for sound financial systems under the institutional and market infrastructure policy area.[43]

The IADI CPs are reflective of, and designed to be adaptable to, a broad range of jurisdictional circumstances, settings, and structures. They are intended as a framework supporting effective deposit insurance practices. National authorities are free to put in place supplementary measures that they deem necessary to achieve effective deposit insurance in their jurisdictions.

Deposit insurance systems form a critical component of a country's "financial safety-net", together with prudential regulation and supervision of deposit-taking institutions and lender-of-last-resort facilities.[44] IADI CP 4 provides that, in order to protect depositors and contribute to financial stability, "there should be a formal and comprehensive framework in place for the close coordination of activities and information sharing, on an ongoing basis, between the deposit insurer and other financial safety-net participants" (IADI (2014, p 23)). In as much as the relationships within domestic financial safety nets are influenced by the policy guidance and standards from SSBs, IADI's work is to be coordinated with that of BCBS on prudential regulation and supervision and that of FSB on financial stability, particularly with respect to resolution of deposit-taking institutions.

Research conducted by IADI in 2013 constituted a first important step in scoping deposit insurance practices in relation to the wave of innovations seen as important for advancing financial inclusion. Downstream from the November 2014 release of the revised IADI CPs, IADI will conduct further research, taking forward its financial inclusion agenda.

43. See discussion of FSB Key Standards in Part III A, "Financial Stability Board".
44. In many jurisdictions, a department of government (generally a Ministry of Finance or Treasury responsible for financial sector policy) is also included in the financial safety-net. See IADI (2014, p 9).

Key Financial Inclusion Issues

Deposit Insurance and Financial Inclusion

At the most basic level, deposit insurance can promote financial inclusion among the financially excluded and financially unsophisticated population by bolstering confidence in formal financial institutions. To promote financial inclusion, it is critical that the public be informed about safe places to store their money. For this reason, many deposit insurance systems conduct public awareness efforts designed to ensure that both insured and non-insured depositors are informed about safe methods of storing their money and promoting their use of banks and other insured deposit-taking institutions.

IADI members' mandates are focused on the policy objectives of depositor protection and financial stability. Deposit insurers commonly focus on protecting less financially sophisticated depositors, who are typically distinguished by the small size of their deposits and who are at an informational disadvantage compared with larger, more financially sophisticated depositors. Historically, as most deposit insurance systems have limited their membership to deposit-taking institutions supervised as banks (within supervisory regimes applying the BCPs), this focus on protecting less financially sophisticated depositors has tended to be viewed in the context of small-scale depositors' participation in the mainstream banking sector.

However, given the importance in many countries of non-bank deposit-taking institutions in reaching financially excluded and underserved customers,[45] financial inclusion raises the question of whether deposits in such institutions will be insured. The revised IADI CPs explicitly mention that they are applicable to deposit insurance systems covering/insuring "any entity which accepts deposits or repayable funds from the public and is classified under the jurisdiction's legal framework as a deposit-taking institution" (IADI (2014, p 8)). This must be read together with the pre-conditions to the IADI CPs, where it is noted importantly that the "strength of prudential regulation, supervision and the resolution regime influences the functions and effectiveness of a deposit insurance system" (IADI (2014, p 13)) and that "the system of prudential regulation, supervision and resolution should be in compliance with international standards" (IADI (2014, p 13)).

The 2014 revision of the IADI CPs addresses financial inclusion among the "Special Issues" relevant in applying the revised IADI CPs:

- Although in most jurisdictions promoting financial inclusion does not fall explicitly within the mandate of the deposit insurer, deposit insurers should make efforts, in the context of following the IADI CPs, to stay abreast of financial inclusion initiatives and associated technological innovations occurring in their jurisdictions, particularly those affecting unsophisticated small-scale depositors.

45. "While most [non-banks providing deposit-taking services to poor and low-income customers] are small, in some jurisdictions they collectively manage a significant proportion of assets of the domestic financial sector or serve a significantly large number of customers" (BCBS (2015, p 20)).

- The role of deposit insurance in promoting financial inclusion, for example, the extension of coverage to digital deposit-like stored value products[46] (discussed below) should be undertaken with the strong engagement of, and coordination with, supervisory authorities and other financial safety net participants.
- Public awareness campaigns should adequately address what types of deposits and money transfer vehicles are covered by deposit insurance and what types are not, in order to minimise potential confusion among small-scale depositors and financial service providers alike.

IADI's work on financial inclusion highlights eight issues likely to be relevant to deposit insurance, notwithstanding the wide variation in country contexts (IADI (2013)):

- Balancing encouragement of innovation and control of risk for depositors;
- The scope of protection in an evolving financial inclusion landscape;
- Engagement with other financial safety-net participants;
- The relationship of the deposit insurer with non-bank institutions;
- Inclusion-related innovation among existing deposit insurance system members;
- The importance of public awareness;
- Funding expansion of deposit insurance coverage to new provider types and new products; and
- Resolution (for deposit insurers with resolution authority, especially in the case of deposit insurance systems expanded to cover new providers or new products).

Digital Deposit-Like Stored-Value Products

The emergence and potentially rapid scaling of digital deposit-like stored-value products in many EMDEs, of great importance to financial inclusion (as noted in Part IV A, "Digital Financial Inclusion—Opportunities and Risks"), triggers the question of their treatment for deposit insurance purposes. Such products, and the sometimes complex combinations of providers that offer them, present challenges for deposit insurers as to whether to insure, affecting the design and performance of entire deposit insurance systems.[47] These challenges include, but are not limited to: (i) the determination of what products and institutions are covered by the deposit insurance system; (ii) the adequacy of resources and funding of the deposit insurance system to respond to the potential expansion of coverage and membership; (iii) the adequacy of public awareness programmes to convey which products are insured and which are not; and (iv) the capacity of supervisors to monitor risk management of these products.

To date, three general approaches to deposit insurance for digital deposit-like stored-value products have been adopted by jurisdictions considering the matter: (i) a *direct approach,* where such products are considered insured deposits and their providers are direct members of the deposit insurance sys-

47. Even when offered by banks, such products are likely not to be insured unless concerted steps have been taken to bring them within the deposit insurance system.

BOX 5

OVERVIEW OF IADI ACTIVITIES, PROCESSES, FORUMS, AND PUBLICATIONS RELEVANT TO FINANCIAL INCLUSION

IADI Financial Inclusion and Innovation Subcommittee

The IADI Financial Inclusion and Innovation Subcommittee, under the Research and Guidance Committee, provides a forum for engaging on issues related to deposit insurance and financial inclusion, as well as the innovations in deposit and deposit-like products capable of reaching excluded and underserved customers sustainably and affordably.[a]

Survey on Deposit Insurance, Financial Inclusion, and Innovation

In 2011, the Subcommittee conducted a survey of IADI members to identify the range of practices among its members on issues related to financial inclusion and deposit insurance. Survey results indicated that IADI members, particularly EMDEs, are giving thought to the challenges of extending deposit insurance coverage to non-bank deposit-taking institutions and deposit-like products that have demonstrated potential to reach financially excluded customers.

Report on Financial Inclusion and Deposit Insurance

In 2013, the Subcommittee published a research paper, *Financial Inclusion and Deposit Insurance,* that summarises the results of both an extensive literature review on financial inclusion and deposit insurance and the 2011 survey. This research paper finds that the definitions of "insurable deposits" in jurisdictions responding to the survey appear broad enough potentially to include such innovations in delivery as digital deposit-like stored-value products, as long as the innovations are provided by eligible members of the deposit insurance system. At the same time, however, only about a quarter of deposit insurers said they explicitly cover e-money products and prepaid cards, whereas about a third said they explicitly do not cover them. Another interesting finding is that in four out of five respondents indicating that the formal definition of a "deposit" changed in response to financial inclusion innovations or activities, the change referred to the adoption of the "exclusion approach", meaning the exclusion of digital deposit-like stored value products from the definition of insured deposit.[b]

The research paper offered four recommendations: (i) conduct a financial inclusion review of the IADI CPs (which was done in the context of their 2014 revision); (ii) stay abreast of local financial inclusion initiatives and developments and potential implications for deposit insurers (ongoing by the Subcommittee); (iii) focus on the role of public awareness in financial inclusion initiatives; and (iv) consider opportunities to promote information sharing among deposit insurers on financial inclusion best practices.

Further Work of the Subcommittee

Subsequent to the release of the revised IADI CPs, the Subcommittee renewed its focus on innovation in deposit insurance systems, launching a work programme that includes examining conditions for coverage of digital deposit-like stored value products. An important area for future research includes the viability of the "indirect approach", or pass-through deposit insurance, to cover digital deposit-like stored-value products. Coordination of this work with the issuance by BCBS of new guidance on financial inclusion is timely, given IADI CP 4's call for the close coordination among financial safety-net participants.

a. The Subcommittee was established in 2010 as the Financial Inclusion Subcommittee and was subsequently renamed the Financial Inclusion and Innovation Subcommittee in recognition of the role that innovation and technology is playing in expanding financial access among the poor, particularly in EMDEs.

b. Whether to treat such products as savings products or simply as a fund transfer or payment channel is identified by the IADI financial inclusion research as an issue of special concern to deposit insurers. The research notes that such products are increasingly being used as savings vehicles.

tem; (ii) an *indirect approach,* where deposit insurance coverage passes through a custodial pooled account holding all customer funds and indirectly insures each individual customer who is the ultimate owner of funds; or (iii) an *exclusion approach,* where digital deposit-like stored-value products are explicitly excluded from coverage under the prevailing regulatory framework.[48]

In a rising number of jurisdictions where such products are present in the market along with conventional bank deposits or are proposed, the decision regarding which approach to follow raises many context-specific policy questions. These questions regarding the choice of general approach include, among

48. These approaches correspond to explicit policy decisions and differ from the scenarios where policymakers allow providers to offer deposit-like stored-value products during an interim period of observation and monitoring of the market before a deposit insurance approach is adopted, or where policymakers do not adopt any approach and legal uncertainty prevails.

others, whether the current legal regulatory framework is adequate to convey clearly to the public the level and type of coverage, if any, provided to new digital deposit-like stored-value products; the choice of general approach is also affected by numerous operational challenges regarding the implementation of the legal framework by deposit insurers, such as the adequacy of funding (particularly where digital products are growing in scale quickly) and whether the scope of relevant resolution regimes extends clearly to the full array of bank and non-bank actors involved.

The rapidly evolving offer of digital deposit-like stored-value products has challenged an increasing number of jurisdictions to decide on the appropriate response on deposit insurance coverage. IADI's members, in turn, may expect to be given guidance from IADI on how the possible coverage of these products or the extension of deposit insurance membership to new categories of providers offering such products relate to compliance with the IADI CPs.

F. INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

Established in 1994, the IAIS represents insurance regulators and supervisors from more than 200 supervisory authorities in approximately 140 jurisdictions that comprise all levels of economic and insurance market development and constitute 97 per cent of the world's insurance premiums. IAIS's members are listed in Appendix A. The mission of IAIS is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe, and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability.

The Insurance Core Principles (ICPs)[49] provide the globally accepted framework for supervision of the insurance sector, applicable in all jurisdictions regardless of the level of insurance market development. The ICPs are reviewed on a systematic basis (within a continuous cycle of standards development, compliance assessment through self-assessment by IAIS members, implementation activities by members and partners, and review). The ICPs underwent a major revision in October 2011, and subsequent amendments have been adopted. A comprehensive review is currently underway, including a re-examination of the concept of proportionality, of particular relevance to financial inclusion (as discussed further below).

IAIS's broad membership brings in the perspectives of EMDEs, many of which have identified financial inclusion as a key policy objective and a number of whom face significant financial inclusion challenges. To support its members in applying the ICPs in a proportionate manner that supports financial inclusion, IAIS has established a standing Financial Inclusion Working Group to discuss issues and challenges related to building inclusive insurance markets. Additionally, the IAIS and development partners established an implementation partner for inclusive insurance market development and

49. The ICP material is presented according to a hierarchy of supervisory material: (i) principle statements, which prescribe the essential elements that must be present in the supervisory regime in order to promote a financially sound insurance sector and provide an adequate level of policyholder protection and (ii) standards, which set out key high-level requirements that are fundamental to the implementation of the ICP statement. Guidance material typically supports the ICP statement and/or standards, providing detail on how to implement an ICP statement or standard.

related capacity building with insurance supervisors, the Access to Insurance Initiative (A2ii). A2ii has been designated as the IAIS key Implementation Partner for inclusive insurance market development and for supporting supervisory capacity building.

In 2013, IAIS adopted a Coordinated Implementation Framework, which identifies steps that IAIS can take to encourage and support regional implementation activities; orient Implementation Partners to the key challenges facing insurance supervisors by strengthening relationships with key Implementation Partners, including A2ii; maximise the benefit of IAIS's unique perspective in implementation; and incorporate an implementation perspective into standard-setting activities.

As is the case with other SSBs' highest-level standards, the ICPs are used by IMF and the World Bank in conducting FSAPs. In addition, following the 2011 revision of the ICPs, the IAIS launched a Self-Assessment and Peer Review process, which directly supports its mission of promoting effective and globally consistent insurance regulation and supervision through facilitating greater understanding of the ICPs. (See Part V A2, "Self-Assessments by FSB and SSB Members and Peer Reviews".)

Key Financial Inclusion Issues

Financial inclusion is seen as directly relevant to IAIS's mission to develop and maintain fair, safe, and stable insurance markets for the benefit and protection of policyholders and contribute to financial stability. Indeed, the insurance market development aspect of IAIS's mandate, coupled with its very broad membership—many of which have high current levels of financial exclusion, particularly with respect to insurance—make financial inclusion a fundamental priority for IAIS.

Microinsurance, Inclusive Insurance, and Formalisation

Historically, within IAIS, financial inclusion has been synonymous with the concept of microinsurance, defined as "insurance that is accessed by the low-income population, provided by a variety of different entities, but run in accordance with generally accepted insurance practices (which should include the Insurance Core Principles)" (IAIS (2007)). The 2012 *IAIS Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets,* discussed further below, refers to the broader concept of inclusive insurance to cover those concepts that go beyond microinsurance as a particular product.[50] Since the inception of its work in the area of inclusive insurance, IAIS has recognised two distinct classes of relevant issues: (i) those applicable to the extension of insurance products by conventional insurers to reach excluded customers; and (ii) those applicable to bringing existing informal providers of insurance products (which abound in communities around the world where financially excluded and underserved households reside) into compliance with the ICPs and ultimately under supervision. Both these classes of issues trigger important

50. "Inclusive approaches usually include innovations in product design, coverage and service delivery as well as product sizes. Consequently, what is often considered to be 'microinsurance' is addressed in this application paper but the concepts go beyond 'microinsurance' as a particular product to address inclusive insurance markets" (IAIS (2012)).

questions of proportionate regulation and supervision to facilitate financial inclusion, and the latter revolves fundamentally around the practical and regulatory challenges of formalisation.[51]

Prominence of Mutuals, Cooperatives, and Community-Based Organisations

In its work on inclusive insurance, IAIS has consistently recognised the existence of mutual, cooperative, and other community-based insurers, both formal and informal, in the large majority of its member jurisdictions. It has also recognised that these types of insurers are often more accessible to financially excluded and underserved market segments. At the same time, they also tend to present distinct challenges to insurance supervisors from both a prudential and market conduct perspective, particularly in markets where they are small, numerous, and geographically remote.

Government Involvement

Many governments have been increasingly recognising the need for protection of their population against a variety of risks. They are frequently responding to the lack of private sector engagement and the lack of demand for insurance products through government subsidies and state involvement. This involvement can radically change market dynamics. The challenges insurance supervisors often reckon with relate to multiple factors. For example, there can be distortive or weakening effects on private sector development associated with unfair competition from government actors, resulting in an unlevel playing field. There is also frequent uncertainty as to the sustainability of services, especially when they depend on subsidies and they lack controls.

Aggregators as Mass Distribution Channels

Recently, non-financial intermediaries have become a significant mass distribution channel. Mass distributers, also called client aggregators, are acting as agents or group policyholders. By their nature, they are providers of another product or service, for example MNOs, utility companies, pawnshops, bill-payment spots, employers, churches, pharmacies, or funeral parlours. They tend to drive product design and increasingly dominate the partnership because they bring in the client base and already "own" the client relationship. There are obvious opportunities because of the ability to achieve scale; however, there are also certain risks. For example, the bargaining power of the mass distributer may be associated with disproportionately high commissions, and training and controls on their sales staff may affect the quality of sales and servicing.

Insurance via Mobile

As is the case of other SSBs, IAIS faces a changing landscape with regard to financial services providers (and their business models), product innovations, and the rapid adoption of technologies in delivery models, as discussed in Part IV A, "Digital Financial Inclusion—Opportunities and Risks". In the case of insurance, market expansion with the advent of "mobile microinsurance"

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51. These include the organisational challenges of transformation and the regulatory challenges of the formalisation approach taken, for which several options may exist, depending on the context: becoming a licensed insurance underwriter, insuring via a group policy provided by a licensed insurer, or becoming an agent for a licensed insurer.

among financially excluded and underserved populations has been particularly dramatic and rapid in a surprising number of countries, particularly in sub-Saharan Africa (Tellez and Zetterli (2014)).

Insurance sold through or with MNOs triggers new issues for IAIS. New business models, using non-traditional insurance distribution channels, such as so-called "freemium" life insurance bundled with pre-paid airtime packages to encourage customer loyalty to the MNO, with additional coverage purchasable via mobile, raise novel challenges for supervisors. For example, the incentives and market clout of the intermediary are likely to be quite unlike traditional insurance intermediaries, and the insurer may be the "junior partner" to the scheme. Many novel market conduct and consumer protection questions also arise, as discussed in Part IV B, "Frontiers in Inclusive Financial Consumer Protection". Moreover, supervision of such offerings requires cooperation and coordination with other non-financial regulators and supervisors and government departments, such as telecommunications commissions and ministries, and they potentially introduce a new scale of risks in relation to insurance supervisory objectives. The success of mobile distribution has now meant that financial consumer protection risks have increased, as very large numbers of new customers can be impacted by undesirable outcomes, effectively "poisoning the well" for the very concept of insurance.[52] (See Part IV B, "Frontiers in Inclusive Financial Consumer Protection".)

The insurance market development and financial inclusion potential of mobile microinsurance must be weighed against these challenges. In some countries, the market, measured by the number policies, has more than doubled within a matter of months, and compelling anecdotes support the value to customers in terms of reduced vulnerability.[53]

Identified Financial Inclusion Challenges in IAIS Member Jurisdictions

In 2013, the IAIS, in partnership with A2ii, conducted an assessment on financial inclusion. Self-assessments by IAIS members carried out with support from IAIS and A2ii have identified certain common challenges faced by insurance supervisors in adopting regulatory frameworks and supervisory practices supportive of inclusive insurance markets.[54] These include challenges relating to policy, legislation, and regulation, as well as supervision-related challenges:

Policy, Legislation, and Regulation

- Not all jurisdictions have a policy/strategy on financial inclusion, very few of those that do mention insurance, and even fewer have a specific mention of the role of supervisors;
- Legislative frameworks do not address microinsurance;
- The mandate of the supervisor in relation to financial inclusion is not always clear; and
- Statutory minimum capital requirements offer little or no flexibility.

52. Partnership risk is an example of a significant potential threat. See Leach and Ncube (2014).
53. See "Regulators Consider Benefits, Challenges of Financial Inclusion", video shown at the Second GPFI Conference on Standard-Setting Bodies and Financial Inclusion, hosted by the Financial Stability Institute, Basel, 30–31 October 2014.
54. The Self-Assessment and Peer Review report on financial inclusion is forthcoming.

BOX 6

OVERVIEW OF IAIS ACTIVITIES, PROCESSES, FORUMS, AND PUBLICATIONS RELEVANT TO FINANCIAL INCLUSION

History of IAIS on Financial Inclusion

In late 2005, IAIS became the first of the SSBs to establish a formal mechanism to consider financial inclusion issues, co-founding a joint working group on regulation and supervision of microinsurance (together with the Regulation, Supervision, and Policy Working Group of the Microinsurance Network).[a] In 2009, A2ii was established to (i) strengthen the capacity and understanding of insurance supervisors, regulators, and policymakers; (ii) facilitate their role as key drivers in expanding access to insurance markets; and (iii) support the implementation of sound policy, regulatory, and supervisory frameworks consistent with international standards. It was restructured in 2013 and 2014 to align it more closely with IAIS, and was appointed as IAIS's Implementation Partner for inclusive insurance. The A2ii's roadmap and annual work plan are developed jointly with the IAIS. IAIS established a Financial Inclusion Subcommittee under its Implementation Committee in 2012, which was elevated to the status of standing Working Group in the context of IAIS's restructuring in 2014.

Application Papers

IAIS application papers provide additional guidance material related to one or more ICPs or other IAIS binding standards, such as examples or case studies that help practical application of supervisory material. The following application papers have particular relevance to financial inclusion:

Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets (IAIS (2012)): This important follow-up paper to the 2011 revision of the ICPs provides guidance to insurance supervisors looking to implement the ICPs in a manner that protects policyholders, contributes to local and global financial stability, and enhances inclusive insurance markets. This is the core document in IAIS's financial inclusion work. It recognises the importance of technology-based distribution as one of a range of innovations, and suggests criteria for fostering technical innovations (such as formalisation, facilitation of innovations, enabling pilots, and the adoption of proportionate approach). The work plans of IAIS and of A2ii are built from this application paper.

Application Paper on Combating Money Laundering and Terrorist Financing (IAIS (2013a)): This application paper reflects the FATF Recommendations on simplified CDD in lower-risk cases. It provides examples of lower risk of institutional types, of products and services and channels, as well as of country risk factors, providing examples of simplified CDD measures.

Application Paper on Approaches to Conduct of Business Supervision (IAIS (2014)): This application paper underscores that financial inclusion can be part of the mandate for conduct-of-business supervision, and discusses whether a conduct-of-business mandate includes responsibility for financial inclusion.

Application Paper on Mutuals, Cooperatives, and Community Based Organisations (forthcoming): This application paper, to be based on the 2010 IAIS issues paper on the same topic, will provide guidance on the proportionate application of the ICPs in the context of this distinctive class of insurers of unique relevance to financially excluded and underserved market segments.

Other Supervisory Guidance on Financial Inclusion, Recent and under Preparation

IAIS and A2ii have issued or plan to issue a range of other guidance documents and have conducted or plan to conduct convenings on the following topics of relevance to financial inclusion:

Issues Paper on Conduct of Business in Inclusive Insurance (IAIS (2015b)): This IAIS issues paper, approved at the IAIS Annual Conference in November 2015, offers an overview of the issues of conduct of business in inclusive insurance markets that affect the extent to which customers are treated fairly, recognising the increased vulnerability of the typical customer in this market segment. The paper is based on the typical characteristics of the business and distribution models that have emerged in inclusive insurance.

Issues Paper on Regulation and Supervision of Microtakaful (Islamic Microinsurance) (IAIS and Islamic Financial Services Board (2105)): A joint issues paper of IAIS and the Islamic Financial Services Board, *Issues in Regulation and Supervision of Microtakaful* (Islamic Microinsurance), was approved in November 2015.

Issues Paper on Index-Based Insurance (forthcoming): An IAIS issues paper on index-based insurance will address issues for supervisors around innovations in this type of insurance of high relevance to financially excluded and underserved market segments.

Case Studies on Proportionality in Practice: At the request of the IAIS's Implementation Committee, A2ii is preparing three case studies on proportionate approaches used by supervisors to implement the ICPs. The case studies are expected to be completed in 2016.

A Decade of Learning on Inclusive Insurance Supervision: In December 2014, IAIS, together with CGAP and A2ii, organised an expert symposium to capture lessons learnt over a decade of IAIS engagement on regulation and supervision of inclusive insurance.

BOX 6 *continued*

Inclusive Insurance Online Supervisor Training: In partnership with A2ii and the Financial Stability Institute (FSI), IAIS has developed a training module on inclusive insurance that now forms part of the FSI online learning tool, FSI Connect.

Self-Assessments and Peer Reviews

In 2013, A2ii, together with IAIS, developed a self-assessment and peer review tool based on the 2012 *Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets*. Forty-six countries participated. The assessment identified the common challenges facing insurance supervisors outlined above. (See Part V A2, "Self-Assessments by FSB and SSBs and Peer Reviews".)

a. At the time of the formation of the Joint Working Group, the Microinsurance Network existed as the CGAP Working Group on Microinsurance.

Supervision

- A significant amount of insurance is still provided through the informal sector;
- There is limited proportionate application of supervisory requirements for entities providing microinsurance;
- There is limited cooperation and information exchange with other supervisors within their jurisdiction; and
- There is limited flexibility to adjust supervisory approaches for non-traditional intermediaries.

The assessment also demonstrates significant challenges remaining in equipping supervisors to understand their role in enhancing financial inclusion, such as identifying impediments in their legal framework, eliminating unnecessary supervisory requirements, and ensuring that all insurance is provided through the formal sector. The results from this assessment have also equipped A2ii and IAIS with insights into steps that can be taken to enhance financial inclusion. A follow-up assessment is planned in the coming years.

ICPs, Proportionality, and Financial Inclusion

The ICPs call for regulatory and supervisory measures that are appropriate to attaining the supervisory objectives of a specific jurisdiction and that do not go beyond what is necessary to achieve those objectives—in short, they should be proportionate. It is also recognised within the ICPs that supervisors need to tailor certain supervisory requirements and actions in accordance with the "nature, scale, and complexity" of individual insurers (IAIS (2013, p 5)). This broad, overarching concept of proportionality allows space for both regulation and supervision that promote inclusion.

IAIS tackled this issue in its 2012 *Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets*. This paper notes that not all of the ICPs carry equal importance to the promotion of inclusive insurance markets. The ICPs considered to be the most relevant are those relating to government policies and supervisory objectives (ICP 1), licensing (ICP 4), intermediaries (ICP 18), and business conduct (ICP 19). Many of the other ICPs relating to the operation of insurers are also relevant, particularly as they recognise the need for proportionality.

The re-examination of the concept of proportionality in the context of the ICP review underway offers an important opportunity to reinforce inclusive insurance under the broader framework of IAIS standards and guidance. Currently, an ICP Review Task Force and an IAIS Implementation Committee subgroup are looking across the board at the use and meaning of "proportionality". IAIS will review how the ICPs incorporate the principle of proportionality over the course of 2016. Any proposed changes would be presented in 2017.

G. INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

Established in 1983, IOSCO is the global standard setter for the securities sector, bringing together the world's securities regulators. It develops, implements, and promotes adherence to internationally recognised standards for securities regulation and works intensively with the G20 and the FSB on the global regulatory reform agenda.

IOSCO's membership regulates more than 95 per cent of the world's securities markets in approximately 120 jurisdictions. The membership represents a broad spectrum of markets of various levels of complexity and development and of different sizes, operating in different cultural and legal environments. The IOSCO Growth and Emerging Markets Committee is dedicated solely to EMDEs. The Committee comprises 97 member jurisdictions (which constitute more than three-quarters of the overall membership). IOSCO's membership is listed in Appendix A.

The *IOSCO Objectives and Principles of Securities Regulation* (IOSCO Principles) (IOSCO (2010)) are the globally accepted overarching core principles in securities regulation that guide IOSCO members in developing and implementing internationally recognised and consistent standards of regulation, oversight, and enforcement to support sound and stable capital market development. They set out 38 principles of securities regulation, based upon three objectives: protecting investors; ensuring that markets are fair, efficient, and transparent; and reducing systemic risk.

IOSCO places importance on its engagement with other SSBs. This is appropriate given the often blurry lines among insurance, securities, and savings instruments and the prevalence of regulatory arbitrage among banking, insurance, and securities providers.[55] As the global standard setter in the securities arena, IOSCO plays a leading role on a number of topics relevant to financial inclusion, which include but are not limited to, investor protection and education, suitability requirements for the distribution of securities and other financial products, point of sale (POS) disclosure, protection of client assets, and most recently, crowdfunding.

Key Financial Inclusion Issues

IOSCO's work, both on its own and in cooperation with other global bodies, contributes directly or indirectly to financial inclusion in a range of ways. Many involve crosscutting issues of interest to multiple SSBs and are discussed in Part IV.[56] Among the topics of greatest direct relevance to the responsible delivery of

55. These points tend also to hold true vis-à-vis private pensions.
56. See, particularly, Part IV B, "Frontiers in Inclusive Financial Consumer Protection" and Part IV E, "Crowdfunding—Bypassing Traditional Financial Intermediaries".

formal financial services to the financially excluded and underserved are IOSCO's work to support sound and stable capital market development in EMDEs and its increasing engagement on retail investments and investors. This engagement includes the establishment of its Committee on Retail Investors (discussed below). IOSCO has also pursued work on market-based SME finance, crowdfunding, impact of digitisation and innovation on capital markets, and social media and retail investing.

Sound and Stable Capital Market Development in EMDEs

Sound and stable capital market development—at the heart of IOSCO's mission—contributes to overall financial inclusion in a number of direct and indirect ways. Capital markets play a critical role in economic development through the efficient allocation of domestic and international savings into productive investments; they allow a diversification of the financial system through local currency offerings and offer a cost-effective investment and distribution channel for direct retail participation. They facilitate equity and debt financing for small and medium enterprises (SMEs) and for financial institutions focusing on financial inclusion, such as microfinance institutions (MFIs); they also finance long-term housing mortgages and facilitate management of pension systems. Retail investment products intermediated through sound and stable capital markets also allow retail investors to manage financial risks and build up financial reserves.

Yet in many EMDEs, capital markets remain underdeveloped or are non-existent. This is an issue of broad concern—and a motivating force behind IOSCO's largest committee, the Growth and Emerging Markets Committee—as capital markets serve as an important source of financing for the real economy where they are deep, liquid, and well-regulated. Moreover, post-global financial crisis reforms to the banking sector have helped to trigger increased interest in market-based financing mechanisms. (See Part III A, "Financial Stability Board", for a discussion of shadow banking.)

Retail Investments and the Financially Excluded and Underserved as Investors

A more recent broad front of IOSCO engagement that is of direct relevance to financial inclusion is the fast-growing body of work focused on retail investments and the investors who purchase retail products. At first glance, securities may not seem like a financial product of great relevance to the lives of the financially excluded and underserved. Experience in EMDEs is increasingly refuting this conclusion. Some reasons include the following:

- As observed, blurry lines separate insurance, securities, and structured savings instruments, and distinctions recognised for the already served customers of higher income countries may not apply to financially excluded and underserved customers in EMDEs. Moreover, as also observed, regulatory arbitrage across banking, insurance, and securities sectors is prevalent, leading to choices among licensing options based more upon perceived regulatory and supervisory burden (or lack thereof) than customers' needs and best interest.
- In a number of members of IOSCO's Growth and Emerging Markets Committee, well-regulated and deep retail securities markets are already a reality. The rapidly scaling innovations of digital financial inclusion (see Part IV A, "Digital Financial Inclusion—Opportunities and Risks") mean these mar-

kets will soon be accessible (if they are not already) to an increasing number of currently financially excluded or underserved customers.

- Securities and related financial products are being offered increasingly across borders, including in EMDEs. The use of internet and digital delivery lowers or removes national boundaries, which in turn raises investor protection concerns and need for international cooperation in enforcement and exchange of information among regulators. In this context, the IOSCO Multilateral Memorandum of Understanding, which is the international benchmark for cross-border cooperation and the most commonly used tool for cooperation and exchange of information in the financial sector, serves a very important function.
- There is a dearth of appropriately designed long-term savings products and short-term products with attractive (but viable) yields available to financially excluded and underserved customers in many, if not most, markets.

In 2013, IOSCO created its Committee on Retail Investors (Committee 8) in the context of its policy work, recognising that securities regulation and supervision are increasingly relevant to retail consumers of financial services. The Committee has a primary mandate to conduct IOSCO's policy work on retail investor education and financial literacy[57] and a secondary mandate to advise the IOSCO Board on emerging retail investor protection matters and conduct investor protection policy work. As investor protection is one of the three objectives of the IOSCO Principles, IOSCO sees investor protection as a prerequisite for effective financial inclusion, which can only flourish in a well-regulated market operating free from abusive practices.

The complex character of securities transactions and misconduct risk through fraudulent schemes (whether complex or simple) require strong enforcement of relevant laws. Where a breach occurs, investors should expect to be protected through strong enforcement of the law. Beyond the developed countries' mis-selling scandals, such as that of complex bonds called contingent convertible securities in the UK and the massive fraudulent investment schemes such as the Madoff affair, fraudulent investment schemes are of concern to many EMDEs, and the risk is there in a larger number of countries. This emphasises the importance of IOSCO's growing engagement in investor protection and education, as well as work to identify credible deterrence in a fast-changing landscape.

57. See Annex 2 of IOSCO (2014c). IOSCO recognises the importance of investor education and financial literacy programmes for enhancing investor protection, confidence, and engagement, as being complementary to the traditional tools of regulation, supervision, and enforcement, while noting also that behavioural economics research shows that investor education does not necessarily guarantee that investors will always make better and rational investment decisions. Likewise, investor education itself will not be enough to avoid fraud, which can damage retail investor confidence in markets.

BOX 7

OVERVIEW OF IOSCO ACTIVITIES, PROCESSES, FORUMS, AND PUBLICATIONS RELEVANT TO FINANCIAL INCLUSION

The following recent and ongoing IOSCO activities and guidance projects have relevance for financial inclusion:[a]

Market-Based SME Finance

The IOSCO Task Force on the Financing of SMEs through Capital Markets, under the Growth and Emerging Markets Committee, published a report in June 2015, *SME Financing Through Capital Markets* (IOSCO (2015)), which highlights regulatory and other challenges facing SMEs in small-business capital formation, explores the ways in which securities regulators can overcome these challenges, and develops recommendations. IOSCO also published a report in September 2014 that was prepared for the G20 Finance Ministers and Central Bank Governors to examine recent novel examples of capital market solutions in developed and EMDE markets that have contributed to the financing of SMEs (as well as infrastructure projects); the report identifies innovative structures and products that provide practical solutions to broadly recognised challenges for financing of SMEs (IOSCO (2014b)).

Improving Regulatory Capacity in Retail Context

Recognising the importance of building regulatory capacity of securities regulators from EMDEs, IOSCO has set up a Board Chair-led committee for capacity building to focus specifically on how the capacity-building activities are to be resourced and improved. IOSCO is working intensively to share expertise and knowledge among regulators and help its Growth and Emerging Markets Committee members through capacity building and education and training efforts. During its annual meeting in January 2016, for example, the Growth and Emerging Markets Committee held a public conference on three important topics: "SMEs as engines of growth in emerging markets"; "Strengthening corporate governance in emerging markets"; and "Digitisation—transforming financial products, services and markets".

The Growth and Emerging Markets Committee also held a first-time regulatory exercise on cyber-attack simulation for its members involving participants across more than 40 jurisdictions. The exercise focused specifically on the role of securities regulators when dealing with cyber-attacks on regulated entities.

Point-of-Sale Disclosure

In February 2011, IOSCO published *Principles on Point of Sale Disclosure*, which analyses information asymmetries that can put retail investors at all income levels at a disadvantage, focusing on information disclosures to retail investors and their distribution before the POS in the context of Collective Investment Schemes (IOSCO (2011)). The report further touches on the impact of different cross-sectoral approaches to POS disclosure.

Suitability

In light of the global financial crisis, IOSCO reviewed the suitability requirements relating to securities intermediaries' distribution of complex financial products to retail and non-retail customers, such as standards for intermediaries to assess whether a particular product matches the investment knowledge, experience, objectives, and risk tolerance of a customer. IOSCO published a set of principles designed to promote robust customer protection in connection with the distribution of (broadly defined) complex financial products by intermediaries. *Suitability Requirements With Respect to the Distribution of Complex Financial Products* (IOSCO (2013)) offers guidance on how the applicable suitability requirements should be implemented.

Social Media and Retail Investing

The use of social media and the automation of advice tools raise retail investor protection concerns. IOSCO recently published its findings on "the use of social media" and "automation of advice tools" in its *Report on the IOSCO Social Media and Automation of Advice Tools Surveys* (IOSCO (2014a)), which is based on industry and regulatory surveys.

The report presents survey results on the use of social media and automated advice tools in capital markets, and how regulators oversee the use of these tools and technologies. In the case of automated advice tools, it appears that some market intermediaries are delivering specific advice and recommendations to investors exclusively through the use of automated tools. IOSCO findings show that intermediaries are generally using these tools to assist with their suitability and KYC obligations (IOSCO (2014a)). The IOSCO Board is also considering follow-up work on automation of advice tools given the importance of the subject matter which was first analysed in its 2014 report.

a. IOSCO's work on crowdfunding is discussed in Part IV E, "Crowdfunding—Bypassing Traditional Financial Intermediaries".


PLUS

IV.

EVOLVING TOPICS OF RELEVANCE TO MULTIPLE STANDARD-SETTING BODIES

As observed in Part II, during the short span of time since the 2011 GPFI White Paper, financial inclusion-related topics of relevance to multiple SSBs have increased in number and grown in importance.[58] During this period, the SSBs have also increasingly recognised and acted upon the need to collaborate in addressing the regulatory and supervisory issues raised by these topics, in keeping with calls from the G20 Leaders and the UNSGSA, the G20 Financial Inclusion Action Plan, and GPFI supporting documents (GPFI (2013), Caruana (2014), and GPFI (2014a)).

Much of the change since 2011 accompanies the evolving phenomenon of "digital financial inclusion"—that is, the digital innovations in the delivery of financial services designed to reach the financially excluded and underserved. Part IV therefore begins with an introduction to these innovations and their opportunities and risks, highlighting how these are relevant to the mandates, standards, and guidance of the SSBs. Discussion then turns to six topics of importance to financial inclusion and the regulation of institutions engaged in the design and offering of these innovations, concluding with a broad discussion of supervision. Each of the topics touches on the work of more than one of the seven bodies discussed in Part III.

A. DIGITAL FINANCIAL INCLUSION— OPPORTUNITIES AND RISKS

Overview

Banks and other financial and non-financial institutions are rapidly developing new ways of partnering to provide financial services to excluded and underserved customers. Beyond the development and spread of microfinance over the past decades, which involved such innovative approaches as microcredit and microinsurance methodologies, and beyond centuries-old ways of addressing poor peoples' financial service needs such as financial cooperatives, the new wave of innovation that uses digital technology in the design and delivery of

58. The 2011 GPFI White Paper addressed three topics of crosscutting relevance to multiple SSBs: innovations involving e-money and agents, financial consumer protection for the financially excluded and underserved, and formalisation of informal providers. Each of these topics continues to be relevant to some or all of the SSBs, although there has been significant evolution in the case of the first two. The regulatory and supervisory issues regarding innovations and financial consumer protection are therefore probed in greater depth in Part IV A, "Digital Financial Inclusion—Opportunities and Risks" and Part IV B, "Frontiers in Inclusive Financial Consumer Protection". The issues with respect to the formalisation of informal providers remain largely the same as those raised in the 2011 GPFI White Paper.

BOX 8

KEY ELEMENTS OF A DIGITAL FINANCIAL INCLUSION MODEL

A digital financial inclusion model aimed at offering financially excluded and underserved customers a range of financial services involves four key elements:

- *A digital device:* either a mobile phone or a payment card plus a POS device that transmits and receives transaction data;
- *Agents:* individuals, retail stores or outlets, or automated teller machines where customers can put cash in (that is, convert cash into digitally stored value or make a digital payment or transfer) and take cash out (for example, withdrawing from a digital stored-value account or receiving a digital remittance or other transfer or payment);[a]
- *A digital transactional platform:* which (i) enables payments, transfers, and value storage through the use of the digital device and (ii) connects to an account with a bank or non-bank permitted to store electronic value; and
- The *offer of additional financial products and services* through the combination of banks and non-banks (including potentially non-financial institutions), leveraging digital transactional platforms.

a. While automated teller machines are not "agents" in the legal sense, they provide the same or similar cash-in and cash-out functionality in many markets. Agents diminish in importance as customers begin to rely increasingly on cashless digital transactions.

Source: GPFI (2014b)

financial services is a fundamentally different approach to reach the excluded and underserved.[59]

"Digital financial inclusion" refers broadly to the use of digital financial services to advance financial inclusion. It involves the deployment of digital means to reach financially excluded and underserved populations with a range of formal financial services suited to their needs, delivered responsibly at a cost affordable to customers and sustainable for providers.

Digital financial inclusion starts with a transactional platform that combines the functionality of a payment instrument with that of a value-storage account and has the potential to be accessed by customers through potentially any retail establishment. Via such platforms, a rapidly widening array of financial services, specifically targeting excluded and underserved market segments, are being offered: savings, credit, insurance—even investment products.

Although digital financial inclusion models differ widely and often involve, in varying capacities, multiple bank and non-bank parties (including non-financial firms), they can be grouped according to the provider of the customer's account:[60]

59. The innovations now spreading in many EMDEs build on the digital approaches that have been used for years to improve access channels for those already served by the formal financial sector in developed economies.

60. In GPFI (2014c, pp 17–20), four notional models of digital transactional platform are described, also based on the party providing the customer's account: (i) a bank offering basic transaction accounts accessed via POS terminal or mobile; (ii) a limited-service bank with basic transaction accounts accessed via POS terminal or mobile; (iii) an MNO e-money issuer; and (iv) a non-bank, non-MNO e-money issuer. In this White Paper the groupings are reduced to two based on whether or not the account provider is prudentially regulated and supervised as a type of bank.

Bank account provider: Within this grouping, a prudentially licensed and supervised institution that is recognised as a bank under the laws of the country in question is the account provider. The bank may be a full-service commercial bank, but the account is typically a limited transactional account,[61] and the bank works with third parties, such as a payments processor or MNO that provides digital access to customers via its retail outlets and agents. A third party may also manage the accounts.[62] Alternatively, the bank could be a limited-service bank provided for under specialised regulation.[63] In some cases, the funds held in such accounts, whether the bank in question is a full-service or limited-service bank, are not considered bank deposits but a separate product: e-money.

Non-bank account provider: Within this grouping, a non-bank such as an MNO (or its subsidiary or affiliate) issues e-money, and customer accounts are limited in their functionality to payments, transfers, and value storage, often subject to transaction limits. In some cases, a bank has set up a non-bank subsidiary to issue the e-money. In other cases, regulation requires a non-financial firm such as an MNO to set up an e-money issuing subsidiary.[64]

Whether a bank or a non-bank is the account provider, non-financial firms are often the driving force behind digital financial inclusion. Where additional financial products are offered via digital means—savings, credit, insurance, or investment products—partnerships emerge that are often driven by the interests and incentives of the non-financial firms, particularly in the case of MNOs.[65]

Digital innovations are not only enabling financial institutions to reach customers in remote, hard-to-reach areas, including women (who globally figure disproportionately among those financially excluded and underserved),[66] but they are also reducing the cost of such financial services to the provider. The provider may pass such cost savings on to the customer, increasing affordability and usage. For the customer, in addition to reducing the costs associated with transacting in cash and providing easier access, digital financial services can reduce the risks of loss and theft posed by cash-based transactions and the reliance on often risky and expensive informal financial services.[67] Governments as

61. Such "simplified" or "basic" accounts provide customers the ability to make payments, transfers, and store value, often subject to transaction limits and value caps.
62. As explained in GPFI (2014c, p 17), "Having such accounts managed on an external system can be extremely cost effective and may be a driving factor in the profitability of the model. The accounts are highly transactional and require large bandwidth and throughput of the core banking system, which is typically very expensive. In addition, it is difficult and costly to implement new products in legacy core banking systems. Finally, accounts hosted in core banking systems are subject to accounting rules and reporting requirements that are typically more expensive to comply with than the requirements applied to a simplified account or e-money account".
63. Such limited-service banks go by different names depending on the country, such as "niche bank" or "payments bank". These new types of banks provide excluded and underserved customers with access to such a limited transactional account via the bank's digitally connected agents, who may be managed by a third-party agent network manager.
64. A bank or other prudentially regulated and supervised deposit-taking institution is typically required by law to be involved in the back-end as holder of funds of the e-money issuer's customers. In some countries, the legal requirement is that the funds be placed in safe and liquid investments.
65. For example, to reduce "churn" and encourage customer loyalty, some MNO e-money issuers have teamed up with licensed insurance companies to offer insurance bundled with prepaid airtime.
66. See World Bank et al (2015) for a full discussion of the potential of digital financial services to increase women's financial inclusion and advance their economic participation.
67. Transacting in cash can involve high costs given the distances that may need to be travelled (for example, to make a bill payment or collect a remittance), requiring time and transportation expenses. Informal finance can also pose risk of loss, for example, through theft, if a payment is made by sending funds with a bus driver and the driver is robbed or fails to deliver the payment).

well as large employers are seeing potentially vast cost and other advantages to digitisation of payments such as salaries and social benefits.[68]

In most cases, the digital financial services that first drive uptake are payments, such as person-to-person (P2P) transfers; person-to-business (P2B) payments for utilities and other bill payments; and business-to-person (B2P) or government-to-person (G2P) transfers for salaries, social benefits, and other bulk transfers. In the month of December 2014, for example, there were 717.2 million transactions by mobile phone totalling USD 16.3 billion (George et al (2015, p 40)). (This excludes the massive volumes of transactions using other digital communications such as cards and POS devices, for which there is no comprehensive data source.) Over time, unless regulatory or other barriers stand in the way, as customers' experience with and trust in the digital transactional platforms grows, they may use digital transactional platforms increasingly to store value for later use.[69] When tailored savings, credit, and insurance products are offered via digital transactional platforms, uptake has been rapid in multiple markets.[70]

Risks Emanating from Five Distinguishing Factors in Digital Financial Inclusion

Payment cards and POS networks coupled with agents provided the infrastructure for the first massive digital transactional platforms and remain dominant in many markets.[71] This approach raised a limited range of new issues on top of well-understood questions in electronic funds transfer in conventional retail banking. More recently, growth in digital financial inclusion has involved mobile phones for the simple reason that mobile penetration driven by voice and data markets has made the infrastructure available in most areas of the world without any required additional infrastructure investment.[72] Widespread mobile phone usage, however, does not translate into widespread understanding—by the consumer, provider, regulator, or supervisor—of the risks of using the mobile phone for payments and value storage, let alone for accessing other, potentially much more complex, financial services.

Digital financial inclusion presents new or shifting operational, settlement, liquidity, credit, consumer, and AML/CFT risks.[73] (New opportunities for fraud, both an operational risk and a consumer protection risk, are a particular concern in the financial inclusion context.) These risks are due primarily to five distinguishing factors:

68. See, for example, http://betterthancash.org/why-e-payments/cost-savings/.
69. The IADI financial inclusion research discussed in Part III E, "International Association of Deposit Insurers", notes that such products are increasingly being used as savings vehicles (IADI (2013)).
70. See "Regulators Consider Benefits, Challenges of Financial Inclusion", video shown at the Second GPFI Conference on Standard-Setting Bodies and Financial Inclusion, hosted by FSI, Basel, 30–31 October 2014, regarding rapid uptake with Bangladeshi payment service provider bKash. bKash reached 11 million accounts 30 months after its launch in 2011. See Chen (2014).
71. Brazil was the first country in which banks used agents extensively to expand the reach of financial services. As a result, all 5,564 municipalities were served by 2008. See CGAP (2010) and CGAP (2008). However, even today, in Brazil, bill payment remains the dominant financial service accessed by customers via the use of bank agents.
72. As of July 2015, there were 7.5 billion mobile phone connections and 3.7 billion unique subscribers (www.GSMA.org). As of December 2014, there were 255 mobile-phone based financial services for unbanked populations across 89 countries. See George et al (2015). There is significant room to expand as the penetration rate in developing markets was approximately 45 per cent (at end 2014) compared to 79 per cent in developed markets.
73. See GPFI (2014c) for a more detailed discussion of risks presented by digital financial inclusion.

(i) **New providers and new combinations of providers:** The new providers, including non-bank e-money issuers (whether MNOs or others) and limited-service banks (such as those that have no branches and deal with customers primarily through agents and digital means), are handling the public's funds. Although their risk profile is more limited than full-service commercial banks, setting proportionate requirements for licensing and regulation and determining the best approach for supervision is challenging with new institutional types, especially when they are relying on other financial and non-financial firms for important aspects of their business and are potentially expanding and increasing in number rapidly.

Partnerships that involve multiple parties (for example, an MNO and an insurer) in digital delivery of financial services can also mean a lack of transparency, including vis-à-vis treatment of consumers and in gaps in oversight by the primary provider of its partners and other third parties and by the supervisor of the provider.[74] Issues of liability, dispute resolution, redress, and enforcement of rules also arise when a financial product is delivered by one type of provider (such as an MNO) but resides on the balance sheet of another (such as a commercial bank or insurer). Having multiple providers also increases the risks regarding data security and privacy. These issues are particularly challenging if the providers involved in offering or delivering a product are subject to different consumer protection rules or supervision.

(ii) **Digital technology:** Digital financial services rely (sometimes exclusively) on digital means of communication from the offering and delivery of a product through the entire product life cycle, including complaints. The digital technology may vary in quality, impacting data privacy and security. Hacking risks, including the vulnerability of cheap smart phones to malware, give rise to concerns about data security. In addition, mobile networks and digital transactional platforms that are unreliable due to network vulnerabilities or technology quality can result in inability to transact—for example, due to lack of connectivity or lost payment instructions due to dropped messages.

(iii) **Use of agents:** Agents and agent networks introduce new risks, many of which are due to the physical distance between agents and the provider or the agent network manager and the resulting challenges to effective training and oversight and recourse mechanisms. (These challenges can be exacerbated by high turnover rates, which make training and controls less effective.) This in turn introduces increased risk of fraud and theft, lack of transparency (such as on pricing, terms, and recourse) and abusive treatment of customers (including overcharging), poor cash management by the agent, and failure to handle customer data confidentially. In addition, agents may not be well-trained on (or may for other reasons fail to comply with) AML/CFT rules regarding performing customer due diligence, handling records, and reporting suspicious transactions.

(iv) **New products and services and their bundling:** Digital financial inclusion typically introduces new products and services (which are often similar to existing products and services but with adjusted terms and

74. See Part IV G, "Emerging Issues in Supervision and Financial Inclusion", regarding supervisory issues triggered by multiple partners, including non-financial firms.

conditions). Digital financial services are also likely to be offered in bundles—potentially with both financial and non-financial products or services. Mobile financial services, for example, bundle voice, messaging, and data services with financial services; digital delivery may bundle payments with credit, savings, and insurance. In the latter case, there may be more than one service provider (for example, insurance delivered via a digital transactional platform will involve an insurance company and the payments provider) with the distribution and delivery being undertaken by only one provider—typically, the payments provider. In addition to lacking choice, customers may not be able to determine the prices of the individual products and may not even be aware that multiple providers are involved.

(v) Financially excluded and underserved customers: Customers that are the target of digital financial inclusion are, by definition, inexperienced with formal financial services and often are not familiar with the use of digital technology beyond the use of mobile phones to make calls. They may have limited literacy and numeracy. This often results in customers sharing their personal identification number (PIN) and their card or phone. These customers may also not be aware of their own rights as consumers (assuming that these are in place and enforced) and are vulnerable to abusive treatment by providers and their agents. Such negative experiences may result in customers exiting the formal financial system altogether.

SSBs and Risks Emanating from Five Distinguishing Factors in Digital Financial Inclusion

Many of the risks emanating from the five factors that distinguish digital financial inclusion are of concern to multiple SSBs, and many have already been touched upon in their work discussed in Part III. Representative examples across FSB and the six SSBs appear in Table 1, "Digital Financial Inclusion: Some Risks, Triggers, and Relevance to FSB and SSBs", and the text that follows.

For **FSB,** "over-compliance" resulting from the inability or reluctance of regulators or financial institutions to apply a risk-based approach and adopt simplified CDD in the case of lower-risk digital financial services contributes to the financial exclusion risks that are relevant to FSB's misconduct work.

TABLE 1: Digital Financial Inclusion: Some Risks, Triggers, and Relevance to FSB and SSBs

RISKS AND TRIGGERS	FSB	BCBS	CPMI	FATF	IADI	IAIS	IOSCO
Operational risks, including fraud and the loss of customer funds, data security, privacy ***triggered by*** *use of agents and new technology (security/reliability issues)*		X	X	X	X	X	X
Settlement risk and other risks (credit, liquidity, operational) ***triggered by*** *entry of non-banks into payment system*			X			X	X
Consumer protection risks (including fraud) ***triggered by*** *new providers, agents, and profile of excluded and underserved customers*	X	X	X		X	X	X
Money laundering and terrorist financing risks, including financial exclusion risk of "over-compliance" ***triggered by*** *inability or reluctance of regulator or financial institution to apply simplified measures (using risk-based approach), new non-bank providers, agents*	X	X	X	X	X	X	X

For **BCBS,** the operational risks (such as loss of customer funds, data security, and data privacy) related to the use of agents and new technologies and the new providers and partnerships among banks and non-banks are a concern for prudential supervisors.[75] BCBS is also concerned with the safety of customer funds held by new providers (such as e-money issuers).[76] Finally, BCBS is concerned with keeping crime out of the banking system and the financial system more broadly, which involves ensuring that financial institutions know their customers (through CDD and monitoring) and report suspicious transactions to the appropriate authority (BCBS (2016)). (See also Part IV D, "Customer Identity and Privacy".) Conversely, the concept of proportionality—a cornerstone of the BCPs as revised in 2012—as well as the BCBS's commitment to observe FATF Recommendations trigger an interest in avoiding over-compliance in the case of lower-risk transactions involving the financially excluded and underserved (Chatain et al (2009, pp 176–8) and de Koker and Symington (2014)).

For **CPMI,** the concerns posed by digital financial inclusion may involve the participation of non-banks in payment schemes and the interoperability of non-bank payment systems with bank payment systems. In addition, other relevant concerns include issues related to international remittances, in particular addressing country AML/CFT risks that can threaten international remittance corridors. (See Part IV F, "De-risking and Financial Exclusion".)

FATF's primary concern in digital financial services is with money laundering and terrorist financing risks. Digital financial inclusion often calls for the application of the RBA to products involving non-face-to-face account openings and the use of agents to interact with customers, including potentially important roles in CDD, records handling, and suspicious transaction reporting.

For **IADI,** digital financial inclusion raises many of the same concerns as for BCBS, including the safety of customer funds for non-bank providers and the potential lack of appropriate supervision. In addition, the risk of customer confusion as to whether customers' e-money balances and other deposit-like products are insured is particularly relevant to IADI.

For **IAIS,** consumer protection is a key issue and digital financial inclusion presents various new or shifted risks. The use of agents who do not meet traditional standards of insurance intermediaries as the primary interface with the customer can introduce transparency, pricing, and recourse risks, among others. Digital financial inclusion also frequently involves the bundling of insurance products with other financial products such as e-money, and in the case of mobile phone-based digital transactional platforms, insurance products are typically bundled with a non-financial product—prepaid airtime. This introduces transparency and disclosure-related concerns, among others. This type of bundling also requires the insurance supervisor to understand the non-insurance products and their risks and to coordinate with other regulators in addressing them.

For **IOSCO,** the risks associated with the digital sale of investments to the financially excluded and underserved inherently revolve around the consumer's understanding of the product and the risk of loss of funds. Effective disclosure and offering of products to suitable financial customers are critical to ensure pro-

75. BCBS released in December 2015 a consultative document for its guidance paper on the application of the BCPs to bank and non-bank institutions offering financial services to the financially excluded and underserved, including digital financial services (BCBS (2015c)). See Part III B, "Basel Committee on Banking Supervision—Financial Inclusion Guidance".
76. This is addressed in the BCBS consultative document (BCBS (2015c)).

tection and fair treatment of the retail financial consumer. This calls for regulators to adjust and upgrade their market surveillance, supervision, and enforcement activities and systems to cope with the changing financial market landscape.

Digital Financial Inclusion and Technical Standard Setting

In addition to the issues raised of relevance to the mandates of FSB and the six financial sector SSBs discussed in Part III, digital financial inclusion also implicates questions of core interest to a different type of standard-setter not discussed directly in the 2011 GPFI White Paper: those that set technical standards for electronic funds transfer, telecommunications, and other technologies employed across the array of business models being used in digital delivery of financial services to the financially excluded and underserved. These technical SSBs, long critical players in the back-end of mainstream financial services, are also increasingly engaged in work of explicit and central importance to digital financial inclusion and the crosscutting issues discussed in Part IV below. The technical standards that they set foster interoperability, transparency, security, and safety of financial services, as well as customer convenience and trust. Key actors of relevance in technical standard setting are introduced in Box 9, "Some Key Setters of Technical Standards".

The technical standard setters relevant to financial inclusion differ substantially from the financial sector SSBs discussed in Part III in their history, their membership, the driving motivations for their work, and their ways of working. Most significantly, they generally rely upon voluntary uptake of their standards and guidance, frequently driven by the shared commercial interests of private sector participants. Societal factors, such as safety and security, supported by a broad range of stakeholders may also play a significant role in uptake. It is not uncommon for regulators to require observance of key technical standards, though the technical SSBs tend to view this more as validation of the utility of the standards in question than an explicit objective of their work.

A comprehensive examination of technical standards developed by these and other bodies of relevance to financial inclusion falls beyond the scope of this White Paper. Four topics of particular importance to digital financial inclusion—and to the crosscutting issues discussed in Part IV below—are: (i) standards for identifying legal entities that are parties to financial transactions (to overcome the current fragmented system of firm identifiers by creating a common, consistent identifier for financial institutions); (ii) standards addressing the security of financial transactions; (iii) standards on mobile financial services; and (iv) standards promoting, facilitating, or enabling interoperability. A summary of technical standard-setting work on these topics is presented in Appendix B, "Some Technical Standard Setting of Relevance to Financial Inclusion".

Regulatory and Supervisory Responses to Digital Financial Inclusion

Regulators are learning about digital financial inclusion in their own countries and globally. However, there is still limited—albeit increasing—experience with the new types of institutions (such as non-bank e-money issuers and limited-service banks) and new delivery channels (such as agents and mobile phones), new arrangements involving non-financial providers that support digital finance and digitally delivered products and services. Many of these may be similar to existing products and services but differ in critical respects, triggering a corresponding need to reconsider regulatory and supervisory frameworks.

BOX 9

SOME KEY SETTERS OF TECHNICAL STANDARDS

Key actors in technical standard setting of relevance to financial inclusion include the International Organization for Standardization (ISO), the International Telecommunications Union (ITU), and industry arrangements among payment service providers—such as EMVCo, the Payment Card Industry (PCI) Security Standards Council, and the Fast IDentity Online (FIDO) Alliance.

ISO: ISO is the world's largest developer of voluntary international standards. An independent, non-governmental membership organisation, ISO membership comprises 162 national standards bodies. The members are national standards organisations, which are often government agencies, but in some countries may be private sector organisations or non-governmental organisations. ISO has introduced over 20,000 standards covering almost every industry—from technology, to food safety, agriculture, healthcare, and financial services. Numerous ISO standards are widely used in the delivery of formal financial services, and recent and current standards development projects are of specific relevance to digital financial inclusion. Standards specific to mobile financial services are currently under development.

ITU: ITU is the United Nations (UN) specialised agency for telecommunications, information, and communication technologies (ICT). It allocates global radio spectrum and satellite orbits, develops the technical standards to ensure the interconnectedness of networks and technologies, and works to improve worldwide access to ICT, including by underserved communities. ITU membership comprises both public and private sector representatives: 193 countries (governments) and almost 800 private-sector entities and academic institutions, who together comprise ICT regulators, academic institutions, technology and telecommunications companies, and other regional and international organisations. In December 2014, ITU launched a Focus Group on Digital Financial Services.[a] The Focus Group activities target innovations in payments and delivery of financial services via digital channels with the aim to develop toolkits, principles, and guidelines to help national policymakers and regulators to fast track policy reform and stimulate the offering and adoption of digital financial services. The findings of the Focus Group are intended to help develop international recommendations in specific areas of digital financial services.

EMVCo: EMVCo is a consortium of six payment brands—American Express, Discover Financial Services, Japan Credit Bureau (JCB), MasterCard, UnionPay, and Visa. It was established in 1999 to facilitate worldwide interoperability and acceptance of secure payment transactions by managing and evolving special technical standards—the EMV Specifications—and related testing processes. Activities include card and terminal evaluation, security evaluation, and management of interoperability issues. The EMV smart chip is among EMVCo's most important contributions to security in digital financial services, given its capacity to hold encrypted data, perform cryptography, and generate a unique code that is assigned to each transaction.

PCI Security Standards Council: The PCI Security Standards Council is an open global forum, launched in 2006 by five global payment brands: American Express, Discover Financial Services, JCB, MasterCard, and Visa International. It is responsible for developing, managing, and building awareness of the PCI Security Standards and supporting materials aimed at enhancing payment card data security. The five founders are joined by an industry-elected Board of Advisors panel in governing the Council, giving input into the strategic direction of the various standards, and carrying out the other work of the organisation. Other industry stakeholders may join the Council as Strategic or Affiliate members, and Participating Organisations join in reviewing proposed additions or modifications to the standards.

FIDO Alliance: The FIDO Alliance is a non-profit organisation established in 2012 to address the lack of interoperability among strong authentication devices[b] and the problems users face with creating and remembering multiple usernames and passwords. Founded by PayPal and Lenovo, the FIDO Alliance has more than 150 members.

a. http://www.itu.int/en/ITU-T/focusgroups/dfs/Pages/default.aspx
b. Strong authentication solutions commonly involve a physical device (eg token) used together with a password to prove the owner's identity. See SafeNet (nd).

Most regulators are in the early stages of assessing the risks and adjusting their regulatory and supervisory approaches.

The following sections address the critical regulatory and supervisory issues raised by digital financial inclusion on the following crosscutting issues: financial consumer protection, competition and interoperability, customer identity and privacy, crowdfunding, de-risking and financial exclusion, and emerging supervision issues.

B. FRONTIERS IN INCLUSIVE FINANCIAL CONSUMER PROTECTION

Overview

The global financial crisis underscored the link between financial consumer protection and financial stability. In response, the G20/OECD Task Force on Financial Consumer Protection (of which FSB, IAIS and IOSCO are members)[77] developed the *G20 High-level Principles on Financial Consumer Protection* (OECD (2011)) in close cooperation with other international organisations and SSBs, and consumer, industry and civil society organisations, as well as two sets of Effective Approaches to support the implementation of the 10 High-Level Principles, submitted to the G20 in 2013 and 2014, respectively (OECD (2013) and OECD (2014)). Responding to the need for better interaction and for greater collaboration among supervisory bodies tasked with financial consumer protection, the International Financial Consumer Protection Organisation (FinCoNet) was formally established in 2013. FinCoNet, which convenes supervisory authorities charged with financial consumer protection supervision,[78] aims to develop, promote, and monitor best practices and effective approaches on market conduct and consumer protection, with a focus on consumer credit and banking, including through research and information exchange, thus contributing to advancing the G20 agenda on financial consumer protection.

An important aspect of the increased focus on financial consumer protection internationally has been the growing recognition, noted in the 2011 GPFI White Paper, that financially excluded and underserved customers present distinctive financial consumer protection challenges as compared with the "already served". Many flow from the characteristics of the customers themselves: limited experience with formal financial institutions and services, lower levels of education (including possibly illiteracy and innumeracy), and general lack of financial capability.[79] Given these disadvantages, these customers may face challenges in understanding the products and services offered, as well as their rights and responsibilities as financial consumers. Poor and low-income customers also have limited capacity to absorb losses, so the potential negative consequences of bad financial decisions are high. The challenges, however, are not only from the demand side: as discussed in Part IV A, "Digital Financial Inclusion—Opportunities and Risks", challenges also flow from innovative digital approaches to reaching such customers.

77. The International Organisation of Pension Supervisors (IOPS) is an active member of the Task Force, and several GPFI Implementing Partners are observers.
78. IAIS is an observer member.
79. The World Bank defines financial capability as the internal capacity to act in one's best financial interest, given socioeconomic environmental conditions. It encompasses the knowledge, attitudes, skills, and behaviours of consumers with respect to understanding, selecting, and using financial services, and the ability to access financial services that fit their needs.

Risks and Opportunities of Digital Financial Inclusion for Financial Consumer Protection

Many risks associated with financial services are inherently challenging for consumers to assess and manage. Digital financial inclusion can elevate existing risks and create new challenges to effective consumer protection.[80] The five factors identified above that distinguish digital financial inclusion—new providers and combinations of providers, digital technology, providers' use of agents, new and bundled products and services, and characteristics of excluded and underserved consumers, including their lack of experience with formal financial services and digital technology—all potentially contribute to the challenge.

As a result of these factors, financially excluded and underserved consumers of digital financial services may find it difficult to compare and choose products, to understand terms and conditions and the providers (and combinations of providers) offering them, to use services confidently and safely, and to resolve problems when they arise. Additional potential consumer risks can derive from the digitally delivered product itself (such as products not suitable to the customers, or over-indebtedness in the case of digitally delivered credit) or from the way the product is delivered (such as mis-selling by agents with limited or no knowledge about products offered and underlying risks). These risks, separately or in combination, may adversely affect trust in the product or formal finance more generally, or may result in actual economic losses, leading customers to "re-exclude" themselves and return to informality. (See Box 10 for a list of some of the financial consumer protection challenges raised by digital financial inclusion.)

Digital financial inclusion can also reduce consumer risks and provide new means to mitigate them. Examples include the following:

- Lowered risk of loss from carrying cash or storing it insecurely;
- Potentially greater confidentiality in obtaining loans and other financial services if underwritten remotely and delivered directly to a customer's digitally accessed account;
- Potential to automate POS disclosure (reducing or eliminating risk that required disclosures will not be given);
- Recourse mechanisms relying on the same digital communication channels by which services are delivered and are therefore potentially more convenient and accessible;
- Innovations that improve security and identification measures, such as biometric ID, creation of unique financial IDs, cards with chips instead of magnetic stripes, which reduces ID theft risks; and
- Graphic and oral user interfaces with the potential to reduce barriers for illiterate customers (especially promising with increasing penetration of ever less-expensive smart phones).

Regulatory and Supervisory Responses to Financial Consumer Protection Issues in Digital Financial Inclusion

Increasingly, policymakers, regulators, and supervisors are recognising the link between market conduct and increased financial stability, and countries are

80. See McKee, Kaffenberger, and Zimmerman (2015) for a treatment of this issue.

BOX 10

CHALLENGES TO EFFECTIVE CONSUMER PROTECTION POSED BY DIGITAL FINANCIAL INCLUSION

Digital financial inclusion may—depending on the design of the service or product as well as the applicable regulatory and supervisory framework—present challenges to effective consumer protection, including in the following areas:

Level consumer protection playing field regardless of the nature of the provider(s), given the likelihood that the digital transactional platform and additional services that can be accessed will involve multiple parties, each potentially subject to differing consumer protection regulation.

Effective transparency and disclosure, especially communicating—often via a small screen—terms and conditions, pricing, rights, and recourse arrangements.

Product bundling, which may make it difficult for consumers to understand the pricing and terms of the products (including recourse).

Suitable products and services, which can be challenging in the case of unsolicited offers based on data profiles that fail to take a client's needs and characteristics adequately into account.

Clear provider liability for unauthorised and mistaken transactions, particularly if the party that is legally responsible is not the party customers understand to be their provider (such as MNO-branded services offered by a bank).

Clear provider liability (and means of recourse) for the conduct of agents and other third-party service providers, including fraud—a risk that providers may inadequately monitor or for which they may seek to disclaim responsibility.

Data privacy and security, such as the unauthorised use of data for purposes unrelated to the original purpose of collection, the security and accuracy of data, and customers' access to, and practical capacity to use, available means to correct inaccurate data.

Continuity of service, which can be negatively affected by numerous factors, such as the exit of a partner from providers' joint venture arrangements.

Safeguarding client funds, particularly if the customer's digital account is with a non-bank such as an MNO that is not a member of a deposit insurance system.

putting in place or are enhancing financial consumer protection regulation and supervision.[81] At the same time, much of the change has focused thus far on banks, and addressing the frontier issues triggered by digital financial inclusion remains at an early stage in many jurisdictions.[82]

Traditional elements of financial consumer protection regimes focus on measures to improve disclosure, fair treatment, recourse, and financial capability. When it comes to digital financial inclusion models, however, without adjustment such measures are likely to leave important issues (such as those raised in Box 10, "Challenges to Effective Consumer Protection Posed by Digital Financial Inclusion") ambiguously or insufficiently covered or not addressed, and new approaches to licensing, regulation, and supervision will be needed. As markets continue to evolve, new issues will also arise.

Consumer Protection Issues in Financial Inclusion and Digital Financial Inclusion Across the SSBs

The SSBs most actively engaged in consumer protection are BCBS, IADI, IAIS, and IOSCO. This may relate to the central role that consumer trust and confi-

81. According to a 2013 survey by the World Bank and FinCoNet, 112 of the 114 economies surveyed have "some form of legal framework in place for consumer protection" (World Bank (2013a).

82. For the majority of respondents to the BCBS Range of Practice Survey, for example, the prudential banking supervisor or the central bank is the primary consumer protection supervisor for all categories of providers covered in the report (BCBS (2015)). Financial consumer protection rules were also more commonly applied to banks than to the other categories of financial institutions, which in many countries are the main providers of financial services to excluded and underserved customers. Fewest respondents had consumer protection regulations in place for non-bank e-money issuers or distributors; the most common were regulations on complaints handling and on data privacy and confidentiality, applied by 46 percent and 43 percent of respondents, respectively.

dence plays in banking and deposit-taking activities, insurance, and securities, as well as the broad membership of most of these SSBs and the more explicit market development mandates of some of them. Consumer protection is also of concern to FSB, because of the strong connections to financial stability demonstrated during the global financial crisis and the more recent attention to misconduct. In the case of CPMI, growing engagement in financial consumer protection is correlated with greater attention to retail payments. And as noted above, given the links between consumer protection and trust in the formal financial system, even FATF has a mandate-relevant interest: to the extent that increased trust leads to more customers using formal financial services, money laundering and terrorist financing risks of financial exclusion are reduced.

Digital financial inclusion triggers consumer protection issues that are challenging for the SSBs to address unilaterally. Some issues of overlapping interest relate to the services embedded in digital transactional platforms (or in some cases, specific models of digital transactional platforms, particularly those involving MNOs). Because such platforms combine the functionality of payment instruments and of value-storing transaction accounts, CPMI, BCBS, and IADI all have a direct stake in the consumer protection issues they raise. They include consumer challenges to understand mechanisms in place to safeguard customer funds (which may differ depending on the model of digital transaction platform), as well as the allocation of responsibilities among different entities engaged in the provision of such products when problems with consumers arise.

Other consumer protection issues of overlapping interest are triggered by the additional financial services that can be offered to financially excluded and underserved customers via digital transactional platforms. Here, IAIS and IOSCO also potentially have a stake, taking into account consumer challenges to receive and understand information on key features, benefits, and risks associated with insurance and investment products offered and delivered digitally, and to differentiate them from the underlying digital transactional platform and mobile phone services, as well as issues related to the mis-selling or provision of unsuitable digital products that are more complex than typical savings or credit products. Still others apply to all digital financial services offered to financially excluded and underserved customers. They include issues related to data privacy and security; access to free, fast, and fair consumer recourse mechanisms; transparency of information via digital channels; and potential for agent misconduct.

C. COMPETITION AND INTEROPERABILITY

Overview

Concerns about market dominance and unfair competition in digital financial inclusion may appear premature in countries where numbers of customers remain low. However, in the market for payment services, which is often subject to strong positive network effects,[83] competitive dynamics need to be considered early on for the following reasons:

83. The market acceptance of disparate or closed-loop initiatives is constrained because of the missing network effect, which could result in a significant under-estimation of the potential impact of innovative solutions, leading to a lack of further investment and even abandonment. This is particularly evident when "competitive advantage" is being pursued without due consideration of overall market development.

- The early rapid growth of one system that is not interoperable with others could have a "tipping effect" such that no other system can compete. This dominance could have negative effects on market efficiency and outreach over time, through higher pricing or lower rates of innovation, as well as potentially raising issues of market conduct and consumer protection, and
- If there are already substantial existing retail payment systems, and if the new payment systems are foreclosed or inhibited from interconnection with older systems, the result may be substantial inefficiencies that limit growth of the new and the old (Lyman et al (2008) and Guadamillas (2008)).

Both points relate centrally to the question of interoperability.[84] To what extent will customers of competing financial service providers be able to transact business with each other? And what role, if any, should regulation play—and on what timetable—in answering this question? Some argue that mandating the interoperability of digital transactional platforms at an early stage can reduce the incentives for firms to enter the new market and compete.[85] A compelling argument can therefore be made during the early stages of development of digital transactional platforms that policymakers should focus their attention on ensuring that interoperability is technologically feasible, while also ensuring they have both the necessary information and regulatory power to intervene when there is evidence that a dominant position is being exploited.[86] To make such interoperability feasible, there needs effective oversight arrangements that look at the three levels of interoperability: system-wide, cross-system, and infrastructure-level. Requiring infrastructure-level and system-wide interoperability and disallowing exclusivity arrangements can set the stage for cross-system interoperability in the future (World Bank (2012)).

Banks and Non-banks (Including MNOs)

In many countries, non-banks are important players, and in some, they are the main providers of financial services to the financially excluded and underserved. These non-banks may compete with banks, with potential positive implications for financial inclusion. Competition between banks and non-banks for new customers may result in lower fees (due in part to banks' efforts to increase efficiency and reduce operational costs) and in the introduction of new products and services (as has happened with remittances in multiple corridors where non-bank players have entered the market).

Widely varying factors may motivate non-banks to enter the payments field and digital financial inclusion beyond payments, including bank outsourcing to non-banks of payments and technology-related services, changing customer

84. Interoperability can be defined as a situation in which payment instruments belonging to a given scheme may be used in platforms developed by other schemes, including in different countries. In the context of retail payments, there could be multiple levels of interoperability—*system-wide, cross-system, and infrastructure-level.* A system that has only system-wide interoperability enables competition among the participants of that system. Cross-system interoperability enables competition between different payment systems. Infrastructure-level interoperability enables the same infrastructure to be used to support multiple payment mechanisms offered by different institutions.
85. While interoperability may reduce incentives for certain kinds of innovation, it does not eliminate the possibility to compete based on innovative service offerings. A simple (and long-standing) example is card loyalty programs within the world of interoperable payment card schemes.
86. See Houpis and Bellis (2007). The question of timing on intervention to prevent exploitation of market dominance is a difficult and highly situation-specific one, as once a dominant position is established, it can be difficult to change the market dynamics.

needs and preferences, non-bank innovations in payment methods, and promotion of and support for the non-bank's core business (CPMI (2014)). In the case of MNOs, this last motivation often dominates: facing fierce competition in voice and data markets and declining average revenue per user, MNOs may launch or participate in a digital transactional platform with the primary goal of reducing customer churn. This is the main motivation, for example, behind so-called "freemium" life insurance products being bundled with prepaid airtime (Tellez and Zetterli (2014)).

In some countries, proportionate licensing, regulation, and supervision have enabled non-banks or limited-service banks to compete with banks, taking into consideration the risks involved in providing a narrow set of products and services. In many countries, however, much work remains to be done to design and roll out appropriate regulations to enable non-banks to compete in providing digital financial services to excluded and underserved customers.

Conversely, there is also a risk that non-banks may be given an unfair advantage if they are allowed to compete in ways banks are not. For example, in some countries non-banks have been allowed to use agents in ways that banks may not. This highlights the need for a level playing field, subjecting different types of providers to the same or similar regulations when they are offering—or propose to offer—the same products or services.

Given that digital transactional platforms may have the dual functionality of payment instruments and value-storing transaction accounts, CMPI and BCBS share an interest in their development. Similarly, both SSBs share an interest in proportionate regulation of banks and non-banks that creates the conditions for their safety and soundness and healthy competition among them to serve the needs of financially excluded and underserved customers. CPMI has discussed the different regulatory issues applicable to non-banks depending on their roles and activities: as providers of front-end services, as providers of back-end services, as operators of retail payment infrastructures, and as end-to-end service providers (CPMI (2014)). The Range of Practice Report issued by the BCBS in January 2015 (BCBS (2015)) details the different approaches of 59 surveyed jurisdictions to the regulation and supervision of banks and non-banks providing financial services to the financially excluded and underserved. The report demonstrates that in most countries, the design of proportionate regulation and supervision for institutions primarily oriented towards the financially excluded and underserved, including non-bank e-money issuers or distributers, is in its early stages.[87]

The Special Case of MNOs

With digital financial inclusion, access to the payment system and other aspects of existing market structure and regulation that may favour banks over non-banks must be considered together with a factor that may favour one particular type of non-bank—MNOs: MNOs control the communications infrastructure such as SMS,[88] USSD,[89] and mobile internet upon which mobile financial service providers rely, raising competition issues tied to vertical inte-

87. A consultative document for BCBS guidance on the application of the BCPs to such institutions was released in December 2015 (BCBS (2015c)).
88. Short messaging service (SMS) is commonly referred to as a "text message". With an SMS, a message of up to 160 characters can be sent to another device.
89. Unstructured supplementary service data (USSD) is a protocol used by GSM cellular phones to communicate with the MNO's computers.

gration and control over limited and crucial infrastructure. Regulators are also concerned that because MNOs have control over an important input that competing mobile financial service providers require, MNOs will have the incentive and ability to foreclose competitors. This aspect becomes all the more critical when a common infrastructure provider is also competing in the provision of a service using that infrastructure—for example an MNO providing a digital transactional platform might control or restrict competitors' access to its USSD channels.[90] While the optimal solution to manage such risks is likely to be country and context specific, the need for regulatory coordination among the telecommunications regulator, the payments regulator, and the competition regulator is clear.

Interoperability

The extent to which customers of competing digital financial service providers are able to transact business with each other, and the role—if any—that regulation and regulators, payment system overseers, or supervisors should play in working towards this objective, are fundamental issues in digital financial inclusion.[91] In *Innovation in retail payments,* CPMI acknowledged that "innovation in retail payment markets raises new questions regarding standardisation and interoperability. To foster efficiency, central banks promote the interoperability of different retail payment systems by opening up the markets to newcomers" (CPSS (2012, p 54)).[92] Interoperability can also eliminate the duplication of payment acceptance and cash infrastructure such as POS devices and automated teller machines, which can lower the cost per transaction (Porteous et al (2012)). The 2012 CPMI report also acknowledges that such interoperability may increase overall risks if an innovative service provider has a higher risk profile (CPSS (2012, p 54)).

Interoperability can improve the utility and value of a new payment instrument by increasing availability of payments infrastructure (such as agents, automatic teller machines, and POS devices) and by enabling customers to send money to and receive money from more people and businesses. Conversely, the lack of interoperability could result in inefficiencies and adversely affect adoption and usage.

Achieving interoperability requires (i) the adoption of technical and operational standards; (ii) a payment and settlement system that enables exchange of payment and settlement instructions amongst the providers of payment services; and, (iii) business rules and a business model that balance the interests and business objectives of the different stakeholders involved. Agreement on common technical and operational standards and the underlying business rules and business model depends on the owners of the payment system. The owners may be (i) a consortium of payment service providers who are also participants in the system; (ii) the central bank or other governmental body; or (iii) independent owners (ie not the payment service providers participating in the system).

90. This situation is of course not just limited to MNOs; it could also happen when a payment systems operator also offers payment services.
91. One of the four Working Groups of ITU's Digital Financial Services Focus Group is focused on interoperability. See Part IV A, "Digital Financial Inclusion—Opportunities and Risks, Digital Financial Inclusion and Technical Standard Setting".
92. Where there is no interoperability at all, it is not just a question of newcomers to the market.

In all cases, participation in the payment system (particularly of non-banks or smaller banks) can be blocked and may require regulatory attention.[93]

Some Key Issues Ahead

Pathways to interoperability: The benefits of interoperability (efficiency, lowered cost, customer value, and increased competition) may be distributed unevenly among different stakeholders. In particular, for innovators, mandated interoperability may be a disincentive if it means that they will not be able to recoup their investment. Regulators have three main options: mandate interoperability upfront, allow the market to move at its own pace, or guide the market towards interoperability. Choosing the last option (guiding the market) could include signalling that interoperability is a policy goal and setting the timeframe in which the market has to move to interoperability before a mandate is introduced. The optimal choice for the regulator depends on the specific market conditions.

Balancing cost and risk: The CPMI and IOSCO Principles for financial market infrastructures promote "relevant internationally accepted communication procedures and standards" (CPSS and IOSCO (2012a, p 16)). Many central banks are currently struggling with the desire to leverage new lower cost technologies when the risks to customers are not yet fully understood.

Interconnection fees: Traditional payment instruments, such as card networks, continue to be engulfed with complaints and legal challenges around the practices to set interchange fees and the levels of interchange. These economics become even more complicated when new products and types of providers are introduced. For example, the way interconnection fees function when customers of different MNOs call each other is different from the way interchange has functioned with card payments, and the different business models being introduced may mean that neither of these is appropriate for commercial arrangements involving cross-system interoperability among MNO e-money issuers, other non-banks, banks, and their respective agent networks. Financial regulators are challenged to determine the optimal approach, including how best to coordinate with other regulators, including telecommunications and competition authorities.

D. CUSTOMER IDENTITY AND PRIVACY

Overview

Customer identification and verification and related CDD measures, designed to better understand the risks posed by the customer, help enable providers of financial services to provide appropriate customer services and at the same time to prevent crimes such as fraud, money laundering, and terrorist financing. These measures have therefore been the subject of SSB standards and guidance,

93. In the consortium ownership model, the owners of the payment system can potentially block access to the payment system for a new entrant or a class of payment service providers—either explicitly or implicitly by price barriers or barriers related to setting technical and operational standards at an unnecessarily high level. In cases of central bank or other governmental ownership and independent ownership, large users of the payment system may also be able to influence the operator of the payment system to raise barriers for the entry of new players or not enforce participation requirements such as providing access to acceptance infrastructure or setting the fees for services at a fair price (ie not so high that they disadvantage a section of participants).

notably the FATF Recommendations, and guidance issued by FATF, BCBS,[94] and IAIS (IAIS (2013a)).

With the spread of digital financial services to financially excluded and underserved populations around the world, new data sources and data gathering practices are emerging that support AML/CFT risk assessments and the application of simplified CDD; they also provide law enforcement with new tools to track and take action on financial crime. At the same time, as discussed in Part IV A, "Digital Financial Inclusion—Opportunities and Risks", privacy breaches, identity fraud risks, and related risks may accompany the new digital business models, especially when combined with data mining and customer profiling capabilities. Against this tension between financial integrity and consumer protection objectives, new technology is on the horizon that may advance privacy as well as integrity objectives.

Customer Identity and Risk Profiles

In the past, SSB-related financial inclusion concerns regarding customer identification revolved mainly around national regulations, where rigid, onerous requirements resulted in the exclusion of customers who did not have access to required verification documents and contributed to cost barriers. FATF's adoption of a mandated RBA and its recognition of simplified CDD where risks are assessed as lower give countries policy options that greatly reduce identification and verification challenges to financial inclusion. Despite the progress in the FATF Recommendations, AML/CFT-related challenges still remain. Lower risk customers and services may, for example, be incorrectly assessed as standard or higher risk, preventing the adoption of simplified CDD (Chatain et al (2009, pp 176–8) and de Koker and Symington (2014)). Simplified CDD may not be available as an option where general money laundering and terrorist financing risks are higher, for example, where integrity risks are enhanced as a consequence of conflict in a country or region. This may undermine financial inclusion of individuals who may not personally take part in or support the conflict but who are located in or transact with people located in that country or region. Customer due diligence measures may therefore continue to form inclusion barriers, thereby contributing to financial exclusion risk.

Consistency and Clarity

While customer identification and risk management is relevant to a number of SSBs, there is a risk that relevant standards and guidance issued by different SSBs may appear to conflict. BCBS's BCP 29, for example, addresses the abuse of financial services: it requires supervisors to determine that banks have adequate policies and processes, including strict customer due diligence rules to promote high ethical and professional standards in the financial sector and prevent the bank from being used, intentionally or unintentionally, for criminal activities (BCBS (2012)). A number of EMDE members of the Alliance for Financial Inclusion (AFI) have voiced their concern that BCP 29 may not allow for the application of simplified due diligence as envisaged by FATF (AFI (2014)). The BCBS holds that the language of BCP 29, especially the reference

94. Two earlier guidelines, *Customer due diligence for banks* (BCBS (2001)) and *Consolidated KYC risk management* (BCBS (2004)) were superseded by *Sound management of risks related to money laundering and financing of terrorism* (BCBS (2014)), in turn superseded by *Sound management of risks related to money laundering and financing of terrorism* (BCBS (2016)).

to strict customer due diligence rules, is not intended to rule out more relaxed simplified measures and that neither BCP 29 nor the guidance the BCBS issued on money laundering and terrorist financing are intended to be read as conflicting with the FATF standards.[95]

The guidance provided by the IAIS regarding customer identification and verification, in particular the requirement that residential address information should be collected and verified as "an essential part of identity" (IAIS (2013a, p 11, footnote 8)) may also be viewed as potentially at variance with the FATF's CDD guidance (FATF (2013a, p 31)).[96] Similarly the BCBS's guidance on customer identification particulars that should be obtained at a minimum for standard risk customers (BCBS (2016)) can be contrasted with FATF's approach, which does not specify the identification particulars to be collected, and thus affords potentially decisive flexibility (FATF (2013a, paragraph 75)).

While SSBs may have very good reasons for setting different standards for different sectors and providers, appropriate coordination will be important to avoid unintended inconsistencies.

Customer Data, Data Security, and Privacy in Digital Financial Inclusion

The technology used in digital financial inclusion enables innovative tools, including new approaches to data gathering and analytics, to address financial inclusion barriers created by document-based identification and verification measures. They also provide the means to deepen a financial service provider's customer understanding and the risks and opportunities presented by each customer. Data generated by users of digital financial services offer service providers a more detailed picture of the profiles and needs of users, enabling the design of improved products and even the assessment of credit risk posed by users who have no formal credit record. The digital user profiles may also support more effective—including more cost-effective—identity verification or fraud prevention and support risk-based monitoring of transactions (Naef et al (2014) and Mas and Porteous (2015)).

As digital financial inclusion increases, however, more individuals and institutions (agents, MNOs, banks, and other financial and non-financial firms) are handling more personally identifying data of customers than ever before. Digital financial inclusion may also technically enable easier and broader access that may facilitate large-scale surveillance and data appropriation (de Koker (2013) and de Koker and Jentzsch (2013)). Customer-centred security measures such as the use of PINs may not provide appropriate protection in the inclusion context. Hacking risks, including the vulnerability of cheap smartphones to malware, and the possibility of large-scale cyber-attacks give rise to real concerns about data security. Data loss and privacy breaches increase the risk of identity fraud and consumer harm and may impact customers' usage choices of financial inclusion products. The future impact of such data loss and privacy breaches is difficult to assess as the ability to abuse data escalates in parallel with technological advances relating to the collection, retention, and analysis of data.

95. "[T]hese guidelines are intended to be consistent with and to supplement the goals and objectives of the FATF standards, and in no way should they be interpreted as modifying the FATF standards, either by strengthening or weakening them" (BCBS (2014, paragraph 3).

96. See, however, IAIS (2013a, paragraph 5): "In light of the FATF Recommendations, the IAIS considers there is need for specific information for insurers and insurance intermediaries which is consistent with, and supplements, the FATF standards".

Innovative technological developments are taking place that can provide the means to securely identify users without requiring the massive and continuous sharing of personal information as required by the current identification and verifications measures that underpin modern financial services. So-called "blockchain" technology and similar approaches utilising publicly distributed electronic ledgers without a central authority as a record of integrity are examples of technology that is set to provide an increasing number of privacy-enhancing identity verification solutions that may lend themselves to broader adoption by digital financial services providers. Semantic web technologies are also evolving towards a more secure management of the identity meta-layer system through Privacy by Design, Data Protection by Design and, recently, through Compliance by Design and Attribute-Based Access Control systems.[97] Such technologies, as well as the development of data laws that can provide effective privacy protection while supporting financial inclusion and a level playing field for providers (WSBI (2015)), merit close attention.

E. CROWDFUNDING—BYPASSING TRADITIONAL FINANCIAL INTERMEDIARIES

Overview

Crowdfunding refers to debt and equity funding[98] by large numbers of individuals and/or legal entities in small amounts transferred via mobile phones and online web-based platforms to a person or legal entity, whether to fund a business, a specific project, or other needs.[99] Crowdfunding pioneer of microlending Kiva was launched in 2005 to connect people through lending to alleviate poverty,[100] and the number of online lending and investment platforms focusing on microfinance has been growing since. More recently several microlending platforms have emerged using a P2P approach.

Crowdfunding targeting a mass market and not specifically aimed at financing microentrepreneurs started in the UK in 2006, spread to the US in 2007, and took off in China in 2009 (Kirby and Worner (2014a, p 12)). Since then, there has been rapid growth in crowdfunding in markets across the income spectrum, with high demand at both ends of the transaction. According to the IOSCO research, crowdfunding accounted for USD 6.4 billion in outstanding debt and equity globally in 2013 (Kirby and Worner (2014a, p 4)).

Another noteworthy development is the emergence of P2P lending using digital transactional platforms. Businesses such as Lending Club, which operates the world's largest online credit marketplace, and ChamaPesa, a fully digital Kenyan investment platform for informal savings and credit groups, are on the rise, with more pure P2P digital lending platforms likely to follow.

97. Compliance by Design aims at providing and anticipating a reliable representation of legal constraints to be taken into account by means of the so-called Rights Expression Languages. Attribute-based Access Control systems is a flexible methodology to provide access based on the evaluation of attributes. Fostering trust-enhancing meta-data management is at the heart of these approaches.
98. This White Paper does not address donation-based crowdfunding.
99. The internet website housing the platform is owned by a legal entity. The status of such entity and the applicable licensing and regulatory regimes vary, as discussed below.
100. Since its founding in 2005, over 1,387,000 Kiva lenders have extended over $813 million in loans to lending partners (such as MFIs) in the field, who then lend to individual borrowers. (See http://www.kiva.org/about).

Crowdfunding has been used primarily to raise debt funding, because the cost of raising equity capital is far higher due to both practical and regulatory hurdles. Therefore, although equity investment is relevant to larger SMEs that lack access to conventional bank financing, the focus in the context of financial inclusion is primarily on crowdfunding that links lenders and borrowers. There are two basic models:

- *P2P lending model:* The crowdfunding platform links individual lenders and borrowers, who may be individuals or small businesses. (There may be many lenders for one borrower.)
- *Hybrid lending model:* One or more lender (typically institutional lenders) provide funds to the crowdfunding vehicle for an aggregated loan portfolio.

Crowdfunding potentially holds promise for several reasons: (i) it can be a quick way to raise funds; (ii) it can be cost-efficient, as the sales and marketing costs of the platform are close to zero (although these costs may increase, potentially significantly, if securities regulation applies); and (iii) its potential market reach is limited only by access barriers to the platform and regulatory limits where applicable. With the increasing penetration of smart phones, this last barrier is also coming down, making the approach increasingly relevant to financially excluded and underserved market segments.

At the same time, the retail investors whose funds are being lent—especially small, potentially unsophisticated, individual lenders—face a number of risks, including the following:[101]

- Lack of transparency and information on the borrower, as disclosure is not standardised and typically emphasises the benefits rather than the risks;
- Fraud (including even "pretend" platforms and Ponzi schemes), due to the lack of direct contact between the borrower and the lender, the limited information on the borrower, and the general lack of robust mechanisms to validate any information provided;
- Borrower default resulting in loss of the investor's loaned funds (given the unlikelihood of effective recourse and the likely lack of collateral);
- Failure of the platform's technology, which could result in the loss of data and contract information and 100 percent investment loss;
- Failure or closure of the platform resulting in the loss of data and contract information and 100 percent investment loss; and
- Cyber-attack stemming from inadequate security of the online platform or the number of parties involved.

While the identified crowdfunding risks may also be relevant to institutional investors, they may have better means of assessing and mitigating some of the risks, including the risk of default, fraud, and technology failure.[102]

101. For a deeper treatment of risks, see Kirby and Worner (2014a). The UK was among the first countries to adopt comprehensive regulation on crowdfunding. The UK's Financial Conduct Authority (FCA) applies core consumer protection requirements to firms operating in the crowdfunding space: protection of client funds via capital standards; the existence of resolution plans in the event of platform collapse; rules on distribution; and marketing restrictions (ie firms may make direct promotion of offerings only to retail customers who meet certain requirements). See UK FCA (2014).
102. Multiple regulatory bodies in developed economies that have addressed crowdfunding have sought to limit retail access to crowdfunding vehicles to "professional investors" or high net worth individuals and institutions.

Regulatory Issues

In the context of the rapid growth of crowdfunding and the potentially increasing complexity (such as securitisation of crowdfunded loans), the challenge before financial regulators in the financial inclusion context is to put into place regulation that encourages the development of new financing techniques while protecting both retail investors providing the loan funds and potentially also the borrowers making use of them, while bolstering consumer confidence and trust overall. The regulatory issues implicated are many and varied, but can be grouped roughly in two categories: market-level issues and consumer level issues.[103] A recent survey conducted by IOSCO (IOSCO (2015c)) revealed that most regulatory regimes for crowdfunding have only recently been implemented and therefore it is premature to propose a common international approach to the oversight or supervision of crowdfunding at this stage (as discussed below).

Market-level issues: In considering an appropriate regulatory framework for crowdfunding, policymakers will need to address certain fundamental market-level questions, including the following:

- Is the loan product in question an investment that is or should be subject to securities regulation, or a private loan? If it is a security, then in some jurisdictions, the borrowers would be considered issuers of securities and as such would be subject to disclosure information requirements unless they fall under an exemption. If it is a private loan not treated as a security (under applicable local law), then the platform may be subject to banking or other regulation (such as a financial consumer protection regime, as discussed below).
- In hybrid crowdfunding models, where at least some of the loan funding is no longer provided by a "crowd", should lenders be subject to regulation as NBFIs?[104]
- If the platform acts as a mechanism to link supply and demand, should it be regulated as a "market"/"trading platform" or other type of securities market intermediary, such as a broker dealer?
- What licensing and capital requirements should apply to the entity that owns the website providing the platform?
- What KYC/CDD or other borrower identification requirements should apply, and who should bear responsibility for satisfying them?

This list is not exhaustive, and as new crowdfunding models emerge the list of regulatory issues to consider will evolve as well.

Consumer-level issues: While bearing in mind that investor protection triggers many market-level regulatory questions—for example, what due diligence responsibilities should platform providers be obliged to conduct?—in the financial inclusion context consumer-level issues are particularly important. Moreover, the concerns relate potentially to both the individual retail investors

103. A comprehensive discussion of regulatory issues in crowdfunding falls beyond the scope of this White Paper.

104. The lines between institutional loan funding and funding provided by a "crowd" may not always be clear. For example, one EMDE startup is using its own loan capital in the first round to prove the model, and then bringing in individual investors later, challenging the delineation between individual retail lenders and institutional investors even within a single platform provider.

whose funds are lent and to the borrowers, as both sides of the transaction may be inexperienced financial consumers.

Financial consumer protection measures relevant to crowdfunding need to take into consideration all the investor risks outlined above. Issues will include lender and borrower education, transparency of product terms (to both borrower and lender) and borrower informed consent, consent for use of customer data for other purposes, recourse, and resolution of technical issues when using a third-party disbursement channel such as MNO-issued e-money. Regulators are challenged to address issues associated with the sharing of data and privacy issues in the crowdfunding context (including sharing of data with credit bureaus and other credit reporting databases). With respect to crowdfunding that relies on a digital transactional platform, such as an MNO e-money issuer, and potentially reaches both investors and borrowers with very limited prior experience with formal finance, consumer protection concerns will also include those discussed in Part IV B, "Frontiers in Inclusive Financial Consumer Protection", with respect to digital financial inclusion more broadly.

Finding the right balance between allowing innovation and ensuring investor and broader consumer protection is not easy. Even in middle- and upper-income economies, experience is limited and recent. Some jurisdictions are allowing crowdfunding to develop under exemptions to the public offering requirements, while others are establishing lighter regulations than those that apply to traditional issuers of debt securities.[105] Self-regulation has been introduced in some markets, with transparency as the key component.[106]

Global Standards and Crowdfunding—Some Key Issues across SSBs

Although none of the SSBs has yet issued guidance on crowdfunding, several have either relevant work in progress or an interest based on their core mandates:

- As crowdfunding is a fast-evolving form of market-based funding, FSB's work on shadow banking is potentially relevant;
- For BCBS, there are concerns of capital requirements, credit risk, and consumer protection issues in the context of non-bank financial intermediation, particularly if lenders' interests have deposit-like characteristics, such as the potential to be repaid on demand;
- In the context of the use of a digital transactional platform, retail payments and interoperability issues of interest to CPMI come into play;
- Although FATF's consideration of AML/CFT issues raised by crowdfunding has thus far focused primarily on crowdfunding of donations (which falls beyond the scope of this White Paper) (FATF (2015a)), other commentators are already considering the subject of money laundering and terrorist financing risks in crowdfunding of loans as well,[107] which

105. Only a few jurisdictions have issued regulations or guidance on crowdfunding. These include Canada, France, Italy, Japan, Spain, Thailand, the United Kingdom and the US. In the US, the Securities and Exchange Commission (SEC) has exempted crowdfunding (as defined in the Jobs Act of 2012) from federal securities law and requires that the platform be registered with the SEC and licensed at the state level. A regulatory framework for equity crowdfunding is under development in China, under the China Securities Regulatory Commission and the Securities Association of China.

106. For example, both the UK Peer-to-Peer Financing Association and the European Crowdfunding Network have launched code-of-conduct initiatives. See http://p2pfa.info/ and http://eurocrowd.org/about-us/code-of-conduct-2/.

107. See, for example, Robock (2014).

raises additional concerns given the potential cross-border nature of the transactions; and

- Initial IOSCO research indicates that *IOSCO's Objectives and Principles of Securities Regulation* provides a regulatory foundation for both P2P lending and equity crowdfunding (Kirby and Worner (2014a, p 7)). In 2015, IOSCO's Committee for the Regulation of Market Intermediaries (Committee 3) conducted a fact-finding survey to get better understanding of current and proposed regulatory frameworks for investment-based crowdfunding in member jurisdictions (IOSCO (2015c)). The survey indicates that despite certain commonalities and divergences in various jurisdictions, and the potential risks and positive rewards, crowdfunding regimes are in their infancy (or have not yet been launched) in most jurisdictions surveyed. The survey highlights that most regulatory regimes for crowdfunding have only recently been implemented. Therefore, IOSCO has not proposed a common international approach to the oversight or supervision of crowdfunding at this stage (IOSCO (2015b)). As this new sphere of activity continues to develop, IOSCO may consider whether it is appropriate to evaluate the effects of the different approaches and may assess whether any further work is needed.

F. DE-RISKING AND FINANCIAL EXCLUSION

Overview

There is concern among national regulators and policymakers across the globe regarding the large-scale termination or restriction of relationships and lines of business by banks seeking to avoid, rather than to continuously manage, compliance, operational, and reputational risks as envisaged under the proportionate and risk-based approaches of global standards (Carney and Badré (2015)).[108] Such actions may not only undermine financial inclusion but also potentially hold broader implications for the global financial system, as the termination of correspondent banking relationships may lead to restricted access to the global banking system with potentially significant implications for poverty reduction and economic development efforts. The phenomenon is referred to as "de-risking"—a term that reflects the perspective of the banks and implies that their risk exposure is being reduced or eliminated. The term does not reflect the broader financial system perspective: that such closures may result in customers shifting to less regulated or unregulated channels, thereby potentially increasing national and global financial integrity risks as well as other risks of financial exclusion.

De-risking, although in part tied to concerns about money laundering, terrorist financing, and sanctions,[109] is actually described by key stakeholders as much more complex, as the banks' actions are driven by a number of different factors such as profitability concerns, which in turn are affected by prudential and market conduct issues, as well as by integrity issues.[110] Banks raise concerns

108. See also FATF (2015c): De-risking is having a significant impact in certain regions and sectors in particular and, although there is currently no evidence that de-risking is adversely impacting global financial stability, the international community continues to study this issue closely."

109. See *Dahabshiil Transfer Services Ltd v Barclays Bank plc and Harada Ltd and another v Barclays Bank plc* [2013] EWHC 3379 (Ch), British Bankers Association (2014), World Bank (2015a), Union of Arab Banks and IMF (2015), and AFI (2015).

110. Former FATF President Roger Wilkins, for example, has cited the profitability impact of deleveraging called for under the Basel III Capital Accords (Arnold (2014)).

about reputational risk and regulatory compliance risk (including the attendant risk of civil claims by victims of crime and terrorism) that arise from relationships with certain groups of clients and lines of business that pose (or are perceived to pose) high risk. High-risk relationships require enhanced—and more costly—risk-mitigation measures that may render low-value relationships unprofitable.

Some banks indicate that their de-risking actions are linked to large fines that have been imposed for regulatory compliance failures. In their view, such fines—however justified and legitimate these may have been—have increased overall compliance risk sensitivity and increased risk aversion. Banks are not only concerned about their relationships with certain higher-risk classes of clients but in some cases are also putting pressure on their correspondent banks to themselves enhance their due diligence measures in respect of such clients or to cease doing business with them. There are also indications that some banks are reluctant to maintain relationships when other banks have terminated theirs, concerned that they may be the last—and most exposed—provider in a high-risk market. The risk sensitivity underpinning de-risking actions may also inform other business decisions and lead, for example, to a greater reluctance to embrace new technologies and financial inclusion models, especially where the regulatory approach is unclear or unpredictable.

Affected Business Relationships and Financial Exclusion Risk

In addition to potential bank correspondent withdrawal, concerns over terminations of business relationships have also been raised in relation to a range of financial inclusion-relevant customers, notably cross-border remittance providers and humanitarian organisations. Account closures of these providers have raised public concerns about the disruption of remittance flows to vulnerable individuals in higher-risk jurisdictions and specific regions. Account closures related to remittances could potentially also have an impact on the development of some countries, especially in those lower-income countries where remittance inflows are an important part of the economy. Evidence available so far, however, does not indicate a reduction in global remittances flows or a net global increase in remittance costs, although it is clear the problem affects different remittance corridors varyingly.

FATF and FSB have voiced concern that de-risking may lead to increased financial exclusion.[111] FATF is sensitive to the risk that such terminations would lead affected users to resort to opaque, informal channels to transact or move to less-regulated or lower capacity formal institutions that may not be as capable of mitigating the relevant risks. From an inclusion perspective it is important to note that these providers are also less likely to be capable of serving as a gateway for broader financial inclusion.

In an October 2014 statement, FATF called on banks not to engage in wholesale account closures but to assess the risk of customers individually, and manage such risk appropriately (FATF (2014b)). While the refusal or termination of services is required when financial crime risks are unacceptably high, that risk must be assessed on an individual basis. This statement, echoed by many

111. See, for example, FATF (2014b): "De-risking can introduce risk and opacity into the global financial system, as the termination of account relationships has the potential to force entities, and persons into less regulated or unregulated channels. Moving funds through regulated, traceable channels facilitates the implementation of anti-money laundering / countering the financing of terrorism (AML/CFT) measures".

national regulators, was re-iterated and strengthened in further statements by the FATF in June (2015e) and October (2015c).

Termination of business relationships has also been of concern in relation to correspondent banking relationships. FSB, in particular, is concerned about misconduct, systemic risk, and the withdrawal of correspondent banking facilities. As stated in a February 2015 letter from its Chair to the G20 Finance Ministers and Central Bank Governors, "the scale of misconduct in some financial institutions has risen to a level that has the potential to create systemic risk. . . . It threatens to undermine trust in financial institutions and markets" (FSB (2015a, p 5)), which could lead to withdrawal from correspondent banking facilities, with potentially broad consequence, not only for financial inclusion, but for social, political, and financial stability—and the real economy—of the affected countries. As discussed in Part III A, "Financial Stability Board", in January 2015 FSB agreed to a work plan that includes examining, together with the World Bank and CPMI, the extent of potential withdrawal from correspondent banking relationships, and its implications for financial exclusion, as well as possible steps to address this issue (FSB (2015a)). As a consequence, FSB requested the World Bank in March 2015 to examine the extent of withdrawal from correspondent banking and its implications for financial exclusion/inclusion. The World Bank undertook a survey (World Bank (2015c)), which informed the adoption in November 2015 of a four-point plan for the FSB (FSB (2015d) and FSB (2015e)), working in partnership with the World Bank, CPMI, and FATF to:

- Examine further the scope and implications of these withdrawals;
- Clarify regulatory expectations to give more certainty and confidence to providers of correspondent banking services, including forthcoming guidance by FATF on the identification and management of AML/CFT risks in the context of correspondent banking and money or value transfer services;
- Support domestic capacity-building to strengthen CDD and other AML/CFT controls in countries where excluded banks are located; and
- Harness technology to improve the efficiency and effectiveness of CDD by correspondent and respondent banks.

While anecdotal evidence about the occurrence of termination of business relationships is available, policy formulation in this area will benefit from systematic and comprehensive data gathering regarding the scope, triggers, and impact of the terminations. For example, more data are needed to understand the impact of de-risking on remittance markets, on current or former senders and recipients (especially those in rural areas), and on money laundering and terrorist financing risks. Recognising the need for sound and reliable data, the G20 requested the World Bank to carry out surveys of the G20 member countries to collect information on the key drivers and outcomes of de-risking activities in the context of international remittance flows.

The World Bank produced the report on its survey on account access by money transfer operators (MTOs), *Report on the G20 Survey on De-risking Activities in the Remittance Market*, in October 2015 (World Bank (2015b)). Responses provided evidence of increased MTO account closures since 2010 (World Bank (2015b, paragraph 4)). The study reflected that among G20 countries that participated in the survey, account closures were more prominent in

Australia, Canada, Germany, France, Italy, Mexico, the UK, and the USA. The relevance of the phenomenon varies, however, by country (World Bank (2015b, paragraph 4)).

The survey responses indicated the following as drivers of the MTO account closure decisions of banks (World Bank (2015b, paragraph 61)):

- Banks reassessed the risk-reward trade-offs of providing accounts and decided that the risks of continuing to provide these services to MTOs outweighed the revenue-generating potential;
- Correspondent banks required them to discontinue MTO relationships;
- Law enforcement enquiries led banks to close or not open MTO accounts;
- Concern about the management of MTO account risk because of lack of confidence that they vetted their customers; and
- Banks were concerned about reputational risk should they continue to bank MTOs.

MTOs also indicated that banks closed their accounts fearing increased scrutiny by supervisory authorities, should they continue business relationships even with supposedly compliant MTOs. In some cases, banks mentioned that regulatory enforcement examiners indicated that they should terminate all their MTO relationships (World Bank (2015b, paragraph 47)).

While key de-risking solutions require appropriate action at a national level, FSB and the SSBs have much to contribute, especially to the analysis and solution of questions and challenges that reach across borders and action to be taken by supervisory authorities. Although large-scale termination of business relationships is of particular importance to FATF (as evidenced by public statements and consideration of the issue in guidance projects), joint SSB action, in collaboration with national supervisors, may be required to address it comprehensively. Such joint action may, for example, help to ensure that proportionate CDD standards are appropriately implemented to ensure that risks posed by specific business relationships are correctly identified, assessed, monitored, and effectively and efficiently managed and mitigated. Co-operation could also help to ensure that supervisors monitor the implementation of the standards to identify overly conservative implementation and unintended negative consequences for institutions, customers, and the market, especially relating to financial inclusion domestically and abroad. Such action, combined with the type of regulatory framework envisaged in the Second European Payment Services Directive (see Box 11, "Second European Payment Services Directive") will strengthen the ability of regulators and supervisors to prevent unnecessary account closures. Although applicable only in the member countries of the European Union, the Directive could inspire other jurisdictions to consider a similar approach.

The GPFI and De-risking

The GPFI's Subgroup on Regulation and SSBs and its Subgroup on Markets and Payment Systems have also identified the relevance of de-risking to their agenda. The two Subgroups plan to monitor the intra-governmental and government-industry collaboration and coordination such as the approach of the UK Action Group on Cross Border Remittances for opportunities to showcase,

BOX 11

SECOND EUROPEAN PAYMENT SERVICES DIRECTIVE

The European Union is refining its payment services framework and has taken steps to strengthen the ability of supervisors to ensure that the remittance sector enjoys appropriate access to banking services. The second European Payment Services Directive (European Union (2015)), which entered into force in January 2016, contains provisions that address account denials and closures of accounts of payment institutions, including money remitters; EU Member States are required to implement it in national law by 13 January 2018. The Directive acknowledges that payment institutions require access to accounts with credit institutions in order to provide payment services. The Directive therefore requires European Member States to ensure that credit institutions provide payment institutions with non-discriminatory and proportionate access to payment account services. The access must be extensive enough to allow payment institutions to provide payment services in an unhindered and efficient manner. Where any payment institution is rejected, the credit institution must provide the competent authority with duly motivated reasons for its decision. These rules will provide European financial supervisors with information regarding de-risking actions in relation to remitters in Europe and enable them to take appropriate steps to ensure non-discriminatory and proportionate access.

acknowledge, and support replication of such a collaborative approach in other G20 countries. The Subgroups also support the sharing across the SSBs of lessons learnt from such intra-governmental and government-industry collaboration and coordination initiatives, and encourage and support replication of successful examples of such approaches (bearing in mind that the details of effective inter-agency and private sector collaboration will vary by country).

G. EMERGING ISSUES IN SUPERVISION AND FINANCIAL INCLUSION

With progress on financial inclusion, the work of financial supervisors has become more complex, reflecting the evolving risks and multiple types of actors, products, services, and channels. Supervisory frameworks developed for simpler circumstances may leave important actors and activities outside the supervisory perimeter and may open new opportunities for regulatory arbitrage. Also, the increasing role of functional and sectoral authorities (such as those responsible for financial consumer protection or market conduct, telecommunications, competition, and data protection) may lead to supervisory overlaps, gaps, inefficiencies, and uncertainty, especially with innovation and rapid market evolution in many countries.

Increased financial inclusion thus calls for strong supervisory coordination, not only among financial supervisors, but also with policymakers and nonfinancial authorities and nongovernmental stakeholders. This holds true with respect to financial inclusion generally and digital financial inclusion in particular. Identifying and managing the new and shifting risks involved can be challenging for regulators and supervisors, especially given the capacity and resource challenges in many country contexts and the lack of good data on what is frequently a fast-changing picture. This also calls for enhanced coordination among SSBs and other global bodies, in order to ensure that standards and guidance are fully consistent and that the rules provided are clear and coherent.[112]

Institutional Challenges Associated with a More Complex Supervisory Perimeter

The more complex financial sector landscape has further blurred the lines of responsibilities among various financial supervisors and enhanced coordination and cooperation challenges. For example, specialised ministry departments or agencies have been set up to oversee financial providers targeting financially excluded and underserved customers, payment system overseers have assumed responsibilities to carry out supervision of new types of financial providers, and specialised financial consumer protection or market conduct authorities have been set up to supervise business conduct of financial providers, in some cases becoming the only supervisor for the financial providers in question (as is often the case with credit-only providers). Further, separate financial intelligence units and deposit insurance agencies are also finding themselves responsible for carrying out supervision of an evolving range of financial providers and products.

There is also an increasing role for non-financial authorities in many countries with regard to regulation or supervision of financial providers. These include, among others, general consumer protection authorities (which in some countries are explicitly responsible for supervision of credit providers and other financial institutions); telecommunications authorities (regarding non-bank e-money issuers and delivery by mobile phone of financial services generally); communications ministries (regarding the role of postal offices in the direct or indirect provision of financial services); industry, commerce, or economy ministries (regarding retail stores providing credit or financing companies linked to the real sector); agriculture, social development, and cooperative ministries (for financial cooperatives); competition authorities (regarding both financial and telecommunications services); and data protection authorities.

Adding to this complexity, in multiple jurisdictions, many legacy providers continue targeting financially excluded and underserved customers, often at the boundaries of the formal and informal sector.[113] These include closed-member credit unions, savings clubs, moneylenders, mutuals, and community-based organisations providing financial products or services without being registered or licensed, let alone supervised. As policymakers take steps to advance financial inclusion, such providers may be promoted without adequate attention to the risks and supervisory challenges that they bring or to how fast they could grow in a market. In most countries, there is no certainty about the number or outreach of these providers (or the quality of their products and services), as they are not registered with, and do not report to, a financial supervisor, govern-

112. For example, customer identification and risk management is relevant to a number of SSBs, as discussed in Part IV D, "Customer Identity and Privacy", and it is important that appropriate coordination is in place among the SSBs to avoid unintended inconsistencies between the standards applicable to different sectors and providers.

113. The 2011 GPFI White Paper identified the issue of formalisation of informal providers as important to the SSBs, noting that (i) large numbers of informal providers serve poor households; (ii) formal financial services have advantages, including the application of financial consumer protection rules; and (iii) proportionate regulation can be critical to formalisation. Formalisation remains an important issue for all SSBs. See Part III F, "International Association of Insurance Supervisors" for a discussion of IAIS's *Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets* (IAIS (2012)).

ment authority, or even an industry association. Gathering market information and monitoring market developments are therefore essential to a better understanding of the size and scope of activities of these providers.

Operational challenges for financial supervisors

Financial supervisors are facing important challenges to carry out their mandates effectively in the context of the increasingly complex financial sector landscape and the questions it raises regarding the supervisory perimeter. These challenges may be greater in countries lower down the income spectrum and in those where digital financial inclusion is advancing faster. They include the following:

- *Limited legal powers.* The involvement of non-financial firms (in combination with banks or non-banks) in offering innovative financial products to financially excluded and underserved customers has created further challenges to financial supervisors, which may have limited legal powers (or insufficient resources, as noted below) to collect relevant information and perform monitoring, supervisory, or enforcement activities. These challenges may be exacerbated in cases where there is a cross-border dimension, for example, when local financial firms partner with foreign non-financial technology service providers that allow them to offer digital financial services.
- *Lack of expertise and knowledge about new actors and products and underlying risks.* The incorporation of existing categories of providers into the remit of financial supervisors and the creation of new categories may bring challenges regarding supervisory capacity to understand the business models, markets, and customer profiles of these provider categories. Financial supervisors are also challenged to improve their understanding of (and supervisory skills with respect to) new types of financial products, services, and channels, including the increasing role of outsourced third parties in the provision of financial services to financially excluded and underserved customers. Also, in many jurisdictions, it is still not clear whether or under what circumstances the supervisor's remit should be legally extended to small financial providers and what supervisory approach would be appropriate (particularly when there is a large number of geographically widespread small providers).
- *Limited staffing and insufficient resources.* Financial supervisors' capacity constraints have been exacerbated due to their increasing responsibilities vis-à-vis multiple types of providers (such as e-money issuers and financial cooperatives—some coming under the responsibility of banking supervisors in increasing numbers of countries), as well as their increasing functional responsibilities and objectives (for example, financial integrity, financial consumer protection, financial education, financial inclusion strategies, or dispute resolution).
- *Need to balance financial inclusion-related objectives with core mandates.* While in principle supervisors' core mandates (for example, promotion of safety and soundness of banks, or insurance policyholder protection) take clear precedence, in practice decision-making may be more complicated where policy objectives conflict, especially in the context of capacity constraints. For example, (i) allocation of resources when an objective is subject to high public attention or political interest and may consequently be priori-

tised over other objectives that are at least equally important; (ii) reallocation of staff with profiles and skills appropriate for one supervisory objective, to carry out actions associated with another supervisory objective; (iii) enforcement of rules issued to address one supervisory objective which may have consequences for another objective (for example, enforcement of consumer protection rules with potential prudential consequences).

Inter-institutional collaboration among supervisors

In multiple jurisdictions, financial supervisors are being called upon to work with other government entities (such as finance ministries or parliament) to adapt their legal, regulatory, and supervisory frameworks and redefine their supervisory perimeter. For example, new categories or sub-categories of financial institutions are being created, including specialised institutions offering a narrower set of financial products and services (such as limited-service banks or e-money issuers). The supervisory perimeter is also being expanded by assigning to financial supervisors the responsibility for financial institutions that were previously under the remit of specialised authorities or ministerial departments (such as deposit-taking MFIs, financial cooperatives, or mutual aid organisations). Laws and regulations are also being issued or revised to address explicitly new types of products, providers, or channels (for example, e-money, agents, or microinsurance) with significant ramifications for financial supervisors.[114]

114. Cross-border inter-institutional coordination and cooperation are also becoming increasingly important. In addition to the numerous “home-host” issues triggered by branches and subsidiaries of global and regional banks, insurance companies, and financial conglomerates, regional and global non-financial firms (for example, telecommunications companies and retail department stores) are expanding their role in providing financial services in EMDEs (such as e-money and consumer credit), either through financial subsidiaries or as providers of additional services for financial institutions.

V.

FINANCIAL INCLUSION AND FINANCIAL SECTOR ASSESSMENTS

The inclusion of "effective and consistent incorporation of financial inclusion in financial sector assessments" as one of the 10 broad objectives of the revised GPFI FIAP (GPFI (2014b)) reflects a recognition that progress on mainstreaming financial inclusion in SSB standards and guidance alone is not enough. Progress on implementation must also be assessed. The Terms of Reference of the GPFI Subgroup on Regulation and SSBs identify two related sub-objectives (GPFI (2014a)):

- Increased understanding of the interdependence of financial inclusion, stability, integrity, and consumer protection reflected in the methodologies and other tools employed in financial sector assessments; and
- Increased understanding of financial inclusion by financial sector assessors reflected in more consistent incorporation of financial inclusion in assessment reports and findings.

In parallel with their progress on financial inclusion summarised in Part III, the SSBs have also been ramping up efforts to assess the implementation of their standards and guidance generally. Over a number of years, Reports on the Observance of Standards and Codes (ROSCs), FSAPs, and the FATF mutual evaluations constituted the main vehicles for assessing and evaluating country-level compliance with standards and guidance of SSBs. More recently, other SSBs have developed their own assessment programmes, providing participating authorities with a report on their observance of standards, and showing across the board where further guidance or revisions to current guidance are needed.

The types of assessments discussed below are interrelated in various ways. Section A covers compliance assessments at the SSB level and their relevance—or potential relevance—to financial inclusion. The discussion begins with the FATF mutual evaluations under the *Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems,* adopted in 2013 (FATF (2013c)), highlighting the importance of the "effectiveness" assessment component that was added to the methodology. Next, the increasing use of self-assessments and peer reviews by the FSB and SSBs is discussed, although for the time being these do not for the most part explicitly address financial inclusion. Section B covers the increasing demand for attention to financial inclusion in FSAPs, as well as steps being taken to improve integration of financial inclusion considerations in the FSAP process and to leverage the assessment results.

A. SSB COMPLIANCE ASSESSMENTS AND FINANCIAL INCLUSION

A1. FATF and FATF-Style Regional Bodies Mutual Evaluations

FATF is unique among the SSBs in that it conducts, or coordinates with the FSRBs, IMF, and the World Bank to conduct, AML/CFT assessments and mutual evaluations[115] to assess countries' compliance with the FATF Recommendations, as discussed in Part III D, "Financial Action Task Force". The regularly updated lists of countries assessed as having strategic AML/CFT deficiencies[116] can have significant political and economic consequences for the countries in question.[117] FATF's assessment methodology, fundamentally revised to accommodate the 2012 revised FATF Recommendations, sets out the criteria for assessing technical compliance with each of the FATF Recommendations (via the technical compliance assessment component, which existed in a different form under the previous methodology). More importantly, it adds outcomes, indicators, data, and other factors that can be used to assess the effectiveness of a country's implementation of the FATF Recommendations (via the effectiveness assessment component, which relies on the judgement of assessors as to whether defined outcomes are being achieved and, if so, to what extent) (FATF (2013c, pp 5, 15)). Together, the assessments of both technical compliance and effectiveness present an integrated analysis of the extent to which the country is compliant with the FATF Recommendations and how successful it is in maintaining a strong AML/CFT system.

The effectiveness assessment component has special relevance for financial inclusion (Lyman and Noor (2014)). As part of the assessment, assessors may, where relevant, probe aspects relating to financial exclusion risk, including financial inclusion policy objectives and measures. The extent to which assessors consider questions relating to financial inclusion depends on their analysis of the country context and the relevant risks. The new assessment methodology calls on assessors to consider various structural and contextual factors when determining how best to assess the effectiveness of a country's AML/CFT regime. The level of financial exclusion is specifically mentioned as a factor to be considered.

The methodology also enables assessors to consider such financial inclusion-relevant issues as the following:

- How national risk assessments were used to justify exemptions and to support the application of simplified measures for lower-risk scenarios (especially relevant to financial inclusion in the case of CDD);

115. Mutual evaluations are peer reviews in which assessors include participants from countries beyond the country being evaluated (as well as participants from the FATF secretariat and the relevant FSRB secretariat). Assessors (which include legal experts, financial and regulatory experts, and law enforcement experts) undertake a training course in the 2013 FATF Methodology prior to the on-site visit.

116. As discussed in Part III, FATF's lists of countries that are assessed as having strategic AML/CFT deficiencies distinguish between those to which countermeasures apply and those that have not made sufficient progress in addressing the deficiencies or have not committed to an action plan developed with FATF to address the deficiencies. FATF requires its members to consider the risks arising from the deficiencies associated with each of the listed jurisdictions.

117. For example, although FATF itself has no independent sanctioning authority, Recommendation 19 states that "financial institutions should be required to apply enhanced due diligence measures to business relationships and transactions with natural and legal persons, and financial institutions from countries for which this is called for by the FATF". and that "countries should apply appropriate countermeasures when called upon to do so by the FATF".

- Whether AML/CFT measures, including supervisory measures, promoted the use of the formal financial system; and
- Whether the manner in which AML/CFT measures are applied prevents the legitimate use of the formal financial system and what measures are taken to promote financial inclusion.

In keeping with the recognition of financial exclusion as a money laundering and terrorist financing risk, FATF has also updated its assessor training programme to include a financial inclusion module. This is very important, given that the subject is new to many mutual evaluation assessors, and there is a risk of inconsistency in their approach to the topic. It also potentially contributes to the GPFI's goal to increase understanding of financial inclusion by financial sector assessors, as reflected in more consistent incorporation of financial inclusion in assessment reports and findings.

The first mutual evaluations that were conducted under the new methodology covered developed economies and did not address financial exclusion explicitly.[118] However, financial exclusion was considered extensively in the first mutual evaluation of an EMDE, Ethiopia,[119] in which the cash economy and financial exclusion were identified as major themes. Financial inclusion levels in Ethiopia are low; more than 70 per cent of the population rely on cash or informal financial service providers. The report credits the Ethiopian Government with identifying the expansion of formal financial services as a national priority. The assessors made recommendations on strengthening the government's policy on financial inclusion and its coordination with its AML/CFT policy to ensure that money laundering and terrorist financing risks are considered and managed. The government was also advised to consider enabling financial institutions to apply simplified CDD for low-risk/low-value financial services products and providing guidelines on the acceptable identification documents to conduct the CDD process (ESAAMLG (2015, p 58)).

In some respects, FATF mutual evaluations—and the effectiveness assessment in particular—may provide incentives to build policy frameworks favourable to financial inclusion. However, FATF mutual evaluations differ from other types of financial sector assessments in a number of significant respects.[120] Accordingly, those incentives may not be directly transferrable to other types of financial sector assessments. Nonetheless, the mandate for assessors to consider the effectiveness of the implementation of SSB standards—and the addi-

118. For assessments that are underway or planned, see the current FATF Global Assessment Calendar at http://www.fatf-gafi.org/calendar/assessmentcalendar/?hf=10&b=0&s=asc(document_lastmodifieddate)&table=1
119. This assessment, published in June 2015, was conducted by the World Bank for the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG), the FSRB for Eastern and Southern Africa (ESAAMLG (2015)).
120. Some key differences, among others, include (i) a broader range of bodies participating in assessments (including FATF, FSRBs, IMF, and the World Bank), although all assessments are done against the same standards and use a common methodology; (ii) mutual recognition of assessments, including a formal agreement among FATF, the FSRBs, the World Bank, and IMF that the assessments conducted by the World Bank and IMF are presented to the relevant FATF plenaries as mutual evaluations, and that the assessments conducted by FATF and FSRBs can become ROSCs subject to pro forma review; (iii) a unique relationship to FSAPs and ROSCs, in that AML/CFT is the only set of standards under FSAPs and ROSCs for which there is a mandatory link between FSAPs and FSAP updates and up-to-date AML/CFT assessments; and (iv) a process put into place by FATF through which jurisdictions presenting strategic deficiencies (largely identified out of the AML/CFT assessments) are identified publicly. This last distinction is perhaps the most significant, as it raises the stakes regarding the conclusions drawn in FATF mutual evaluations.

tion of financial exclusion risks and steps taken to promote financial inclusion as factors to consider—set a valuable precedent.

A2. Self-Assessments by FSB and SSB Members and Peer Reviews

Overview

Although none is closely analogous to the FATF mutual evaluations, in recent years most SSBs have developed assessment programmes aimed at determining how their standards and guidance are being implemented by their members. Taking stock of limited resources and capacity for third-party financial sector assessments such as ROSCs and FSAPs, SSBs are increasingly providing tools and processes for self-assessments and peer reviews by their members.

The assessments generally provide participating national authorities with a report on their observance of standards (and in some cases guidance), which can help identify steps for improvement. In addition, assessments provide valuable feedback to the SSBs by identifying areas where their members may benefit from targeted capacity-building support and where standards may require additional clarity, further guidance, or revisions to current guidance.

In contrast with FATF's assessment methodology for mutual evaluations, financial inclusion considerations have not yet figured significantly in the other SSBs' methodologies for standards-related self-assessments and peer reviews (see Box 12, "Summary of FSB and SSB Self-Assessment and Peer Review Processes"). As SSB standards and guidance increasingly address financial inclusion considerations, the incorporation of financial inclusion into self-assessments and peer reviews can also be expected.

Thematic Self-Assessments of Financial Inclusion Based on Guidance

The IAIS has pioneered the adaptation of its self-assessment methodology with respect to its 2012 *Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets.* Instead of focusing on whether its standards were being observed, IAIS carried out an exercise focused on the extent to which insurance regulation and supervision in the self-assessed jurisdictions were supportive of inclusive insurance markets, using the application paper as the benchmark.

This financial inclusion self-assessment exercise had multiple objectives, including developing a greater understanding of the role of insurance regulators and supervisors in supporting financial inclusion, generating impetus for regulatory change, and establishing baseline information on supportiveness to contribute to the G20's work on financial inclusion by providing data on the state of financial inclusion in insurance. The detailed self-assessment review, based on the responses of 46 countries from all regions, concluded that the incidence of insurance regulation and supervision that supports financial inclusion is still low and the proportionate application of standards is still limited. Regulators and supervisors have understood the need for enhancing inclusive insurance markets but have not yet implemented approaches for enhancing inclusion in their respective jurisdictions.

The results of the IAIS self-assessment with respect to its primary inclusive insurance guidance call on regulators and supervisors to reflect financial inclusion in policy and practice in line with the application paper. They also provide a basis for benchmarking progress over time, if the exercise is conducted again. The exercise itself also suggests a model that other SSBs might consider repli-

BOX 12

SUMMARY OF FSB AND SSB SELF-ASSESSMENT AND PEER REVIEW PROCESSES

Although the self-assessment and peer review processes summarised below do not explicitly address financial inclusion considerations (with the notable exception of FATF), they have varying degrees of relevance depending on the linkages between financial inclusion and their primary subject matter and the profile of the jurisdiction being assessed.

FSB: FSB thematic and country peer reviews are an institutional mechanism to promote complete and consistent implementation of agreed G20/FSB financial reforms, covering topics such as macroprudential policy frameworks, over-the-counter derivatives reforms, resolution regimes, and shadow banking (FSB (2010)). Of likely greater relevance to financial inclusion are the Key Attributes assessments, which cover jurisdictions' implementation of the FSB's *Key Attributes for Effective Resolution Regimes* and also serve as guidance to jurisdictions that are adopting or amending national resolution regimes to implement the Key Attributes. The assessments apply to all jurisdictions, with the focus on the ability of the resolution regime to address any type of financial institution that could be systemically significant at a global, regional, or domestic level (FSB (2013)).

The assessment methodology was released in 2013 as a consultative document and revised following public consultation. Pilot assessments were carried out in 2015 by FSB, IMF, and the World Bank. The assessment methodology is to be finalised and implemented as part of FSAPs and ROSCs starting in 2016. Self-assessments prior to external assessments are also foreseen (FSB (2014c)).

BCBS: BCBS jurisdictional assessments review the extent to which members' regulations are aligned with minimum regulatory standards, primarily risk-based capital and liquidity coverage ratio standards and requirements on global and domestic systemically important banks. They do not cover observance of the BCPs, which are generally of greater relevance to financial inclusion.

CPMI: In 2012, CPMI and IOSCO released *Principles for financial market infrastructures: Disclosure framework and Assessment methodology* (CPSS and IOSCO (2012b)). Under this framework, CPMI and IOSCO conduct assessments at three levels: (i) self-assessment on adoption of legislation and policies that enable implementation of the principles; (ii) peer reviews on extent of implementation; and (iii) peer reviews on outcomes of implementation. The first Level 3 assessments began in mid-2015.

FATF: The FATF mutual evaluations and the *Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems* (FATF (2013c)) are discussed in the previous section, Part V A1, "FATF and FATF-Style Regional Bodies Mutual Evaluations".

IADI: IADI's *Compliance Assessment Methodology* was merged into the 2014 revised IADI CPs (IADI (2014)). Assessments, informed by IADI's (unpublished) "Handbook Guide for Assessors", identify the strengths of the deposit insurance system and the nature and extent of any weaknesses, to help the deposit insurers and policymakers benchmark their deposit insurance systems against the IADI CPs, and to aid deposit insurers to make improvements in the deposit insurance system and the financial safety net more generally.

IAIS: The IAIS Self Assessments and Peer Review process supports the IAIS mission of promoting effective and globally consistent regulation and supervision through facilitating greater understanding of the ICPs. This programme of thematic assessments (which group ICPs by theme) provides IAIS members with a tool to assess their current level of implementation of the ICPs, taking into account regulatory frameworks and supervisory practices. Although IAIS's self-assessments of ICP observance have not directly addressed financial inclusion, IAIS has pioneered the adaptation of its self-assessment methodology with respect to its 2012 *Application Paper on Regulation and Supervision of Inclusive Insurance Markets* (IAIS (2012)), as discussed further below.

IOSCO: IOSCO's Assessment Committee is responsible for developing and delivering programmes to identify and assess implementation of the IOSCO Principles and other standards and policies, with the objective of encouraging full, effective, and consistent implementation of the IOSCO Principles and other standards across IOSCO membership. Activities include country reviews based on self-assessments prepared by IOSCO members, and thematic reviews of particular IOSCO Principles and other standards across IOSCO membership to provide a snapshot of implementation of the IOSCO Principles, as well as work to support users of the *Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation* (IOSCO (2011b)), to keep the methodology up to date, and to assess the need to update the IOSCO Principles.

cating with appropriate modification with respect to their own methodologies for standard observance and financial inclusion guidance.[121]

B. FINANCIAL SECTOR ASSESSMENT PROGRAM AND FINANCIAL INCLUSION

Overview of FSAPs

The Financial Sector Assessment Program (FSAP) was designed in 1999 jointly by the World Bank and IMF in the aftermath of the Asian financial crisis. FSAPs are the joint responsibility of the World Bank and IMF in EMDEs and of the IMF alone in advanced economies. Since its inception, the programme has gained a reputation among the international community and participating countries as a critical tool to carry out a comprehensive and in-depth analysis of a country's financial sector. In addition, it provides the analytical foundation for much of the financial sector operational and technical assistance work at the World Bank and IMF.

FSAPs have become a key building block of the global financial architecture. Today, the diagnostic work underpinning FSAPs lays the groundwork for many important reforms, particularly in EMDEs, including increasingly reforms intended to promote financial inclusion, as discussed below.[122] The programme covers a wide range of topical areas, such as banking, capital markets, insurance, pensions, financial infrastructures, and others. FSAPs contribute to: (i) identifying strengths, risks, vulnerabilities, and development opportunities in financial systems; (ii) assessing the impact of the macroeconomic environment on financial sector performance, and vice-versa; and (iii) identifying links among sub-sectors of the financial system to determine the potential for systemic crises.

An FSAP has two main components: (i) the financial stability assessment, or "stability module", if done in a stand-alone basis (under IMF's responsibility); and (ii) the financial development assessment for EMDEs, or "development module", if done in a stand-alone basis (under the World Bank's responsibility).[123] The stability assessment focuses on vulnerabilities and resilience of the financial system, the quality of the regulatory and supervisory framework, and the capacity of authorities to respond effectively in cases of financial crisis or systemic stress; a summary of the key findings are included in the Financial

121. The IAIS, IADI, and IOSCO self-assessment and peer review methodologies take a similar approach in verifying member compliance with their respective core principles on an ongoing and systematic basis. These SSBs engage in thematic assessments to get a snap shot of members' compliance around key topics, as well as informing the standard-setting review process in case certain Principles need updating or adjustments. Furthermore, these SSBs promote the use of country-level self-assessments or guided assessments to enhance jurisdictions' understanding of the global core principles, and identifying the gaps in the local systems.

122. The integration of financial inclusion into all types of financial system assessments was one of the seven Key Action Items of the original G20 Financial Inclusion Action Plan (G20 (2010, p 11)), with a call to the World Bank and IMF to strengthen their approach and to apply uniform standards to the coverage of access to finance components, and to develop a uniform methodology in the area of financial inclusion. The framing of this objective was broadened in the 2014 revisions to the G20 Financial Inclusion Action Plan to apply more explicitly beyond FSAPs to all types of financial sector assessments, encouraging effective and consistent incorporation of financial inclusion, while at the same time adding emphasis on increasing the number of assessment methodologies and other tools addressing financial inclusion, and on expanding the number of publicly available financial sector assessment reports and findings reflecting increased understanding of financial inclusion by assessors.

123. See http://www.imf.org/external/np/fsap/faq/

System Stability Assessment (FSSA). The development assessment focuses on medium- to long-term needs for financial sector deepening and strengthening, including financial infrastructure development needs, obstacles to the sector's efficiency and competitiveness, the sector's contribution to economic growth and social development, long-term financial sector reforms.

The main findings and recommendations identified in an FSAP mission are communicated on a confidential basis to the authorities via the FSAP Aide Memoire, which cannot be published or shared. In addition, an FSSA report is prepared by IMF staff for discussion at their Executive Board, and in cases where the World Bank is involved, they prepare a Financial Sector Assessment (FSA) report for their Executive Board. Publication of the FSSAs and FSAs is voluntary but presumed.

Upon a country's request, FSAPs may also include Detailed Assessment Reports of compliance with relevant financial sector standards, codes, and good practices, summarised in a Report on Observance of Standards and Codes (ROSC).[124] ROSCs on banking, capital market, and insurance supervision (focused on BCBS, IOSCO, and IAIS standards) are the most frequently carried out during FSAPs. ROSCs may also be conducted outside the FSAP process. Additionally, a country may request that the FSAP include Technical Notes on selected topics of particular interest, including financial inclusion. Publication of Detailed Assessment Reports and Technical Notes is voluntary.

While FSAP objectives and coverage are broader than those of the evaluations, self-assessments, and peer reviews discussed in Part V A, "SSB Compliance Assessments and Financial Inclusion", all these assessments and the methodologies used to carry them out are closely related to FSAPs.[125]

Evolution in the Treatment of Financial Inclusion in FSAPs

The FSAP has evolved since its inception to adapt to changing policy and regulatory priorities and market developments, and to serve the needs of countries through a better targeted focus and more timely follow-up. Greater focus on EMDEs has been achieved through the implementation of development modules. These modular FSAPs provide an opportunity to perform deeper analysis on specific topics, including on financial inclusion related issues. In total, about 85 per cent of member countries of the World Bank and IMF across the income spectrum have now participated in FSAPs.

Financial inclusion related topics have become increasingly prevalent in FSAPs: of the approximately 210 FSAP exercises conducted jointly by the World Bank and IMF between 2000 and 2015, over 70 per cent included a Technical Note covering aspects of financial inclusion. An analysis conducted in 2014 by the World Bank identified trends in the focus on financial inclusion in FSAPs over the 2000–2013 period.[126] This analysis indicates that FSAP priority topics

124. ROSCs, a joint exercise of IMF and the World Bank, summarise the extent to which countries observe certain internationally recognised standards and codes. IMF has recognised 14 areas and associated standards as useful for its operational work and that of the World Bank.

125. Important examples include: (i) the mandatory link between FSAPs and FATF mutual evaluations carried out using the *Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems;* (ii) the examination of FSAP recommendations and follow-up under FSB country peer reviews; and (iii) the use of methodologies of specific SSBs in FSAPs (such as the use of IADI CPs methodology and the planned use of the forthcoming FSB methodology to assess observance of the *Key Attributes for Effective Resolution Regimes*).

126. This analysis is developed in the World Bank Group's 2014 unpublished brief *Financial Sector Assessment Programs (FSAPs): Coverage of Financial Inclusion in FSAPs—Evolution during 2000–2013*. See Appendix C, "Financial Inclusion in FSAPs".

relevant to financial inclusion have varied by region, with differing emphasis on the common themes of access to finance/SME finance, financial infrastructure, microfinance, and housing finance (see Figure 3 in Appendix C, "Financial Inclusion in FSAPs"). This is consistent with the shift in emphasis among financial sector policymakers, regulators, and supervisors worldwide to promote financial inclusion alongside the stability concerns that dominated when the FSAP programme was established.

The coverage of financial inclusion in FSAPs has focused on key aspects that aim to expand the access to, and usage of, quality financial services by financially excluded and underserved individuals and SMEs in EMDEs. The relevance and emphasis placed in these aspects have varied depending on the context and progress achieved on financial inclusion in a given country, as well as on the priorities set by its policymakers and regulators. Main aspects of relevance to financial inclusion targeted in the FSAPs conducted until now include the following: (i) strengthening the overall financial infrastructure; (ii) expanding financial outreach through agent banking and through e-money; (iii) developing legal and supervisory frameworks for NBFIs; (iv) enabling the conditions to foster SME finance; and (v) enabling consumer protection and financial education strategies. (See Box 13 for the World Bank Group's framing of the key financial inclusion-related aspects covered in previous FSAPs.)

The findings and recommendations from financial inclusion assessments in the FSAPs are widely used by national authorities to inform the design, prioritisation, and sequencing of policy and legal reforms, and related policy interventions such as the design of national financial inclusion strategies. FSAPs also inform the design and prioritisation of World Bank Group financial inclusion technical, knowledge, and financial support to national authorities.

Guidance on Treatment of Financial Inclusion in FSAPs

The World Bank has developed a draft Guidance Note on financial inclusion, to help standardise the treatment of financial inclusion as a crosscutting theme in FSAPs, and not only as the focus of one or more specialised Technical Notes. The Guidance Note will promote a standardised and consistent methodology for assessing financial inclusion across countries and regions, while providing more detailed guidance for in-depth analysis of specific financial inclusion topics through Technical Notes when they are identified as national priority areas. Prioritisation of specific topics covered in FSAPs is key and should be undertaken in line with government priorities and after a thorough assessment of key risks.

The draft Guidance Note has been piloted and is currently being updated to reflect evolving thinking and guidance (including with regard to the use of digital mechanisms for delivering financial services), the World Bank Group's Universal Financial Access conceptual framework, and the report of the PAFI Task Force.

The draft Guidance Note calls for, and provides detailed guidelines on:

- Integration of financial inclusion as a crosscutting theme in FSAP Aide Memoires, and FSAs, complemented by in-depth Technical Notes on priority topics; and
- A standardised approach to specialised financial inclusion Technical Notes along the main subtopics of: (i) public and private sector commitment; (ii)

BOX 13

KEY FINANCIAL INCLUSION ASPECTS COVERED IN FSAPS, 2000–2013

- **Strengthening financial infrastructure.** Financial infrastructure enables the effective operation of financial intermediaries, the exchange of information and data, and the settlement of payments between wholesale and retail market participants, fostering financial stability. FSAPs have focused prominently in evaluating the legal, institutional, and technological frameworks for payments and credit infrastructures.
- **Expanding financial outreach through agent banking and through e-money.** FSAPs have assessed the regulatory framework and challenges to implement and strengthen agent banking models and e-money services, which can provide lower cost access to low-income or relatively remote populations.
- **Developing legal and supervisory frameworks for NBFIs.** Even though NBFIs are not considered systemically important, from a financial inclusion perspective they are potentially highly relevant, as their main clients are low-income individuals and SMEs. Yet they sometimes operate under weak legal and prudential supervisory frameworks. FSAPs evaluate the financial conditions and the legal and supervisory frameworks for NBFIs to enable their transformation into sustainable and viable organisations, with the aim to provide safe and competitive financial services to their main clients.
- **Enabling the conditions to foster SMEs' access to finance.** Underdeveloped financial markets can leave the majority of SMEs without access to finance or accessing it via more rigid terms. FSAPs have focused on assessing the legal, institutional, and market conditions (including identification of barriers) for the development of more tailored financial products for SMEs (including leasing, factoring, contract finance), and on the design and effectiveness of liquidity arrangements and risk mitigation schemes (including partial credit guarantees).
- **Enabling consumer protection and financial education strategies.** Since the global financial crisis, policymakers have increased their attention and resources to strengthen consumer protection frameworks, in order to help ensure that financial inclusion is expanded safely and without leading to instability. The quality of financial services and products is directly related to an adequate financial consumer protection framework and to a reasonable understanding of financial services.

Source: World Bank Group

provider reach, diversity, and sustainability; (iii) product diversity and appropriateness for individuals; (iv) product diversity and appropriateness for SMEs; (v) financial consumer protection; and (vi) financial capability. Legal and regulatory issues, supervisory approach and capacity, and government policies and programmes are to be treated as cross-cutting themes within each subtopic. Depending on the scope of the FSAP, relevant aspects of other Technical Notes (such as financial infrastructure, insurance, pensions, or banking) will also be included or expanded in a specialised financial inclusion Technical Note.

The Guidance Note will contribute to the GPFI FIAP goal of reflecting increased understanding of the interdependence of financial inclusion, stability, integrity, and consumer protection in the methodologies and other tools employed in financial sector assessments.[127]

FSAPs and Article IV Consultations

FSAPs also figure prominently in the annual Article IV consultations, which are the main vehicle for IMF's bilateral surveillance and dialogue with mem-

127. The Guidance Note is following an internal World Bank and IMF consultation process, and will be implemented after being piloted in three FSAPs during the first half of 2016. The 2016 Work Plan of the GPFI Subgroup on Regulation and SSBs calls for the contribution of Subgroup members and Implementing Partners to a peer review prior to the finalisation of the FSAP Guidance Note. Recommendation 37 calls for the finalisation of the FSAP Guidance Note on financial inclusion, after appropriate consultation and review by interested SSBs and processes and the GPFI. (See Part VI C, "Observations and Recommendations on Financial Inclusion in Financial Sector Assessments".)

ber country authorities. As observed in Part III, IMF's work beyond FSAPs increasingly indicates that financial inclusion is macroeconomically relevant and therefore is related to IMF's core mandate. For instance, IMF is now planning to develop an operational framework for the analysis of macroeconomic linkages between financial sector development and inclusion. This will help integrate topics of financial sector development and inclusion as well as economic growth and inequality into Article IV consultations, which will then offer a structured opportunity to keep track of progress in implementation of financial inclusion policies, to the extent that these are macroeconomically relevant in a given country. The close integration of the FSAPs and the Article IV consultations offers the potential to monitor key FSAP recommendations relevant to financial inclusion.

VI.

OBSERVATIONS AND RECOMMENDATIONS

Building on the 2011 GPFI White Paper's observations and recommendations and the ongoing efforts of SSBs to integrate consideration of financial inclusion into their work, this White Paper concludes with observations that synthesise the broad themes introduced and recommendations for further engagement by multiple stakeholders. The SSBs[128] (including their chairs, governing bodies, members, and secretariats) are the primary audience for these observations and recommendations. Recognising that each SSB has its own processes for taking on projects to develop, review, and issue standards and guidance, the recommendations seek to inform such processes, not to supplant them. Additionally, they take into account the varying relevance of financial inclusion to each SSB's core mandates and the varying duration and nature of each SSB's engagement on the subject.

National regulators and policymakers also have work to do, which will depend heavily on local circumstances affecting financial inclusion and the reasons for ongoing financial exclusion. Progress may benefit from a coherent national strategy for financial inclusion and from national diagnostic assessments, such as the national risk assessments required by FATF in the AML/CFT context, which may offer opportunities to bring together relevant parties at the country level in collaborative processes. National regulators and policymakers can also contribute to the SSBs' understanding of financial inclusion issues through active engagement with them. This includes tackling the issues to overcome barriers to women's financial inclusion and seizing the opportunities to increase women's economic participation, a goal adopted by the G20 Leaders at the time of the 2014 Brisbane G20 Leaders' Summit (G20 (2014b)).

As with the 2011 GPFI White Paper, the observations and recommendations below are also relevant for a broader audience that includes: the G20; the GPFI and its Implementing Partners (AFI, BTCA, CGAP, IFAD, IFC, OECD, and the World Bank); UNSGSA; IMF; A2ii, as Implementation Partner of IAIS; additional similar bodies the other SSBs may adopt or develop as Implementation Partners; the G20/OECD Task Force on Financial Consumer Protection and FinCoNet; International Organisation of Pension Supervisors (IOPS); technical standard setters and related industry arrangements; and the growing number of

128. As used in this Part VI, "Observations and Recommendations", the term "SSB" refers to the organisations discussed in Part III, "Financial Inclusion and the Work of the Standard-Setting Bodies", including FSB. Where other global bodies are also covered, such as IOPS, FinCoNet, or the technical standard setters discussed in Part IV, "Evolving Topics of Relevance to Multiple Standard-Setting Bodies", they are generally referred to explicitly (bearing in mind that many of the recommendations may speak to broader audience, as noted below).

associations of providers involved with financial inclusion, such as GSMA (Groupe Speciale Mobile Association), regional and international banking associations, and the various industry groups representing financial cooperatives.

The general observations and recommendations in Part VI A are relevant to financial inclusion broadly. They are followed by more specific observations and recommendations (in Part VI B) on the crosscutting themes of relevance to multiple SSBs discussed in Part IV. Although some of the specific recommendations relate primarily or exclusively to a particular SSB, most address crosscutting issues relevant for most or all SSBs, underscoring the importance of SSB collaboration on financial inclusion (see Part II F, "Progress in Numbers, but Old and New Challenges Accompany New Opportunities: A Call for New Collaboration"). The White Paper concludes (in Part VI C) with observations and recommendations on financial inclusion in financial sector assessments.

A. GENERAL OBSERVATIONS AND RECOMMENDATIONS

The SSBs have taken steps of fundamental relevance to financial inclusion, acting on most of the observations and recommendations in the 2011 GPFI White Paper. Evidencing increased ownership of the issues, the SSBs have taken on workstreams and issued new guidance. Yet the developments catalogued in Part II, "The Evolving Landscape", reflect a changing context that is relevant to future SSB action. Two developments have particularly far-reaching ramifications: first, deepened thinking about the potential for a proportionate approach to financial regulation and supervision to contribute to both financial inclusion and financial stability, as well as to the linked objectives of financial integrity and consumer protection;[129] and second, the rapid scaling—in numerous markets—of innovative digital approaches to reaching excluded and underserved households and micro and small enterprises.

Enhancing Coordination and Collaboration among SSBs on Financial Inclusion

Observations

In the face of ongoing rapid change in the financial inclusion landscape, close cooperation among the SSBs has become more important. The SSBs confront, and will continue to confront, a growing range of issues on which coordination and collaboration among them will be required to harmonise the development and application of their standards and guidance.[130] This will be needed in order to treat similar emerging and shifting risks similarly and make use of cross-sectoral lessons learnt in the proportionate application of standards. Perhaps more importantly, it is needed to provide national policymakers, regulators, and supervisors with coherent frameworks of standards and guidance that can be applied proportionately across the full range of financial services and country contexts.

129. The November 2012 Communiqué of Meeting of G20 Finance Ministers and Central Bank Governors welcomed the "growing commitment among . . . SSBs to provide guidance and to engage with the GPFI to explore the linkages among financial inclusion, financial stability, financial integrity, and financial consumer protection". See G20 (2012).

130. This is illustrated, for example, in relation to customer identification and verification standards, discussed in Part IV D, "Customer Identity and Privacy", though the range of contexts in which coordination and collaboration among the SSBs will be required is of course much broader.

Recommendations

1. *Consider further joint work among the SSBs on issues of joint relevance and produce joint guidance, wherever appropriate, to help countries balance the potentially competing policy objectives introduced by a broad financial inclusion agenda.* A number of SSBs working on issues of common interest already cooperate and are given the opportunity to comment and contribute to each other's work. This collaboration could be enhanced on financial inclusion-related topics to address and resolve potential inconsistencies among different SSB standards or guidance.

2. *Support the GPFI's work to facilitate cooperation among the SSBs on an ad hoc basis and explore further options for collaboration among the SSBs on financial inclusion.*[131] For the present, the GPFI is well positioned to continue facilitating needed coordination and collaboration. Ultimately, this function should be vested in the SSBs themselves and they should guide the process by which this occurs. Interim steps such as the confirmation of financial inclusion contact persons for each SSB secretariat will help to ensure horizontal cooperation. The development of consistent policy positions on financial inclusion among the SSBs will also benefit from improved coordination within countries among organizations participating in the activities of multiple SSBs. When judged appropriate, other relevant global bodies may be brought into the process.[132]

3. *At the country level, support bodies or processes to foster coordination among multiple policymaking, regulatory, and supervisory authorities (including telecommunications and other non-financial authorities), and dialogue between authorities and providers, with the goal of informing both country-level policymaking and design of proportionate regulation and supervision, and global standards and guidance.* Increased dialogue with industry and cooperation with other government agencies will help regulators and supervisors to gain a deeper understanding of financial inclusion developments and their associated risks and to make well-informed decisions such as the determination of appropriate supervisory approaches and the issuance of proportionate guidelines or regulation. This dialogue and cooperation should in turn inform—and over time be informed by—the crosscutting work of the SSBs and the technical standard setters, including those organised by industry actors.

Considering Country Context

Observations

For some EMDEs with high levels of financially excluded and underserved households and micro, small, and medium enterprises, full compliance with current SSB standards may be a long-term goal. In such contexts, SSB guidance needs to accommodate widely varying financial market structures (especially with the advent of digital financial inclusion, introducing new non-bank actors including non-financial firms) as well as varying levels of policymaking, regulatory, and supervisory capacity.[133]

131. This is consistent with the call by BIS General Manager Caruana at the time of the Second GPFI Conference on Standard-Setting Bodies and Financial Inclusion for the SSBs to work together, leveraging the synergies that result from such interaction (Caruana (2014)).
132. Potential candidates include, among others, IOPS, FinCoNet, and technical SSBs and other arrangements for technical standard setting, depending on the issue and context.
133. This applies not only to financial inclusion guidance, but to most SSB guidance generally.

Recommendations

4. *While upholding the objective shared by the SSBs of global standards that can be applied across jurisdictions, also consider the implementation challenges encountered in the full range of country contexts in developing guidance, including the situation of countries with limited regulatory and supervisory capacity and high current levels of financial exclusion.* While SSBs' normative standards of relevance to increasing financial inclusion may be designed to be applied flexibly in all country contexts and in cross-border finance, advisory guidance will generally need to consider the implementation challenges encountered in the full range of country contexts. Country-level policy makers have an important role to play in articulating their needs, such as through active participation in available SSB outreach forums and processes.

5. *Consider, as appropriate, alternative structures and partnerships to leverage capacity-building resources for national policymakers, regulators, and supervisors.*[134] Increasing attention will be needed to countries' capacity to implement SSB standards and guidance. The SSBs themselves may not always be best positioned to address implementation capacity shortfalls among their members, and in some cases such activities fall outside their mandate. These factors suggest consideration by some SSBs of alternative structures and formal or informal partnerships to leverage capacity-building resources, such as free-standing implementation partners along the lines of A2ii in the case of IAIS or the World Bank Group's Financial Sector Reform and Strengthening Initiative (FIRST) Program and Financial Inclusion Support Framework. Peer learning platforms such as AFI's working groups may also help address implementation capacity shortfalls.

Concept of Proportionality Applied to Financial Inclusion

Observations

There is broad consensus among SSBs that proportionate application of global standards is important for financial inclusion. This is reflected in revisions of standards to embed the concept in an overarching way. The current challenge is to determine how far global SSBs can go towards specifying "proportionality in practice", as this entails different approaches across jurisdictions (given varying country contexts) and across service providers (especially considering the evolving landscape of digital financial inclusion). Across all the SSBs—as well as the GPFI and its Implementing Partners and other global bodies such as IMF—there are myriad examples of analytical work aimed at deepening thinking about the potential for a proportionate approach to financial sector policymaking, regulation, and supervision to contribute both to financial inclusion and financial stability, as well as to the linked objectives of financial integrity and consumer protection. The risks of financial exclusion also merit consideration in this context.

Recommendations

6. *Develop guidance for practical application of the concept of proportionality in the numerous specific cases where a high-level articulation is insufficient to*

134. Capacity building shortfalls in relation to the application of standards and guidance cannot be addressed in isolation, but should be addressed in a holistic way. A national strategy on financial inclusion may help in the strategic allocation of scarce resources.

guide policymakers, regulators, and supervisors. Some relevant SSB-specific guidance projects are already well underway. Much of the guidance that will be needed could benefit from collaboration among multiple SSBs and other global bodies, given the varying ways the concept of proportionality is applied in their standards and guidance.

7. *Continue to collect and disseminate data that would enable cross-jurisdictional comparisons of experiences in implementing proportionate, risk-based regulation and supervision.* The evidence base to support SSB guidance on proportionate approaches to regulation and supervision that are supportive of financial inclusion is sparse, but growing. For the time being, case studies and similar country-level research exercises can help enable countries to learn from each other's emerging experience, as a complement to the already existing high-level guidance. SSBs can also help build the evidence base with range of practice surveys.

Deepening Understanding of Changing Risks and Benefits of Financial Inclusion

Observations

Increasing financial inclusion (especially digital innovation) will change the nature and sources of risks. The massive ambitions of some financial inclusion initiatives (whether based on innovative or more conventional approaches—or a combination) mean these changes could also be massive in scale. At the same time, the economy-wide benefits of financial inclusion, such as inclusive economic growth, efficiency, and increased welfare, have the potential both to offset these changing risks and to mitigate the risks of financial exclusion. For both these reasons—the risks and the benefits—the implications of increasing financial inclusion for country-level policymaking and for SSB standards and guidance are potentially significant.

Recommendations

8. *Deepen understanding of the factors that distinguish digital financial inclusion.* Both country-level policymakers and the SSBs need to incorporate in their work consideration of the new providers and combinations of providers, the digital technology, the use of agents by providers, the new and bundled products and services, and the characteristics of excluded and underserved consumers. Given the dynamic nature of developments in digital financial inclusion—particularly in technology—and the potentially rapid pace of change, this will be an ongoing process.[135]

9. *Conduct further research on the interdependence of financial inclusion, stability, integrity, and consumer protection.* For each SSB, all four objectives are relevant but they have varying significance depending on the SSB's core mandate. At the country level, the same applies to policymakers, regulators, and supervisors. Although the specific linkages among financial inclusion, stability, integrity, and consumer protection remain little researched, the emerging evidence points to synergies among the four as well as potential trade-offs. Further research could yield tools to optimise the linkages, maximising the synergies and minimising the trade-offs. Country-level policymaking con-

135. See detailed Recommendations in Part VI B, including in particular Recommendations 12–18.

sciously undertaken with a view to identifying, managing, and optimising the linkages will help to build an evidence base useful to the SSBs as well.

Deepening Understanding of Financial Exclusion Risks

Observations

The potential ramifications of high levels of financial exclusion for institutional and systemic stability and integrity and the relationship between financial sector regulation and financial exclusion remain little studied by the SSBs and other global bodies. This goes as well for the relationship between financial consumer protection and financial integrity regulation and ensuring the trust needed for excluded and underserved customers to join the formal financial system by choice.

Without a better understanding of the drivers and specific risks of financial exclusion—as well as the relationship among financial sector regulation, supervision, enforcement, compliance, and financial exclusion—policymakers at the country level are challenged to calibrate regulatory and supervisory measures aimed at optimising the linkages among financial inclusion, stability, integrity, and consumer protection. The SSBs themselves face similar challenges, especially given the important cross-border dimensions of financial exclusion risks. A better understanding of financial exclusion drivers and risks is important both to the design of proportionate SSB standards and guidance at the global level and to proportionate regulation, supervision, and enforcement at the country level.

Recommendations

10. *Work towards the development of a common understanding of the risks of financial exclusion.* This will help the SSBs to assess the impact of financial exclusion on the policy objectives of financial stability, integrity, and consumer protection and to understand the relevance of financial exclusion to the mandates and work of the individual SSBs. While such an understanding is a precondition for commonly accepted assessments of financial exclusion risk levels globally, regionally, and at a national level, it is an ambitious undertaking given the current state of knowledge. An initial step would be a comprehensive SSB-by-SSB analysis of challenges posed by financial exclusion to the pursuit of each SSB's mandate.

11. *Explore development of a framework to assess the impact of financial sector regulation, supervision, enforcement, and institutional compliance practices on financial exclusion risks and their mitigation.* A common understanding of the risks of financial exclusion will allow work to begin exploring the development of such a framework. An initial step could be jointly undertaken country case studies, perhaps within the context of SSB outreach bodies and regional consultative bodies. The next step could be the development of processes for collecting quantitative and qualitative data to track changes in financial exclusion risk levels. The data can be used to help inform financial sector policies at the country level and standards and guidance at the global level.

B. OBSERVATIONS AND RECOMMENDATIONS ON EVOLVING TOPICS OF RELEVANCE TO MULTIPLE SSBs

The evolution of crosscutting issues in financial inclusion since the publication of the 2011 GPFI White Paper touches core interests and calls for the engagement of multiple SSBs, as well as potentially other global bodies. These issues raise many specific examples of the general observations and recommendations above. In particular, many exemplify issues on which collaboration is needed among multiple bodies.[136]

Digital Financial Inclusion—Opportunities and Risks

Observations

Regulators and supervisors are in the early stages of learning about and assessing the new and shifting risks associated with digital financial inclusion and of adjusting their regulatory and supervisory approaches to address and accommodate these developments.

Recommendations

The following recommendations expand on Part VI A, subsection "Deepening Understanding of Changing Risks and Benefits of Financial Inclusion", Recommendation 8, and complement Part VI B, subsection "Emerging Issues in Supervision and Financial Inclusion". Recommendations 12 through 16, and Recommendation 18 touch on emerging supervisory issues.

12. *Provide further guidance on proportionate regulation and supervision of financial institutions engaged in digital financial inclusion.* The guidance could illustrate how the design of proportionate supervision and regulation (including licensing) is critical to creating an enabling environment for increased outreach by existing providers and entrance of new providers, including non-bank e-money issuers (see Recommendation 6), while also protecting consumers (see Recommendations 19–24). Such guidance should emphasise the importance of cooperation and collaboration among the relevant financial and non-financial authorities (see Recommendation 3).

13. *Provide guidance on regulating and supervising financial institutions' use of agents as a primary channel to deliver digital financial services to financially excluded and underserved customers.* The guidance could emphasise the need for providers to have policies and procedures for selecting, training, and monitoring agents, and address issues related to agents' compliance with AML/CFT rules and liquidity management, as well as consumer protection (see Recommendation 20).

14. *Provide additional guidance on regulating and supervising providers outsourcing activities to other third parties.* Digital financial inclusion often involves other important outsourcing beyond the use of agents, such as the account management function in the case of small-balance accounts. While general guidance on outsourcing may cover most important issues, the subject may call for new thinking and potentially new guidance in the context of digital

136. Where joint guidance or other similar group action is called for in a given recommendation, no implication is intended as to which bodies should necessarily be involved. Conversely, if no group action is explicitly mentioned, this does not imply that guidance should not be jointly developed by multiple bodies.

financial inclusion, such as the management of risks associated with the loss of customer account data if the manager of small-balance accounts fails.

15. *Provide guidance on bundled products.* The offering of bundled products—financial and potentially non-financial—to excluded and underserved customers presents new challenges to effective regulation and supervision when it involves multiple regulatory and supervisory authorities. While some issues may be addressed by cooperation among country-level policymakers, regulators, and supervisors, joint guidance from SSBs as well as other global bodies may also be useful.

16. *Underscore the obligation of the regulator and the supervisor to understand the technology used in digital financial inclusion.* It will be important that guidance emphasise the need for regulators and supervisors to devote adequate resources to ensure that they understand and are familiar with the new technologies and their risks—including data security risks—in order to set appropriate minimum standards and to ensure that providers meet such standards and have adequate plans, policies, and internal controls.

17. *Examine and consider using as regulatory tools technical standards of particular importance to digital financial inclusion.* Technical standards can help regulators to navigate the entry of new providers and new technologies and to enable interoperability of payment systems while attending to safety and security of financial transactions. Adherence to technical standards by financial service providers (including providers of financial sector infrastructure) can offer regulators assurances of adequate levels of safety and security of financial transactions and can enable interoperability. Technical standard setters could also provide guidance and assistance to regulators, supervisors and central banks regarding: (i) necessary upgrades to their systems' technology to keep up with digital innovations, and (ii) reform of the payments system infrastructure to enable non-bank financial institutions to participate and to achieve interoperability. While regulators may apply different standards to different providers and products (depending on the risks involved), lowering the security standards bar for lower-risk scenarios—such as small-value transactions or limited service providers—should not come at the expense of integrity of and interoperability with providers and markets that comply with higher security standards.

18. *Considering the increasing overlap between prudential supervision of banks and non-banks and oversight of payment systems resulting from new types of providers (such as limited service banks that offer transactional accounts and non-bank e-money issuers), collaborate on assessing and addressing the risks introduced by non-banks, such as reliability and security of their technology.* Prudential regulators and supervisors may focus on licensing requirements and the application of a proportionate approach; overseers of payment systems, given their typical interest in guiding rather than dictating arrangements between providers, may focus on helping payment systems to understand the new and shifting risks associated with non-banks, in order to set appropriate risk-based requirements for their participation in the systems. Such collaboration could address operational issues (for example, criteria regarding information technology capabilities), financial and legal requirements (such as required initial capital and licensing to engage in cer-

tain activities), and risk management expertise. Payment systems that are limited to banks could consider the benefits of and criteria for opening access to non-banks, as they can be a key factor in spurring innovation and competition.

Frontiers in Inclusive Financial Consumer Protection

Observations

The recommendations from the 2011 GPFI White Paper with regard to financial consumer protection remain relevant. In addition, the rapid developments in digital financial inclusion trigger new issues in financial consumer protection including many that relate to the distinguishing characteristics of excluded and underserved customers. There are many more actors—banks, non-bank financial institutions, non-financial firms, and agents—than in traditional retail banking and insurance. This adds to the potential complexity and raises new issues, including in particular the use of agents as the primary interface with consumers. The digital products themselves also bring with them novel consumer protection challenges. While some important issues fall within the purview of the SSBs, other global bodies such as FinCoNet could play useful roles. Furthermore, the experience of country-level policymakers will be critical to informing global action.

Recommendations

19. *Develop guidance on key elements needed to improve protection of customer funds stored in digital transactional platforms of non-banks. Many countries have adopted regulation requiring such providers*[137] to place customer funds in a trust or other similar custodial account with a prudentially regulated and supervised financial institution.[138] Further work is needed to explore the most effective mechanisms to protect such funds in the case of the failure of the account provider, the holder of funds, or a third-party account manager, and also to ensure in such situations that the funds can be promptly reimbursed to customers and can be accessed by customers without major interruption.

20. *Underscore the importance of clarity regarding provider liability—in regulation and customer agreements—with respect to conduct of agents and other third-party service providers, including in the case of bundled products.* The role played by agents in digital financial inclusion introduces certain specific risks, including the risk of mis-selling or sale of unsuitable products. The likelihood that multiple products will be offered bundled (as is invariably the case with MNO-based digital transactional platforms and when additional financial and non-financial products are offered via digital transactional platforms) adds to the potential lack of clarity as to what party is liable for agents' conduct. Licensing and ongoing conduct requirements for providers should include policies and procedures for training (and monitoring) agents on financial consumer protection issues (see Recommendation 13).

21. *Develop guidance on effective transparency and disclosure for digital financial services, including bundled products or services.* It will be important that guidance take into consideration, among other factors, the particular vul-

137 In many countries, these providers include non-banks that are not members of the deposit insurance scheme and do not have access to central bank funds.

138 Regulation in some countries prescribes appropriately safe and liquid investments in which customers' funds must be invested.

nerabilities of excluded and underserved customers and the challenges of communicating—via a small screen—terms and conditions, pricing, rights, and recourse arrangements. As customers of digital financial services can be offered multiple financial and non-financial products on a digital transactional platform, SSBs and other relevant global bodies may also want to develop specific guidance addressing the disclosure issues raised by such bundling practices.

22. *Develop guidance on means of recourse and complaint mechanisms, including for unauthorised and mistaken transactions.* Customers should have the opportunity to file complaints via the same means as the product delivery (for example, by mobile phone in the case of MNO e-money issuers). Responses should also be made by the same delivery mechanism.

23. *Develop guidance on data protection, privacy, and minimum data security standards for technology and business models used in digital financial services, as well as customers' means of correcting inaccurate data.* Requirements should cover, among other things, the unauthorised use of personal data for purposes unrelated to the original purpose of collection, and customers' access to (and capacity to use) means to correct inaccurate data.

24. *Explore among SSBs and other relevant global bodies ways to ensure that customers have the same consumer protection regardless of the type of provider.* Given the multiple types of providers of digital financial services and the various possible combinations of providers—as well as the multiple policymakers, regulators, and supervisors involved—cross-sectoral consultation and sharing of information, at a minimum, is critically important to effective consumer protection. Ultimately, joint guidance on cross-sectoral consumer protection issues of relevance for multiple bodies may be needed.

Competition and Interoperability

Observations

Developing digital payment services for the financially excluded and underserved requires consideration of competitive dynamics early on, because of the potential network effects. The same holds true of digital transactional platforms. A compelling argument can be made during the early stages of development of digital transactional platforms that policymakers should focus their attention on ensuring that interoperability is technologically feasible, while also ensuring that they have both the necessary information and regulatory power to intervene when there is evidence that a dominant position is being exploited. The extent to which customers of competing digital financial service providers are able to transact business with each other, and the role—if any—that regulation and regulators, payments overseers, or supervisors should play in working towards this objective, are fundamental issues in digital financial inclusion.

Recommendation

25. *Explore the role, timing, and possible scope of regulatory mandates and other approaches to promoting interoperability of digital transactional platforms.* Case studies comparing mandated interoperability with market-driven approaches could be useful. The roles policymakers, regulators, and supervisors can play to encourage market-led approaches also merit examination

and analysis. Given the frontier nature of the issue and variation in country and market context, guidance on these topics may be premature.

Customer Identity and Privacy

Observations

Customer identification and risk management is relevant to all the SSBs for overlapping—yet also distinct—reasons. There is a risk that relevant standards and guidance issued by different SSBs may appear to conflict (due to inconsistencies in framing) or may in fact conflict.

As digital financial inclusion involves more individuals and institutions (agents, MNOs, banks, and other financial and non-financial firms) in the handling of personally identifying customer data than ever before, customer-centred security measures such as the use of PINs may not provide appropriate protection. Moreover, hacking risks, including the vulnerability of cheap smartphones to malware, give rise to data security concerns. In addition, data loss and privacy breaches may increase the risk of identity fraud and abuse of consumer data, adversely affecting customers' usage of digital financial products.

Technological innovations on the horizon may provide the means to securely identify users without the large-scale massive and continuous sharing of personal information required by the current customer identification and verification measures that underpin modern financial services. There is an opportunity for cooperation among SSBs to improve their understanding of the benefits and risks of these technologies.

Recommendations

26. *Explore the joint development of "sound practice" case studies identifying the contexts where financial institutions could appropriately apply standard and simplified CDD and the acceptable range of standard and simplified CDD measures that could be allowed by regulators and employed by providers (while considering also varying risk profiles of countries and providers).* While care would be needed to highlight the risk-specific nature of appropriate approaches to all CDD measures, such jointly developed case studies could demonstrate how the 2012 FATF Recommendations and related subsequent guidance on low- and lower-risk scenarios can be interpreted harmoniously with the standards and guidance developed by other SSBs during this period. FATF's best-practice paper on CDD and financial inclusion that is currently being drafted provides an excellent opportunity for collaboration.

27. *Explore jointly consumer data privacy and security risks in digital financial inclusion and potential solutions driven by new technology.* To inform the setting of SSB standards that would align the objectives of financial integrity, inclusion, customer protection, and stability, such a joint exploration could study the use, abuse, and protection of customer data, including the challenges faced in data protection and the impact of appropriate regulatory measures, and the emerging new technologies relevant to customer data and the protection of privacy.

Crowdfunding

Observations

Crowdfunding is expanding rapidly in varying country contexts, with market participants and market observers striving to keep pace with and assess developments. Policymakers have limited—and only recent—experience in the regulation and supervision of crowdfunding, and thus far such experience is primarily in developed economies with well-regulated capital markets and established financial consumer protection frameworks.

Both the SSBs and country-level policymakers recognise the tension between encouraging market-based funding, particularly of micro, small, and medium enterprises often not well served by the banking sector, while also protecting consumers. In the digital financial inclusion context, this calls for attention to both ends of the crowdfunding transaction, given that both borrowers and lenders may be unsophisticated. As crowdfunding grows, so will the need to consider its financial integrity and even financial stability ramifications.

Recommendation

28. *Conduct further research and analysis on the potential risks and benefits that crowdfunding presents for borrowers, investors, lenders, and the integrity and stability of the financial system in markets with high levels of financial exclusion and potentially fast-growing crowdfunding options.* Given that much of the experience to date with the regulation of crowdfunding comes from developed economies, it would be useful to examine the unique challenges and opportunities of crowdfunding involving financially excluded or underserved customers (as both funders and recipients of funds) to inform the development of proportionate regulation.

De-risking and Financial Exclusion

Observations

There is concern among national regulators and policymakers and the SSBs regarding the large-scale termination or restriction of relationships and lines of business by banks seeking to avoid, rather than to continuously manage, the relevant compliance, operational, and reputational risks as envisaged under the proportionate and risk-based approaches of global standards. The scope and drivers of the phenomenon—referred to by banks as “de-risking”—are complex, and relevant aspects have not yet been fully studied and publicly documented. At the same time, the effects on affected communities and countries could not only undermine financial inclusion but also potentially hold broader implications for the global financial system and for poverty reduction and economic development efforts.

Recommendations

29. *Support the research agenda to continue gathering adequate data to assess the scope and drivers of the de-risking phenomenon, to enable affected countries and the SSBs to fashion appropriate policy responses.* The recent and ongoing remittance focused data-gathering efforts of the World Bank for the GPFI and the World Bank’s correspondent banking survey undertaken for FSB with CPMI support represent important first steps. Further cooperation is appropriate to address any unintended side-effects in the implementation

of relevant international standards. The focus on adequate data is justified, as is an emphasis on urgently understanding where de-risking may have a disproportionate effect on vulnerable persons and fragile states. Affected countries (at both ends of cross-border transactions) are particularly motivated to contribute to the data gathering.

30. *Encourage supervisors to work with industry on risk management practices to ensure that risks posed by specific business relationships are correctly identified, assessed, monitored, and efficiently managed and mitigated.* In addition to data gathering efforts on the scope and drivers of the phenomenon, national supervisors have a critical role and an interest to collect and share data on appropriate, cost-effective risk management practices, and to support the identification of disproportionate—including possible overly conservative—risk management approaches. This, in turn, can inform evidence-based yet pragmatic policy on this dynamic phenomenon.

Emerging Issues in Supervision and Financial Inclusion

Observations

The greater attention paid to financial inclusion issues by supervisors has put on their radar a wide range of actors involved in providing financial services to segments of excluded and underserved consumers. They include limited-service financial service providers that may be small in terms of assets but large in terms of number of customers, as well as non-financial firms developing new financial products, services, or delivery channels in partnership with financial institutions or directly offering such products to consumers with potential for rapid, massive uptake. These developments may take on systemic dimensions and thus highlight the need for supervisors to invest time and resources in understanding the characteristics and risks of such developments.

Recommendations

The following recommendations complement Recommendations 12 through 16 and Recommendation 18 in Part VI B, subsection "Digital Financial Inclusion—Opportunities and Risks":

31. *Develop programmes to build and strengthen supervisory knowledge and capacity on financial inclusion-related issues.* Supervisors would benefit from country-level, regional, and global training programmes; direct technical assistance and institutional development programmes from international organisations; and peer or mutual learning programmes with supervisors from relevant countries. In addition to those SSBs with mandates that extend to such activities and implementation partners such as A2ii, other global bodies (such as the GPFI Implementing Partners), regional associations of supervisors, the World Bank, IMF, and regional and global training institutions could play important roles.

32. *Develop guidance for supervisors with respect to large numbers of geographically dispersed, small providers as well as unlicensed or informal providers.* This may include guidance on: (i) setting up market monitoring processes, techniques, and tools that would help identify emerging risks at the sectoral level and the systemic relevance of financial providers; (ii) when to extend the supervisory remit to include any such providers and what cost-effective approaches and tools to use for such transitions to supervision; and (iii) the

need to coordinate and collaborate with other government authorities, associations of providers involved with financial inclusion, and non-governmental organisations.

33. *Develop guidance on supervisory approaches with respect to providers developing new types of digital financial products targeted at excluded and underserved consumers.* Often these products have more than one functionality or may not clearly fit the concept of traditional products and thus could be under the remit of more than one supervisor (including potentially non-financial supervisors). Supervisors would benefit from joint guidance on cross-sectoral issues of relevance, including information exchange, coordination and collaboration among supervisors, and supervisory dialogue with relevant private sector actors involved in providing digital financial products.

34. *Develop guidance on techniques and tools that facilitate effective risk-based supervision of financial providers targeting excluded or underserved consumers.* Guidance may cover data collection needs (without overburdening providers), mechanisms for information-sharing among multiple authorities, and dialogue with industry, as well as use of technological innovations and of consumer research in several stages, including at the stage of the design of new or improved rules, during offsite supervision, and during onsite supervision. (See Recommendations 6 and 7.)

35. *Strengthen inter-institutional supervisory coordination on financial inclusion at the country level and across borders.* At the country level, the establishment of well-defined, formal processes for coordination on financial inclusion issues could foster the development of formal mechanisms for technical cooperation and coordination among supervisors, and between supervisors and non-financial authorities where relevant, to facilitate not only information exchange but also arrangements for joint supervisory actions. At an international level, cross-border cooperation and coordination mechanisms among supervisors could also be strengthened, particularly where cross-border digital financial services are expanding rapidly, to improve information sharing at different supervisory stages and to improve effectiveness of supervisory actions.

C. OBSERVATIONS AND RECOMMENDATIONS ON FINANCIAL INCLUSION IN FINANCIAL SECTOR ASSESSMENTS

Thematic Self-Assessments of Financial Inclusion Based on Guidance

Observations

Taking stock of limited resources and capacity for third-party financial sector assessments such as ROSCs and FSAPs, SSBs are instead increasingly providing tools and processes for self-assessment and peer reviews by their members. IAIS adapted its ICP self-assessment methodology for use with respect to its 2012 *Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets*—the IAIS' primary inclusive insurance guidance. This pioneering adaptation served multiple objectives for supervisors in the participating countries, including developing a greater understanding of their role in supporting financial inclusion, generating impetus for regulatory change, and gathering data on the state of financial inclusion in insurance, which in turn established baseline information that contributed to the G20's work on financial inclusion.

Recommendation

36. *Adapt SSB self-assessment methodologies on observance of standards for use with respect to financial inclusion guidance and encourage periodic repetition of self-assessments.* The IAIS self-assessment exercise with respect to its primary financial inclusion guidance suggests a model that other SSBs might consider replicating with appropriate modification with respect to their own standards observance methodologies and financial inclusion guidance. Both IAIS and other SSBs might wish to encourage members to repeat such self-assessments as a basis for benchmarking progress over time.

Financial Sector Assessment Program and Financial Inclusion

Observations

The steadily increasing demand by assessed countries to have financial inclusion issues covered in FSAP assessments stands as a validation of the importance given to these issues by policymakers, regulators, and supervisors. The emphasis in the GPFI's governing documents on improving the effectiveness and consistency of the treatment of financial inclusion in FSAPs and ROSCs—as well as improving tools and methodologies available to assessors and their understanding of financial inclusion—also justify increased attention to these issues. There is a current opportunity to contribute to more consistent incorporation of financial inclusion in FSAPs through better guidance and training for assessors on financial inclusion.

Recommendations

37. *Finalise the FSAP Guidance Note on financial inclusion currently being piloted, after appropriate consultation and review by interested SSBs and processes and the GPFI, as a step towards standardising the approach taken to the topic in FSAP Aide Memoires, FSSAs, FSAs, and Technical Notes.* Given its significance, the draft FSAP Guidance Note will benefit from a peer review process that includes input from the GPFI and relevant SSBs and processes discussed in Part III, "Financial Inclusion and the Work of FSB and of Standard-Setting Bodies", such as the Workstream on Financial Inclusion of the BCG, the PAFI Task Force, IADI's Subcommittee on Financial Inclusion and Innovation, the IAIS Financial Inclusion Working Group, and IOSCO's Growth and Emerging Markets Committee.

38. *Ensure monitoring of financial inclusion policies in the context of IMF's surveillance mandate through Article IV consultations.* IMF's work beyond FSAPs increasingly indicates that financial inclusion is macroeconomically relevant and therefore is related to the IMF's core mandate. There is room to expand upon the recent experience with the development of an operational framework that formally integrates financial inclusion topics

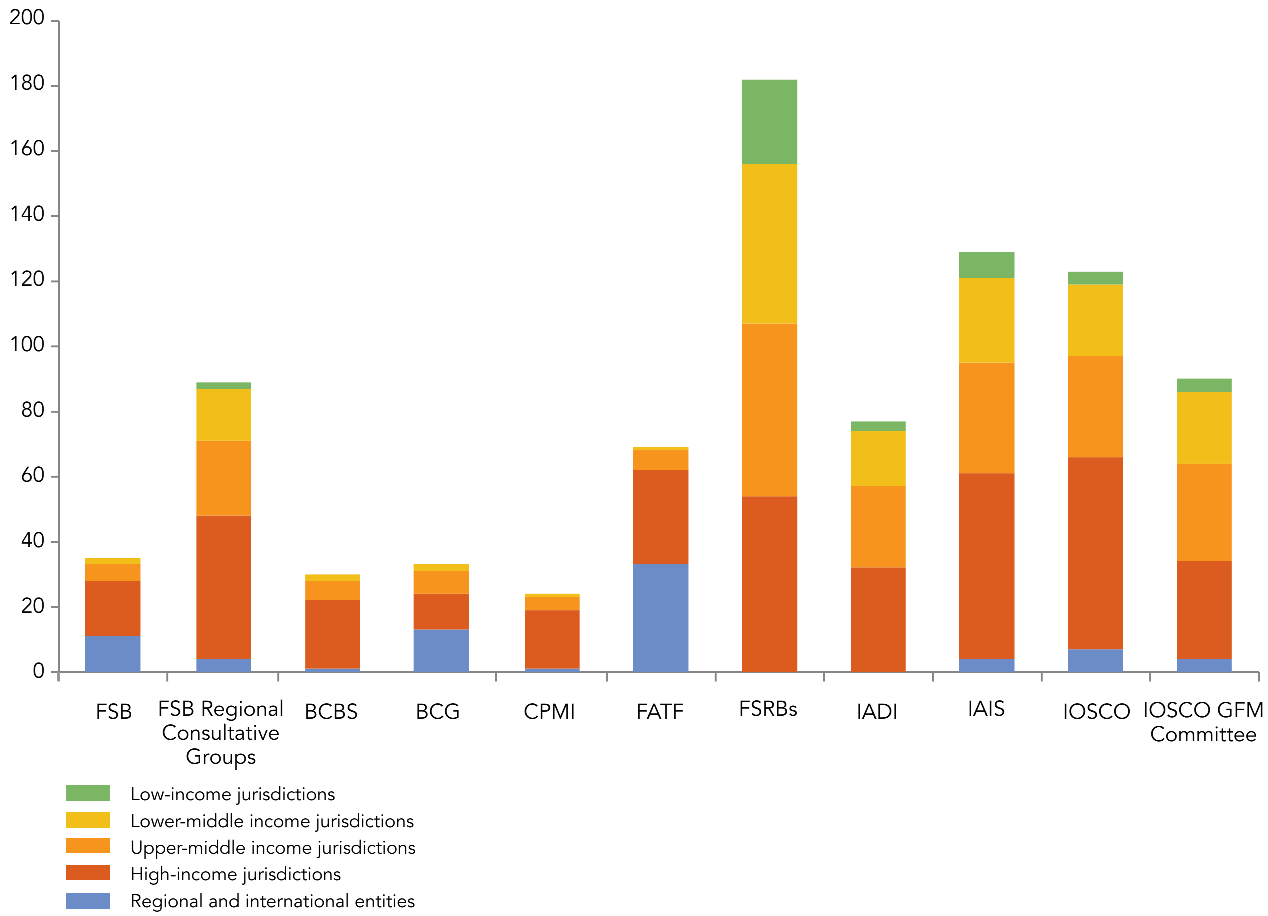
into Article IV consultations. To ensure due consideration to financial inclusion policy, Article IV reports can bring in FSAP recommendations in this area, take into consideration financial inclusion challenges and policies in the framing of a country's reform agenda, and include financial inclusion measures in Joint Management Action Plans, when developed within the Article IV process.

APPENDICES

APPENDIX A

MEMBERSHIP OF FSB AND THE SSBs

FIGURE 1: SSB Membership Affiliation by Country Income Level
Includes Associate Members and Observers, where applicable



FSB Members: Argentina (Ministry of Public Finance, Banco Central de la República Argentina), Australia (Reserve Bank of Australia, The Treasury), Brazil (Banco Central do Brasil, Comissão de Valores Mobiliários, Ministério da Fazenda), Canada (Bank of Canada, Office of the Superintendent of Financial Institutions, Department of Finance), China (People's Bank of China, China Banking Regulatory Commission, Ministry of Finance), France (Banque de France, Autorité des Marchés Financiers, Ministry of Economy and Finance), Germany (Deutsche Bundesbank, Bundesanstalt für Finanzdienstleistungsaufsicht (Bafin), Bundesministerium der Finanzen), Hong Kong SAR (Hong Kong Monetary Authority), India (Reserve Bank of India, Securities and Exchange Board of India, Ministry of Finance), Indonesia (Ministry of Finance, Bank Indonesia), Italy (Banca d'Italia, Comissione Nazionale per la Società e la Borsa, Ministero dell'Economia e delle Finanze), Japan (Bank of Japan, Financial Services Agency, Ministry of Finance), Mexico (Banco de México, Secretaría de Hacienda y Crédito Público de México), The Netherlands (De Nederlandsche Bank, Ministry of Finance), Republic of Korea (Bank of Korea, Financial Services Commission), Russia (Central Bank of the Russian Federation, Ministry of Finance), Saudi Arabia (Saudi Arabian Monetary Authority, Ministry of Finance), Singapore (Monetary Authority of Singapore), South Africa (South African Reserve Bank, Ministry of Finance), Spain (Banco de España, Ministerio de Economía y Competitividad), Turkey (Central Bank of the Republic of Turkey, Undersecretariat of the Treasury), United Kingdom (Bank of England, Financial Conduct Authority, HM Treasury), United States of America (Board of Governors of the Federal Reserve System, U.S. Securities and Exchange Commission, U.S. Department of the Treasury), European Union (European Central Bank, European Commission), Bank of International Settlements, International Monetary Fund, Organisation for Economic Co-operation and Development, The World Bank, Basel Committee on Banking Supervision, Committee on the Global Financial System, Committee on Payments and Market Infrastructures, International Association of Insurance Supervisors, International Accounting Standards Board, International Organization of Securities Commissions

Members of the FSB Regional Consultative Group for the Americas: Argentina (Ministry of Economy and Public Finances, Central Bank of Argentina), Bahamas (Central Bank of the Bahamas), Barbados (Central Bank of Barbardos), Bermuda (Ministry of Finance, Bermuda Monetary Authority), Bolivia (Banco Central de Bolivia, Autoridad de Supervisión Del Sistema Financiero), Brazil (Ministry of Finance, Banco Central do Brasil, Securities Commission of Brazil), British Virgin Islands (British Virgin Islands Financial Services Commission), Canada (Bank of Canada, Department of Finance, Office of the Superintendent of Financial Institutions), Cayman Islands (Cayman Islands Monetary Authority), Chile (Banco Central de Chile, Superintedencia Bancos e Instituciones Financieras), Colombia (Central Bank of Colombia, Superintedencia Financiera de Colombia), Costa Rica (Central Bank of Costa Rica, Superintedencia General de Entitades Financieras), Guatemala (Superintedency of Banks of Guatemala), Jamaica (Bank of Jamaica), Mexico (Ministry of Finance and Public Credit, Banco de México, Mexican National Banking and Securities Commission), Panama (Ministry of Economy and Finance, Superintedency of Banks of Panama), Paraguay (Ministry of Finance, Central Bank of Paraguay), Peru (Central Reserve Bank of Peru, Superintendent of Banks, Insurances and Private Pension Funds), Uruguay (Ministry of Economy and Finance of Uruguay, Central Bank of Uruguay), United States (U.S. Department of the Treasury, Board of Governors of the Federal Reserve System, Securities and Exchange Commission)

Members of the FSB Regional Consultative Group for Asia: Australia (Department of the Treasury, Reserve Bank of Australia), Cambodia (National Bank of Cambodia, Ministry of Economy and Finance), China (Ministry of Finance, People's Bank of China, China Banking Regulatory Commission), Hong Kong SAR (Hong Kong Monetary Authority, Securities and Futures Commission), India (Ministry of Finance, Reserve Bank of India, Securities and Exchange Board of India), Indonesia (Ministry of Finance, Bank Indonesia, Financial Services Authority), Japan (Ministry of Finance, Bank of Japan, Financial Services Agency), Korea (Bank of Korea, Financial Services Commission), Malaysia (Central Bank of Malaysia), New Zealand (Reserve Bank of New Zealand), Philippines (Bangko Sentral ng Pilipinas), Singapore (Monetary Authority of Singapore), Sri Lanka

(Central Bank of Sri Lanka), Thailand (Ministry of Finance, Bank of Thailand), Vietnam (Ministry of Finance, State Bank of Vietnam)

Members of the FSB Regional Consultative Group for the Commonwealth of Independent States: Armenia (Ministry of Finance, Central Bank of Armenia), Belarus (Ministry of Finance of the Republic of Belarus, National Bank of the Republic of Belarus), Kazakhstan (National Bank of the Republic of Kazakhstan), Kyrgyz Republic (National Bank of Kyrgyz Republic), Russia (Ministry of Finance of the Russian Federation, Central Bank of the Russian Federation), Tajikistan (National Bank of Tajikistan), Ukraine (Ministry of Finance of Ukraine, National Bank of Ukraine)

Members of the FSB Regional Consultative Group for Europe: Austria (Ministry of Finance, Oesterreichische Nationalbank, Financial Market Authority), Belgium (National Bank of Belgium), Czech Republic (Ministry of Finance, Czech National Bank), Denmark (Ministry of Economic Affairs and the Interior, Danmarks Nationalbank, Danish Financial Supervisory Authority), Finland (Ministry of Finance, Bank of Finland, FIN-Financial Supervisory Authority), France (Banque de France, Ministry of Economy and Finance, Autorité des Marchés Financiers (AMF)), Germany (Ministry of Finance, Deutsche Bundesbank, Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)), Greece (Ministry of Finance, Bank of Greece), Hungary (Ministry for National Economy, Magyar Nemzeti Bank), Iceland (Central Bank of Iceland, Financial Supervisory Authority), Ireland (Department of Finance, Central Bank of Ireland), Israel (Ministry of Finance, Bank of Israel), Italy (Ministry of the Economy and Finance, Bank of Italy, Commissione Nazionale per le Società e la Borsa (CONSOB)), Luxembourg (The Treasury, Central Bank of Luxembourg, Commission de Surveillance du Secteur Financier (CSSF)), Netherlands (Ministry of Finance, Netherlands Bank), Norway (Ministry of Finance, Norges Bank, Finanstilsynet), Poland (Ministry of Finance, National Bank of Poland, Polish Financial Supervision Authority), Portugal (Ministry of Finance, Bank of Portugal, Portuguese Securities Market Commission), Spain (Ministry of Economy and Competitiveness, Bank of Spain), Sweden (Ministry of Finance, Sveriges Riksbank, Swedish Financial Supervisory Authority), Switzerland (Swiss Federal Department of Finance, Swiss National Bank), UK (HM Treasury, Bank of England, Financial Conduct Authority), Group of International Finance Centre Supervisors (GIFCS)

Members of the FSB Regional Consultative Group for Middle East and North Africa: Algeria (Ministry of Finance, Bank of Algeria), Bahrain (Central Bank of Bahrain), Egypt (Central Bank of Egypt), Jordan (Central Bank of Jordan), Kuwait (Central Bank of Kuwait), Lebanon (Ministry of Finance, Central Bank of Lebanon, Banking Control Commission of Lebanon), Morocco (Ministry of Economy and Finance, Bank Al-Maghrib), Oman (Central Bank of Oman), Qatar (Qatar Central Bank), Saudi Arabia (Saudi Arabian Monetary Agency, Ministry of Finance), Tunisia (Central Bank of Tunisia), Turkey (Undersecreriat of Treasury, Central Bank of the Republic of Turkey), United Arab Emirates (Central Bank of the UAE, Ministry of Finance)

Members of the FSB Regional Consultative Group for sub-Saharan Africa: Angola (Banco Nacional de Angola), Botswana (Bank of Botswana), Ghana (Ministry of Finance and Economic Planning, Bank of Ghana, Securities and Exchange Commission), Kenya (Central Bank of Kenya, Capital Markets Authority), Mauritius (Ministry of Finance and Economic Development, Bank of Mauritius, Financial Services Commission), Namibia (Bank of Namibia), Nigeria (Central Bank of Nigeria), South Africa (South African Reserve Bank, National Treasury), Tanzania (Bank of Tanzania), West Africa (Central Bank of West African States). **Permanent Observers:** Committee of Central Bank Governors, East African Community

BCBS Members: Argentina (Central Bank of Argentina), Australia (Reserve Bank of Australia, Australian Prudential Regulation Authority), Belgium (National Bank of Belgium), Brazil (Central Bank of Brazil), Canada (Bank of Canada, Office of the Superintendent of Financial Institutions), China (People's Bank of China, China Banking Regulatory Commission), European Union (European Central Bank, European Central Bank Single Supervisory Mechanism), France (Bank of France, Prudential Supervision and Resolution Authority), Germany (Deutsche Bundesbank, Federal Financial Supervisory Authority (BaFin)), Hong Kong SAR (Hong Kong Monetary Authority), India (Reserve Bank of India), Indonesia (Bank Indonesia, Indonesia Financial Services Authority), Italy (Bank of Italy), Japan (Bank of Japan, Financial Services Agency), Korea (Bank of Korea, Financial Supervisory Service), Luxembourg (Surveillance Commission for the Financial Sector), Mexico (Bank of Mexico, Comisión Nacional Bancaria y de Valores), Netherlands (Netherlands Bank), Russia (Central Bank of the Russian Federation), Saudi Arabia (Saudi Arabian Monetary Agency), Singapore (Monetary Authority of Singapore), South Africa (South African Reserve Bank), Spain (Bank of Spain), Sweden (Sveriges Riksbank, Finansinspektionen), Switzerland (Swiss National Bank, Swiss Financial Market Supervisory Authority FINMA), Turkey (Central Bank of the Republic of Turkey, Banking Regulation and Supervision Agency), United Kingdom (Bank of England, Prudential Regulation Authority), United States (Board of Governors of the Federal Reserve System, Federal Reserve Bank of New York, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation)

BCBS Country Observers: Chile (Central Bank of Chile / Banking and Financial Institutions Supervisory Agency), Malaysia (Central Bank of Malaysia), United Arab Emirates (Central Bank of the United Arab Emirates)

BCG Members. Countries: Austria (Austrian Financial Market Authority), Bulgaria (Bulgarian National Bank), Chile (Banking and Financial Institutions Supervisory Agency), China (China Banking Regulatory Commission), Czech Republic (Czech National Bank), France (French Prudential Supervision and Resolution Authority), Georgia (National Bank of Georgia), Germany (Federal Financial Supervisory Authority (BaFin)), Hungary (Central Bank of Hungary), Malaysia (Central Bank of Malaysia), Mexico (Comisión Nacional Bancaria y de Valores), New Zealand (Reserve Bank of New Zealand), Norway (The Financial Supervisory Authority of Norway), Peru (Superintendencia de Banca, Seguros y AFP), Philippines (Central Bank of the Philippines), Poland (Polish Financial Supervision Authority), Qatar (Qatar Financial Centre Regulatory Authority), Thailand (Bank of Thailand), Tunisia (Central Bank of Tunisia), United Arab Emirates (Dubai Financial Services Authority and Financial Services Regulatory Authority of Abu Dhabi Global Market). **Supervisory Groups, international agencies and other bodies:** Arab Committee of Banking Supervisors, Association of Supervisors of Banks of the Americas, Caribbean Group of Banking Supervisors, Central Bank of West African States, Executives' Meeting of East Asia Pacific Working Group on Banking Supervision (EMEAP), Financial Stability Institute (Bank for International Settlements), Group of Banking Supervisors from Central and Eastern Europe, Group of International Finance Centre Supervisors, Gulf Cooperation Council Committee of Banking Supervisors, IMF, Islamic Financial Services Board, World Bank

CPMI Members: Australia (Reserve Bank of Australia), Belgium (National Bank of Belgium), Brazil (Central Bank of Brazil), Canada (Bank of Canada), China (People's Bank of China), European Union (European Central Bank), France (Bank of France), Germany (Deutsche Bundesbank), Hong Kong SAR (Hong Kong Monetary Authority), India (Reserve Bank of India), Italy (Bank of Italy), Japan (Bank of Japan), Korea (Bank of Korea), Mexico (Bank of Mexico), Netherlands (Netherlands Bank), Russia (Central Bank of the Russian Federation), Saudi Arabia (Saudi Arabian Monetary Agency), Singapore (Monetary Authority of Singapore), South Africa (South African Reserve Bank), Sweden (Sveriges Riksbank), Switzerland (Swiss National Bank), Turkey (Central Bank of the Republic of Turkey), United Kingdom (Bank of England), United States (Board of Governors of the Federal Reserve System, Federal Reserve Bank of New York)

FATF Members: Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Denmark, European Commission, Finland, France, Germany, Greece, Gulf Co-operation Council, Hong Kong, China, Iceland, India, Ireland, Italy, Japan, Republic of Korea, Luxembourg, Malaysia, Mexico, Netherlands, Kingdom of the, New Zealand, Norway, Portugal, Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States

FATF Observers: Israel, Saudi Arabia

FATF Associate Members: Asia/Pacific Group on Money Laundering, Caribbean Financial Action Task Force, Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism, Eurasian Group, Eastern and Southern Africa Anti-Money Laundering Group, Financial Action Task Force of Latin America, Inter Governmental Action Group Against Money Laundering in West Africa, Middle East and North Africa Financial Action Task Force

FATF Observer Organisations: African Development Bank, Anti-Money Laundering Liaison Committee of the Franc Zone, Asian Development Bank, BCBS, Egmont Group of Financial Intelligence Units, European Bank for Reconstruction and Development, European Central Bank, Eurojust, Europol, Group of International Finance Centre Supervisors, Inter-American Development Bank, IAIS, IMF, IOSCO, Interpol, Organization of American States/Inter-American Committee Against Terrorism, Organization of American States/Inter-American Drug Abuse Control, OECD, Organization for Security and Co-operation in Europe, United Nations, World Bank, World Customs Organization

Asia/Pacific Group on Money Laundering: Afghanistan, Australia, Bangladesh, Bhutan, Kingdom of, Brunei Darussalam, Cambodia, Canada, China, People's Republic of, Cook Islands, Fiji, Hong Kong, China, India, Indonesia, Korea, Republic of (South Korea), Japan, Lao People's Democratic Republic, Macao, China, Malaysia, Maldives, The Marshall Islands, Mongolia, Myanmar, Nauru, Nepal, Nepal, New Zealand, Niue, Pakistan, Palau, Papua New Guinea, The Philippines, Samoa, Singapore, Solomon Islands, Sri Lanka, Chinese Taipei, Thailand, Timor Leste, Tonga, United States of America, Vanuatu, Vietnam

Caribbean Financial Action Task Force: Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Curaçao, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Maarten, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Turks and Caicos Islands, Venezuela

Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism: Albania, Andorra, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Guernsey*, Hungary, Holy See*, Isle of Man*, Israel*, Jersey*, Latvia, Liechtenstein, Lithuania, Malta, Moldova, Monaco, Montenegro, Poland, Romania, Russian Federation, San Marino, Serbia, Slovak Republic, Slovenia, The Former Yugoslav Republic of Macedonia, Ukraine

**Non-Members of the Council of Europe*

Eurasian Group: Belarus, China, India, Kazakhstan, Kyrgyzstan, Russian Federation, Tajikistan, Turkmenistan, Uzbekistan

Eastern and Southern Africa Anti-Money Laundering Group: Angola, Botswana, Comoros, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Rwanda, South Africa, Swaziland, Seychelles, Tanzania, Uganda, Zambia, Zimbabwe

Financial Action Task Force of Latin America: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Ecuador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay

Inter Governmental Action Group Against Money Laundering in West Africa: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea Bissau, Guinea Conakry, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo

Middle East and North Africa Financial Action Task Force: Algeria, Bahrain, Egypt, Islamic Republic of Mauritania, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Republic of Iraq, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates, Yemen

Task Force on Money Laundering in Central Africa: Cameroon, Central African Republic, Chad, Republic of the Congo, Equatorial Guinea, Gabon

IADI Members: Albania (Albanian Deposit Insurance Agency), Argentina (Seguro de Depósitos Sociedad Anónima), Australia (Australian Prudential Regulation Authority), Azerbaijan (Azerbaijan Deposit Insurance Fund), The Bahamas (Deposit Insurance Corporation), Bangladesh (Bangladesh Bank), Barbados (Barbados Deposit Insurance Corporation), Belgium (Deposit and Financial Instrument Protection Fund), Bosnia and Herzegovina (Deposit Insurance Agency of Bosnia and Herzegovina), Brazil (Fundo Garantidor de Créditos), Brunei Darussalam (Brunei Darussalam Deposit Protection Corporation), Bulgaria (Bulgarian Deposit Insurance Fund), Canada (Autorité des marchés financiers (Québec), Canada Deposit Insurance Corporation, Credit Union Deposit Insurance Corporation (British Columbia)), Chinese Taipei (Central Deposit Insurance Corporation), Colombia (Fondo de Garantías de Instructiones Financieras (FOGAFIN), Fondo de Garantías de Entidades Cooperativas (FOGACOOP)), Croatia (State Agency for Deposit Insurance and Bank Rehabilitation), Czech Republic (Deposit Insurance Fund), Ecuador (Corporación del Seguro de Depósitos), El Salvador (Instituto de Garantiá de Depósitos), Finland (Deposit Guarantee Fund of Finland), France (Fonds de Garantie des Dépôts et de Résolution), Germany (Deposit Protection Fund of the Association of German Banks), Greece (Hellenic Deposit and Investment Guarantee Fund), Guatemala (Banco de Guatemala como Administrador del Fondo para la Protección del Ahorro), Guernsey (Guernsey Banking Deposit Compensation Scheme), Honduras (Fondo De Seguro De Depositos), Hong Kong (Hong Kong Deposit Protection Board), Hungary (National Deposit Insurance Fund of Hungary), India (Deposit Insurance and Credit Guarantee Corporation), Indonesia (Indonesia Deposit Insurance Corporation), Italy (The Interbank Deposit Protection Fund), Jamaica (Jamaica Deposit Insurance Corporation), Japan (Deposit Insurance Corporation of Japan), Jersey (Jersey Bank Depositors Compensation Board), Jordan (Jordan Deposit Insurance Corporation), Kazakhstan (Kazakhstan Deposit Insurance Fund), Kenya (Kenya Deposit Insurance Corporation), Korea (Korea Deposit Insurance Corporation), Kosovo (Deposit Insurance Fund of Kosovo), Kyrgyz Republic (Deposit Protection Agency of the Kyrgyz Republic), Lebanon (Institut National de Garantie des Dépôts), Libya (Depositor's Insurance Fund), Liechtenstein (Deposit Guarantee and Investors Protection Foundation of the Liechteinstein Bankers Association), Malaysia (Perbadanan Insurans Deposit Malaysia), Mexico (Instituto para la Protección al Ahorro Bancario), Mongolia (Deposit Insurance Corporation of Mongolia), Montenegro (Deposit Protection Fund), Morocco (Bank Al-Maghadesh—Fonds Collectif de Guarantee des Dépôts), Nicaragua (Fondo de Garantía de Depôsitos de las Instituciones Financieras), Nigeria (Nigeria Deposit Insurance Corporation), Norway (Norwegian Banks' Guarantee Fund), Palestine (Palestine Deposit Insurance Corporation), Paraguay (Fondo de Guarantia de Depósitos), Perú (Fondo de Seguro de Depósitos), Philippines (Philippine Deposit Insurance Corporation), Poland (Bank Guarantee Fund), Romania (Bank Deposit Guarantee Fund), Russian Federation (Deposit Insurance Agency), Serbia (Deposit Insurance Agency of Serbia), Singapore (Singapore Deposit Insurance Corporation), Slovenia (Deposit Guarantee Scheme of Slovenia), Sudan (Bank Deposit Security Fund of Sudan), Sweden (Swedish National Debt Office), Switzerland (Deposit Protection of Swiss Banks and Securities Dealers), Tanzania (Deposit Insurance Board of Tanzania), Thailand (Deposit Protection Agency), Trinidad and Tobago (Deposit Insurance Corporation), Turkey (Savings Deposit Insurance Fund of Turkey), Uganda (Bank of Uganda), Ukraine (Deposit Guarantee Fund), United Kingdom (Financial Services Compensation Scheme), United States of America (Federal Deposit Insurance Corporation), Uruguay (Corporación de Protección del Ahorro Bancario), Venezuela (Fondo de Protección Social de los Depósitos Bancarios), Vietnam (Deposit Insurance of Vietnam), Zimbabwe (Deposit Protection Corporation)

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Supervision Authority), Finland (Financial Supervision Authority), France (Autorité des marchés financiers), Germany (Bundesanstalt für Finanzdienstleistungsaufsicht), Ghana (Securities and Exchange Commission), Gibraltar (Financial Services Commission), Greece (Hellenic Capital Market Commission), Guernsey (Guernsey Financial Services Commission), Honduras (Comisión Nacional de Bancos y Seguros), Hong Kong (Securities and Futures Commission), Hungary (Magyar Nemzeti Bank), Iceland (Fjármálaeftirlitið–Financial Supervisory Authority), India (Securities and Exchange Board of India), Indonesia (Indonesia Financial Services Authority), Ireland (Central Bank of Ireland), Isle of Man (Financial Supervision Commission), Israel (Israel Securities Authority), Italy (Commissione Nazionale per le Società e la Borsa), Jamaica (Financial Services Commission), Japan (Financial Services Agency, Ministry of Agriculture, Forestry and Fisheries, Ministry of Economy, Trade and Industry), Jersey (Jersey Financial Services Commission), Jordan (Jordan Securities Commission), Kazakhstan, Republic of (National Bank of Kazakhstan), Kenya (Capital Markets Authority), Korea, Republic of (Financial Services Commission/Financial Supervisory Service), Kyrgyz Republic (State Service for Financial Market Regulation and Supervision under the Government of the Kyrgyz Republic), Latvia, Republic of, (Financial and Capital Market Commission), Liechtenstein, Principality of (Financial Market Authority), Lithuania (Central Bank of the Republic of Lithuania), Luxembourg, Grand Duchy of (Commission de surveillance du secteur financier), Macedonia, Former Yugoslav Republic of (Securities and Exchange Commission of the Republic of Macedonia), Malawi (Reserve Bank of Malawi), Malaysia (Securities Commission), Maldives, Republic of (Capital Market Development Authority), Malta (Malta Financial Services Authority), Mauritius, Republic of (Financial Services Commission), Mexico (Comisión Nacional Bancaria y de 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APPENDIX B

SOME TECHNICAL STANDARD SETTING OF RELEVANCE TO FINANCIAL INCLUSION

While a comprehensive examination of technical standard setting relevant to financial inclusion falls beyond the scope of this White Paper, four areas of technical standards—covered by the technical SSBs introduced in Box 9, "Some Key Setters of Technical Standards"—are particularly important to digital financial inclusion: (i) standards for identifying legal entities that are parties to financial transactions (to overcome the current fragmented system of firm identifiers by creating a common, consistent identifier for financial institutions); (ii) standards addressing the security of financial transactions; (iii) standards on mobile financial services; and (iv) standards promoting, facilitating, or enabling interoperability.

Standard for identifying legal entities that are parties to financial transactions

ISO Standard ISO 17442:2012, "Financial Services—Legal Entity Identifier (LEI)", specifies the elements of an unambiguous LEI scheme to identify the legal entities relevant to any financial transaction. Endorsed by the G20 and recommended by FSB, the establishment of the Global LEI System (GLEIS) is designed to create a global reference data system that uniquely identifies every legal entity or structure, in any jurisdiction, that is party to a financial transaction. This initiative is deemed critical to improving measurement and monitoring of systemic risk. Global, standardised LEIs can enable regulators and organisations to measure and manage more effectively counterparty exposure while also resolving long-standing issues on entity identification across the globe. To coordinate and oversee the GLEIS, the Legal Entity Identifier Regulatory Oversight Committee[139] was established in January 2013 after the endorsement of GLEIS by the G20 and the establishment of Global LEI System High-Level Principles by FSB (FSB (2012)).

Standards addressing the security of financial transactions

ITU standards on cyber security cover a range of issues: security management; security architectures and frameworks; identity management; protection of personally identifiable information; and the security of applications and services for smartphones, web services, mobile financial systems, and telebiometrics. The ITU Focus Group on Digital Financial Services is working towards the creation of an enabling information and communication technologies framework for digital financial services, which is expected to include technical reports and guidance on the security of mobile transactions.

ITU Recommendation ITU-T X.509, "Information Technology—Open Systems Interconnection—The Directory: Public-key and attribute certificate frameworks", for electronic authentication over public networks is a cornerstone of the design of applications relating to public key infrastructure (PKI)[140] and is used in a wide range of applications—from securing the connection between a browser and a server on the web to providing digital signatures that enable secure e-commerce transactions.

ISO Standard ISO 9564, "Financial Services—Personal Identification Number (PIN) management and security", covers PIN management and security, helping protect the identification numbers used for cardholder verification against unauthorised disclosure, compromise, and misuse.

139 Regulatory Oversight Committee is a group of over 60 public authorities from more than 40 countries.

140. PKI is a set of hardware, software, people, policies, and procedures needed to create, manage, distribute, use, store, and revoke digital certificates and manage public-key encryption.

ISO Standard ISO 19092:2008, "Financial Services—Biometrics—Security framework", describes the security framework for using biometrics for authentication of individuals in financial services. The standard provides the mandatory means whereby biometric information may be encrypted for data confidentiality or other reasons.

ISO Standard ISO 22307:2008, "Financial Services—Privacy Impact Assessment (PIA)", recognises that PIA is an important financial services and banking management tool to be used within an organisation, or by contracted third parties, to identify and mitigate privacy issues and risks associated with processing consumer data using automated, networked information systems.

The "PCI Data Security Standard (DSS)" is the keystone standard providing an actionable framework for developing a robust payment card data security process—including prevention, detection, and appropriate reaction to security incidents. PCI DSS comprises 12 general requirements for any business that stores, processes, or transmits payment cardholder data, designed to build and maintain a secure network, protect cardholder data, as a basis for building and maintaining a secure network, protecting cardholder data, ensuring the maintenance of vulnerability management programmes, implementing strong access control measures, regularly monitoring and testing networks, and ensuring the maintenance of information security policies. The "PCI Payment Application Data Security Standard" is designed to help software vendors and others develop secure payment applications. "PCI PIN Transaction Security (PTS) Point of Interaction (POI) Modular Security Requirements" contain a single set of requirements for all PIN terminals, including POS devices, encrypting PIN pads, and unattended payment terminals.

EMVCo's special technical standards—the set of EMV Specifications for secure payment transactions—include card and terminal evaluation, security evaluation, and management of interoperability issues. A smart chip used in EMV cards instead of magnetic stripes allows for advanced user authentication to increase the security of card transactions. The EMV standard and PCI standards are complementary: while the EMV chip provides an additional level of authentication at POS that increases the security of a payment transaction and reduces chances of fraud, PCI standards offer protection for the POS device itself and provide layers of additional security controls for businesses to use throughout the transaction process and across payment channels to keep card data safe.[141]

Standards on mobile financial services

ITU Recommendation ITU-T Y.2740, "Security requirements for mobile remote financial transactions in next generation networks", elaborates on approaches to developing system security for mobile commerce and mobile banking in the next generation networks (NGNs). It describes security requirements for mobile commerce and mobile banking systems, based on four specified security assurance levels. It outlines probable risks in mobile commerce and mobile banking systems, and specifies means for risk reduction.

ITU's Recommendation ITU-T Y.2741, "Architecture of secure mobile financial transactions in next generation networks (NGN)", specifies the general architecture of a security solution for mobile commerce and mobile banking in the context of NGNs. It describes the key participants, their roles, and the operational scenarios of the mobile commerce and mobile banking systems. It also provides examples of implementation models for mobile commerce and mobile banking systems.

ISO Standard ISO 12812, "Core Banking—Mobile Financial Services", Parts 1–5, is currently under development. The purpose of this standard is to facilitate and promote interoperability, security, and quality while ensuring competition among service providers. The standard recognises the need for financially excluded or underserved consumers to access mobile financial services, taking into account that these services may be provided by diverse types of institutions, financial or non-financial. Specifically, the standard will address the following areas: security and data protection for mobile financial services, financial application management, mobile P2P payments, mobile P2B payments, and general requirements for mobile banking applications.

141. See https://www.pcisecuritystandards.org/pdfs/PCI-EMV-Final1.pdf.

Standards promoting, facilitating, or enabling interoperability
ISO's Standard ISO 20022, "Universal financial industry message scheme", Parts 1–8, is a standard for electronic data interchange between financial institutions. It addresses the need for a single, common "language" for all financial communications, regardless of the business domain, the communication network, and the counterparty (other financial institutions, clients, suppliers, and market infrastructures). The primary focus of ISO 20022 is on international (cross-border) financial communication among financial institutions, their clients, and the domestic or international market infrastructures involved in processing financial transactions. The standard can be used for the development of new domestic financial messages as well, thereby streamlining all communications for financial institutions.

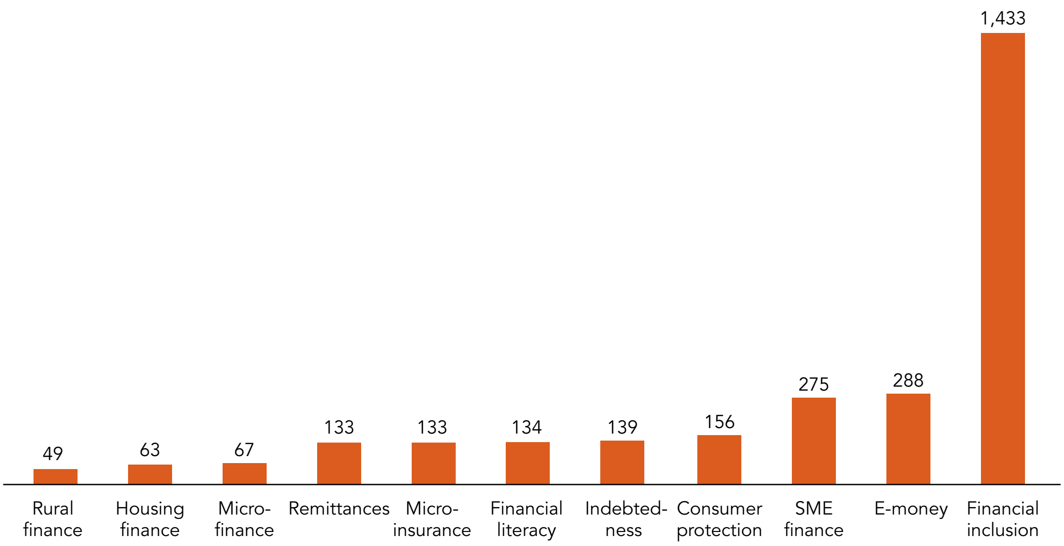
To address the lack of interoperability among strong authentication devices,[142] as well as the problems users face with creating and remembering multiple usernames and passwords, the FIDO Alliance plans to change the nature of authentication by developing specifications that define an open, scalable, interoperable set of mechanisms that supplant reliance on passwords to securely authenticate users of online services. This new standard for security devices and browser plugins will allow any website or cloud application to interface with a broad variety of existing and future FIDO-enabled devices that the user has for online security.

142. Strong authentication solutions commonly involve a physical device (for example, a token) used together with a password to prove the owner's identity. See SafeNet (nd).

APPENDIX C
FINANCIAL INCLUSION IN FSAPs

As indicated in Part V B, "Financial Sector Assessment Program and Financial Inclusion", financial inclusion-related topics have become more prevalent globally in FSAPs conducted over the past 14 years. World Bank Group analysis conducted in 2014[143] indicates that FSAPs performed in the 2000–2006 period focused relatively more heavily on the foundations of a stable financial system; in comparison, the 2007–2013 FSAP updates[144] raised the level of emphasis on financial inclusion-related themes (see Figure 2). FSAP priority topics relevant to financial inclusion have varied by region, with differing emphasis on the common themes of access to finance/SME finance, financial infrastructure, microfinance, and housing finance (see Figure 3).

FIGURE 2: Increase in Occurrence of Financial Inclusion Concepts in FSAPs

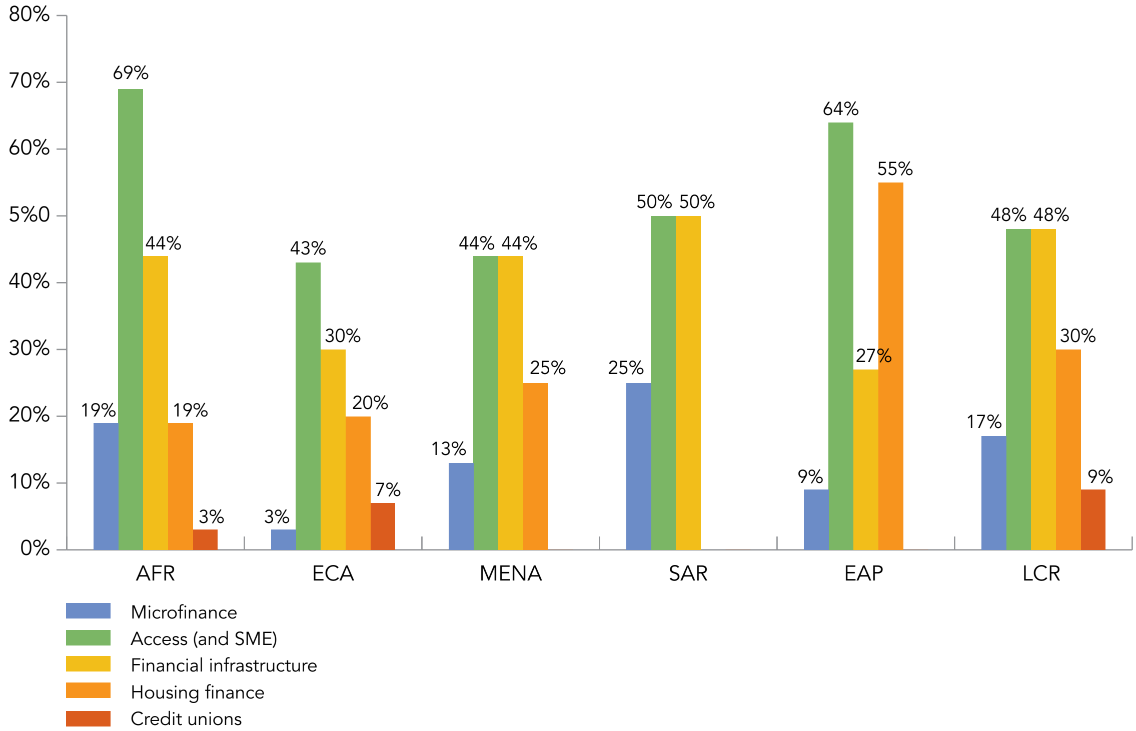


Source: World Bank Group

143. World Bank Group's 2014 unpublished brief *Financial Sector Assessment Programs (FSAPs): Coverage of Financial Inclusion in FSAPs—Evolution during 2000–2013.* Using an innovative text-mining methodology, an analysis of more than 1,200 existing documents was conducted to identify trends in the evolution of the focus on financial inclusion policies over the 2000–2013 period and across regions.

144. An FSAP update is a reassessment of a country's financial sector, typically undertaken around 6–7 years after the initial assessment, with a more focused scope, concentrated on issues identified in the initial assessment.

FIGURE 3: FSAP Financial Inclusion Technical Notes, by Focus and Region (2000–2013)
(Percentage of countries that performed an FSAP, by region)



Source: World Bank Group

APPENDIX D

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