Proportionality and Financial Inclusion

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Financial inclusion – regulatory and policy objectives

- Commitments under the Maya Declaration (2010)

➢ A. Financial inclusion policy that creates an enabling environment for cost effective access to financial services that makes full use of appropriate innovative technology and substantially lowers the unit cost of financial services;

➢ B. Implementing a sound and proportional regulatory framework that achieves the complementary goals of financial inclusion, financial stability, and financial integrity;

➢ C. Recognizing consumer protection and empowerment as key pillars of financial inclusion efforts to ensure that all people are included in their country's financial sector; and

➢ D. Making evidence-based financial inclusion policy a priority by collecting and analysing comprehensive data, tracking the changing profile of financial inclusion, and producing comparable indicators in the network.

Financial inclusion - Definitions

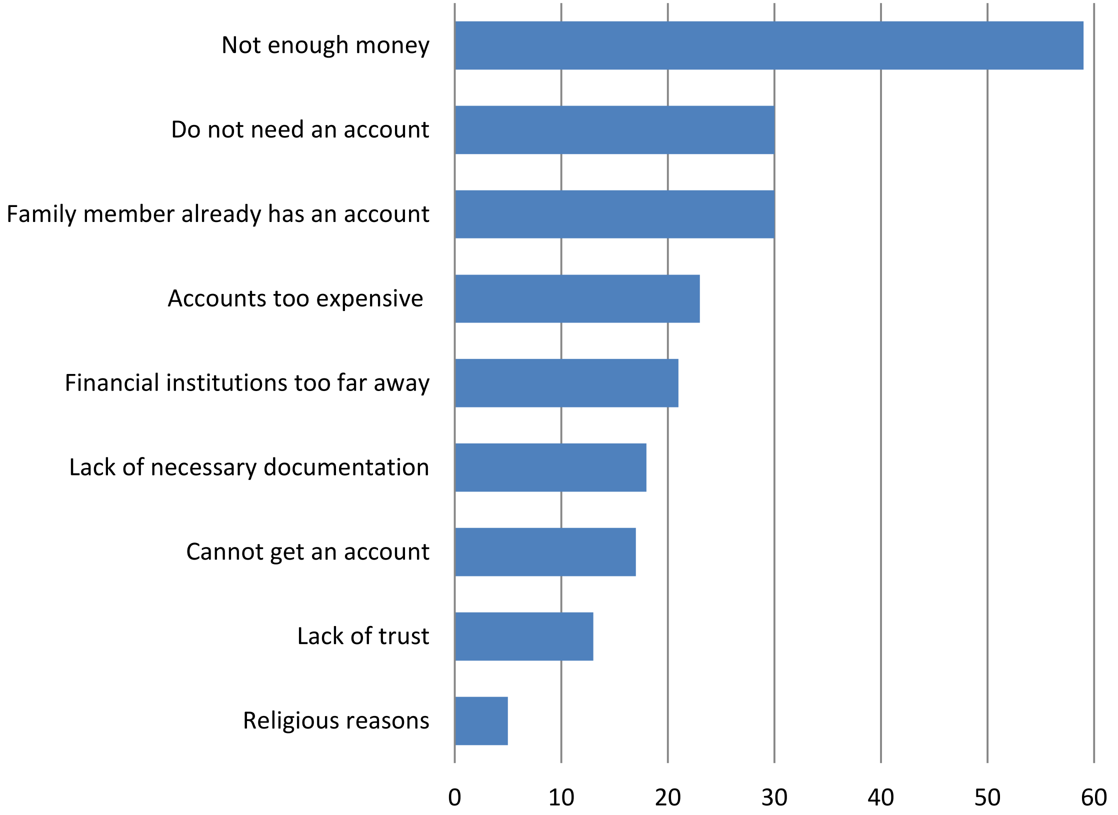
Access	**Availability of formal, regulated financial services: physical proximity, affordability.**
Usage	Actual usage of financial services and products: regularity, frequency, duration of time used.
Quality	Products are well tailored to client needs. Appropriate segmentation to develop products for all income levels.

Barriers to financial inclusion

- Demand-side barriers
  - ➢Restrict capacity or willingness of individuals to access and use available services and products.
  - ➢Lack of funds as most common demand-side barrier.
  - ➢Regional differences exist.

Self-reported barriers to use of an account at a financial institution

Adults without an account reporting barrier as a reason for not having one (%), 2017



Supply-side barriers

- Inadequate products and services
  - Specific financial needs of low-income people.
  - Financial services often designed for more financially literate clients with higher income sources.
  - No frills bank accounts as example of specific product for low-income people.
- Lack of Product diversification
- Underdeveloped and inefficient delivery channels
- Lack of interest on the part of traditional financial service suppliers

Regulatory and institutional frameworks and financial infrastructure

- Inadequate regulatory frameworks, institutional weakness, or underdeveloped financial infrastructure as root of many demand- or supply side barriers (CGAP, 2015).
  - ➢ Lack of consumer protection
  - ➢ Poor contract enforcement
  - ➢ Regulatory impediments to bank branch establishment and expansion
  - ➢ Uncoordinated approaches to regulation of financial inclusion
- Information asymmetries and lack of adequate information limits effective demand and uptake for financial services.
  - ➢ Lack of information on consumers makes it costly for financial service providers to adapt and innovate.

Regulatory and institutional frameworks and financial infrastructure (contd.)

- Government Intervention important but can result in negative effects.
  - E.g. interest rate caps
- Governments must create legal and regulatory frameworks addressing barriers to financial inclusion.
  - E.g. National Identification Systems to enhance information environment, collateral registries and credit bureaus, consumer education and protection
  - Regulatory instruments should be proportionate – proportionality principle

International Initiatives for Digital Financial Inclusion

- **G20 Global Partnership for Financial Inclusion (GPFI)**
  - White Paper 'Standard-Setting and Financial Inclusion for the Poor – Toward Proportionate Standards and Guidance'
  - Observations and recommendations
  - G20 Principles for innovative financial inclusion
- **Basel Committee on Banking Supervision**
  - **Range of practice survey** & resultant range of practice report
  - Workstream on financial inclusion: **guidance paper consultation document**
  - **Guidance paper** for prudential supervisors to achieve **proportionate regulatory and supervisory** approaches, which examines inherent risks and innovations in digital financial inclusion

Digital Financial Inclusion: Regulatory Proportionality

- Proportionality, objectives:
  - ➢Maximize economic **opportunities**
  - ➢Minimize **risks** for society
  - ➢Determine **optimal level** of regulation
  - ➢**Balance** private rights and achievement of legimate state aims
    - ➢A balance between e.g. investor protection issues, AML measures, privacy issues etc.
- Proportionality test (EU law):
  - ➢Measure must be **suitable and appropriate**
  - ➢Necessity test, testing whether there may exist **less intrusive measures** to achieve **valid state objective**
  - ➢Proportionality strictu sensu: **weighing of private and public interests**

COVID 19 and Digital Financial Inclusion

- Measures of developing countries:
- **Main objective** of **maintaining access to payment service**, including:
    - Designating banks as **essential service providers**
    - **Mobile money providers** as payment agents, which also disburse government payments and social benefits
    - **Reduction of fees** of mobile payment service providers

- Regulatory measures:
    - **Relaxation** of know-your-customer and other **anti-money laundering** procedures
    - **Risk-based** regulatory approaches with **risk levels** for different customers to determine volume and value transaction limits
    - **Regulatory sandboxes** and risk-based strategies


THANK YOU