

GLOBAL DIALOGUE ON REGULATORY APPROACHES FOR INCLUSIVE FINTECH



CONTENTS

BACKGROUND AND INTRODUCTION	3
SUMMARY OF KEY DISCUSSIONS	4
<i>Enabling FinTech Ecosystems</i>	4
<i>Payment Innovations and Oversight</i>	5
<i>Risk, Protection and Financial Capability</i>	6
CONVERGENCE POLICY AND REGULATORY ISSUE	8
NEXT STEPS AND ACTIVITIES	9
<i>Cybersecurity Frameworks for Resilient Financial Systems</i>	9
<i>Financial Capability and Wellbeing in the Age of FinTech</i>	9
<i>Role of Regulators in Creating Enabling FinTech Ecosystems</i>	9
ANNEX I: LIST OF PARTICIPANTS	10

ACKNOWLEDGMENTS

This report is partly funded with UK aid from the UK government and supported by other AFI funding partners.

BACKGROUND AND INTRODUCTION

Financial policymakers and regulators in emerging and developing countries are mindful of the potential that FinTech holds for financial inclusion. While there is an increasing global convergence on the debate about and implementation of regulatory and supervisory responses to these business model innovations, knowledge on how to deal with the risks of fast-moving technologies remains scattered in various pockets across the world. Our response is to call for an enhanced global dialogue among financial regulators.

Against this background, the Czech National Bank (CNB) and the Alliance for Financial Inclusion (AFI) co-hosted a closed-door FinTech peer exchange programme for regulators in Prague on 26-27 September 2019. This event was guided by the Sochi Accord on FinTech for Financial Inclusion, which was adopted by the AFI Membership in September 2018.

The accord provides a platform for AFI members to understand the risks of technology, share lessons and experiences with FinTech and design appropriate regulatory interventions. It also calls for systematic dialogue among peers in developing and emerging countries, as well as developed economies, showcasing their international experiences in FinTech development and the implementation of innovative and proportionate regulatory approaches.

The Prague dialogue brought together 10 regulators from AFI member countries and 10 from developed market economies, with a total participation of more than 50 representatives¹ contributing on specific thematic areas.

Key objectives of the event were:

- To demonstrate practical policy and regulatory approaches applied by regulators in addressing major challenges for advancing financial services, financial integrity and consumer protection;
- To highlight key policy lessons on advancing FinTech for financial inclusion and broader financial services, including sandbox/test-and-learn approaches, opportunities to unlock usage challenges and deploying appropriate and quality financial services;
- To showcase FinTech solutions that have been

deployed to address specific financial inclusion challenges;

- To cross-pollinate ideas for developing mid- to long-term systematic peer engagement on converging topics that are pertinent to both developed and developing country regulators, for advancing financial inclusion and sustaining the financial system;
- To develop key policy takeaways that will form concrete follow-up actions for fostering intellectual partnerships among financial regulators from diverse jurisdictions;
- To facilitate the sharing of information and assisting in in-country implementation of key policy lessons to the wider AFI network.

Professor Olayinka DAVID-WEST, Academic Director, Lagos Business School and Professor Dirk Andreas Zetzsche, ADA Chair in Financial Law and Inclusive Finance, University of Luxembourg facilitated the dialogue.

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¹ Annex I: List of participants

SUMMARY OF KEY DISCUSSIONS:

ENABLING FINTECH ECOSYSTEMS

Through conversations with regulators, FinTech associations, and accelerators/incubators at the forefront of the FinTech landscape within the AFI network and beyond, the following points were raised as key enabling FinTech ecosystems:

POLICY AND REGULATORY INTERVENTIONS

Regulators have enhanced their policy and regulatory environment to enable the FinTech ecosystem by developing specific and dedicated FinTech policies. Examples include: **The Central Bank of Egypt** and **Bank Negara Malaysia**. The former developed a National FinTech Strategy, aiming to become a regional FinTech hub for the Arab-African world and key performance indicators, while the latter established a regulatory sandbox and effective regulatory coordination, which has led to the growth of their FinTech ecosystem. The number of FinTechs in Malaysia grew significantly from 39 in 2016 to 230 in 2019.

FINTECH HUBS AND INCUBATOR INTERVENTIONS

Public and private sector FinTech hubs and incubators have been established as an intervention to foster the FinTech ecosystem. Examples include: the **Luxembourg House of FinTech (LHOFT)**, which is a FinTech incubator backed by the government and private sector, that provided the perspective of a developed country. It hosts 60 FinTech companies in its incubator program and federates more than 150 FinTech members from all over the world. The team provides FinTechs with vast networking opportunities within Europe, and access to mentorships and partnerships. They work closely with the country's regulators.

The FinTech hub philosophy is that there is no innovation without education and thus, conduct respective training programs for stakeholders and segments, including school children.

An increasingly popular approach to regulating innovation has been to allow financial services providers to test experiments through regulatory sandbox and innovation hubs. CGAP's research suggests that regulatory sandbox is an important tool to deal with the growing FinTech industry and learn about emerging innovations. Although sandbox frameworks provide certain leeway, they do have safeguarding processes, in terms of disclosure requirements, limits in the number of clients and complaint-handling mechanisms.



Dr. Rasha Negm, Assistant Sub-Governor, Central Bank of Egypt



Left to Right: Michal Vodrážka, Director, Payments Regulation and Financial Innovations, Czech National Bank; Dr. Amediku Settor, Head of Payment Systems, Bank of Ghana; Karen O'Sullivan, Head of Department, Commission de Surveillance du Secteur Financier, Luxembourg; Kari Kempainen, Senior Advisor, Payment Systems Department, Bank of Finland

PAYMENT INNOVATIONS AND OVERSIGHT

PAYMENT INNOVATIONS

The following key trends and approaches in payment innovations were raised:

Divergent Approaches: It was interesting to see the contrasting approaches taken by countries with a highly banked environment, compared to countries with limited banking penetration. Developed markets use technology and innovations to complement existing financial ecosystem in the interest of efficiency and convenience. Emerging markets on the other hand, deploy technology in a transformative manner, which allow for the rapid emergence of mobile money and digital payment ecosystems beyond conventional banking.

> *Mobile Money Innovations:*

Bank of Ghana showcased the role of mobile money innovations in advancing financial inclusion. As of 2018, Ghana had only 15mn bank accounts but 32.5mn mobile money accounts. Mobile money accounts increased from 13 percent in 2014 to 40 percent in 2017. With this growth, they are well placed to achieve the financial inclusion target of 75 percent by 2023. The guiding principles that led to the transformative growth were interoperability and proportionality through active engagement with the private sector and wider stakeholder community

> *Supranational Innovations:*

The European Regulators showcased the Payment System Directive 2 of the EU that has a supranational

innovation, which has facilitated a single market for payments (credit transfers, direct debits, cards) in the European Union. PSD2 has enabled safer payments and an increase in consumer protection, as well as fostered innovation and competition while ensuring a level playing field for all players, including new ones. For example, **Czech National Bank** is adopting a cooperative approach by engaging with stakeholders such as FinTechs, banks, banking association, etc. They hold periodic seminars on topical issues and to clarify issues that market players may have.

OVERSIGHT AND SUPERVISION

Overall, the agility of policy makers and regulators to create an enabling environment that accommodates new actors and facilitates innovations in payments is critical to the development and implementation of payment innovations. Due consideration to the design of the infrastructure (rails) for payments that support interoperability and integration are also critical.

> *Harmonized Cross-border Rules:*

European Central Bank shared a regional perspective towards payment systems oversight. They use both regulation and moral persuasion as part of their oversight role. The demand side environment is changing as customer choices evolves whilst the supply side is dealing with legacy systems and the emergence of new, big market players.



Dr. Amediku Settor, Head of Payment Systems,
Bank of Ghana



Olayinka DAVID-WEST, Academic Director, Lagos
Business School



Left to right: Mihkel Nõmmela, Head of the Payment and Settlement Systems Department, Bank of Estonia; Patrick Papsdorf, Head of Section for Oversight of Payment Systems, European Central Bank

> **Oversight Dimension:**

The oversight dimensions range from the core mandate of financial system stability to other aspects, such as anti-money laundering (AML), consumer protection-disclosure, features, and reach and market conduct.

Instant, accessible and ubiquitous are new descriptors that are commonplace in the retail payment ecosystem. In this context, regulators at the forum shared ideas, thoughts and proven approaches to regulations and oversight of the payment ecosystem, while considering emerging trends.

RISK, PROTECTION AND FINANCIAL CAPABILITY

CYBER-RESILIENCE

Regulators and financial sector supervisors have become increasingly aware that financial services around the world are becoming vulnerable to cyber threats, primarily due to the increasing role of digital services (including mobile and other technologies) in the delivery of financial services. This is also particularly relevant for financial inclusion.

European Central Bank (ECB) has a strong strategic priority on cybersecurity, along with substantial technical and policy experience. They are working on cyber-resilience strategy at a regional and global

level. Core pillars of the strategy are: financial market infrastructure (FMI) readiness, sector resilience and strategic regulatory industry engagement. Participants appreciated this cross-border cooperation approach, given the interconnectedness of technology and financial systems.

Cross-border cooperation approach featured prominently with the **Central Bank of the Philippines (BSP)**, who mentioned that they participate in ASEAN platform of financial regulators, within which the regulators share information on cybersecurity accidents. From a financial inclusion standpoint, there is a need to ensure security across the whole supply chain and at the same time, it should be proportional so that even small players may implement it.

CPMI at the Bank of International Settlements (BIS) pointed out that there is an issue with the implementation of various cybersecurity standards (ISO, CMPI, etc.) because banks do not know how to implement the respective recommendations. There is a need for examples/best practices on how to implement them.

All the participants agreed that there is a need for more training and awareness initiatives on cybersecurity related issues across all the stakeholders (regulators, industry players and customers).



Maria Staszkiewicz, Chairwoman - Czech Fintech Association



Left to right: Vakhtang Abrahamyan, Deputy Governor, Central Bank of Armenia & Robin Newnham, Head of Policy Analysis, AFI

DATA PRIVACY

As digitization becomes sophisticated and extensive in scope, they have elevated the concerns on data security and privacy, consumer control and transparency, and the necessity for coordination, standardization and regulation.

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the German development agency, presented a global overview of data protection frameworks. Their analysis suggested that legal and regulatory frameworks on global (e.g. UN, OECD, ISO), regional (e.g. GDPR) and national levels differ strongly with regards to content, scope and liability. Apart from the need to improve or develop national frameworks, there is a need to promote industry self-regulation on aspects related to data protection and privacy.

Banco de España provided insights on implications of Europe's General Data Protection Regulation (GDPR) on financial services. GDPR increases the user's individual rights to have better ownership care of their data and expects the providers to put more emphasis on the rights and protection of consumers data. This is very timely since 80 percent of the population in Spain are very concerned with their data; additionally, 70 percent of the youths in Spain are also concerned about their data, despite the common perception that youths are not concerned at all.

There is a clear need for the regulators to aid citizens in upholding and protecting their data, privacy and rights.

FINANCIAL LITERACY AND CAPABILITY

The emphasis is on the idea that Financial Education (FE) is not only an important life skill but is also an effective tool on how to manage your own finances. The outcome aimed to showcase innovative digital teaching tools and for participants to gain an intuitive understanding from efficient digital financial education programs that aimed to help underserved segments.

Key challenges to digital financial literacy include perceived security risks and a lack of general financial literacy. More regulators are coming up with a digital financial literacy strategy or have a digital component as one of their core pillars of national financial literacy strategy. For example, **Banco de Portugal** has a digital financial literacy strategy in place. They have developed digital financial literacy campaigns around specific thematic areas, such as fraud, cybersecurity, and responsible credit. Furthermore, they have also launched campaigns targeted to specific segments such as the youth and the elderly.

Despite technology adoptions and evolving payment innovations, regulators need to develop the appropriate strategies to build digital and financial capabilities across the different demographics.



Left to right: Ana Fernández Bedoya, Financial Innovation Division, Banco de Espana; Judith Frickenstein, Senior Financial Sector Advisor, GIZ



Melchor T. Plabasan, Deputy Director and Head Core Information Technology Specialist Group, Banco Sentral Ng Pilipinas

CONVERGENCE POLICY AND REGULATORY ISSUE

The event showcased practical policy and regulatory approaches applied by regulators in addressing major challenges for advancing financial services, financial integrity and consumer protection.

This forum resulted in a strong acknowledgement, across the board, of a global convergence of issues and solutions under a contemporary financial inclusion agenda, which does not only look at how to create access for the unbanked and underbanked but puts issues surrounding usage and quality of financial services at the core. This enhanced understanding of financial inclusion reflects the key mandate of any financial regulator, which is to ensure safe, sound and sustainable financial services for broad populations. This calls for the cross-pollination of ideas and for structuring systematic peer engagement on converging topics that are pertinent to both developed and developing country regulators for advancing financial inclusion and sustaining the financial system.

It was also encouraging to see that there was keen interest to learn on both sides. For example, European regulators expressed interest in learning about the mobile money innovations happening in Sub-Saharan Africa and digital platform innovations unfolding in Asia. The BIS expressed interest to learn more from the experience of the Philippines in managing cybersecurity risks and wanted to incorporate this case in a toolkit of best practices to implement cybersecurity recommendations. Gender-inclusive finance was a cross-cutting theme in majority of the sessions, which was highly appreciated by the participants.

SUMMARY OF KEY TAKEAWAYS FROM THE EVENT

RELEVANCE OF FINANCIAL INCLUSION

Financial inclusion is relevant to both developing and developed market economies. The objective of financial inclusion is not only to bring the unbanked in financial system but also to avoid already banked populations falling out of the system. Further, financial inclusion is becoming increasingly relevant to specific segments such as youth, elderly and women, and as a tool to build resilience against the effects of climate change.

PRIORITY TOPICS

Among the multiple topics discussed at the forum, participants identified **cybersecurity, digital financial literacy and enabling FinTech ecosystems** as topics of priority and mutual convergence.

KNOWLEDGE EXCHANGE PROGRAMS

The Global FinTech Dialogue in Prague demonstrated the need for continued knowledge exchange among developed and developing country economies. Further, this exchange needs to happen through a neutral, trusted and bias-free global platform. As a member-owned and member-governed institution, AFI is well-placed to undertake this role to facilitate open and practical dialogues among global regulators to find solutions and support the implementation of those solutions.

AFI to organize joint programs to address the converging regulatory challenges through joint knowledge products, capacity building and in-country technical support.



Marek Mora, Deputy Governor of the Czech National Bank and Dr. Alfred Hannig, AFI Executive Director during the People & Money exhibition held at the CZNB

NEXT STEPS AND ACTIVITIES

The Global FinTech Dialogue in Prague enabled a truly global conversation on regulatory approaches to FinTech.

Members and participants agreed to take the dialogue forward towards more substantial engagements. The following are the key objectives for the engagement:

- > Increase global interconnectedness of technology and financial systems to entail a well-coordinated global approach to regulatory interventions.
- > Identify issues of global convergence and work towards solutions in a collaborative way.

In this respect, AFI proposes to engage with select regulators to achieve these objectives through the identified topics of convergence.

CYBERSECURITY FRAMEWORKS FOR RESILIENT FINANCIAL SYSTEMS

Cyberthreats transcend borders. There is a need for continuous collaboration and dialogue between developed and emerging market economies on the topic of cybersecurity.

POTENTIAL TOPICS TO BE COVERED:

- > Cyber-resilience strategy and framework.
- > Information-sharing on threats and security management towards a coordinated approach to cybersecurity.
- > Cyber resilience among market participants.
- > Cyber-security awareness and education.

MODALITY OF ENGAGEMENT:

- > Joint learning programme(s) led by a specific country or an institution that has significant expertise in cyber security.
- > Case studies to showcase experience from AFI member countries and beyond, on specific aspects of cybersecurity as highlighted above.

FINANCIAL CAPABILITY AND WELLBEING IN THE AGE OF FINTECH

This topic is very relevant to both AFI member and non-member countries as the digitalization of financial landscape and the need to strengthen digital financial literacy are at the heart of regulators' agenda.

POTENTIAL TOPICS TO BE COVERED:

- > Empowering consumers by building capabilities on topics such as cybersecurity, data privacy, financial management in the age of easy access to payment,

credit and other sophisticated (and less understood products), crypto assets etc

- > Initiatives towards disadvantaged segments such as women, youth, elderly and the FDPs.
- > Use of behavioral insights for financial education initiatives.

MODALITY OF ENGAGEMENT:

- > Special workshop on digital financial literacy to gather experiences from developing and developed market economies.
- > Case studies on digital financial education initiatives among AFI member & non-member countries.

ROLE OF REGULATORS IN CREATING ENABLING FINTECH ECOSYSTEMS

Members of the AFI network and beyond wish to observe global trends that are redefining the financial services landscape and highlight the role of regulators, to initiate the development of regional and local FinTech ecosystems in their respective countries.

POTENTIAL TOPICS TO BE COVERED:

- > Ecosystem development initiatives, Open banking/ finance, RegTech, Crypto assets, etc.

MODALITY OF ENGAGEMENT:

- > Special Report on "Role of Regulators in Creating Enabling FinTech Ecosystems."
- > Case studies on FinTech ecosystem development initiatives among AFI member and non-member countries.
- > FinTech Dialogue or a closed-door workshop on FinTech ecosystem.

ANNEX I: LIST OF PARTICIPANTS

- > Banco Central de la República Argentina
- > Banco de España
- > Banco de Portugal
- > Bangko Sentral ng Pilipinas
- > Bank Al-Maghrib
- > Bank Negara Malaysia
- > Bank of Estonia
- > Bank of Finland
- > Bank of Ghana
- > Bank of Thailand
- > Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO)
- > Banque Centrale du Luxembourg
- > Central Bank of Armenia
- > Central Bank of Egypt
- > CGAP
- > Commission de Surveillance du Secteur Financier
- > Committee on Markets and Payment Infrastructures (CPMI)
- > Czech FinTech Association
- > Czech National Bank
- > Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)
- > European Central Bank
- > Home Credit
- > Lagos Business School
- > Luxembourg House of FinTech (LHoFT)
- > Ministry of Finance of Luxembourg
- > Modusbox
- > National Bank of Kazakhstan
- > National Bank of Romania
- > The European Banking Federation
- > University of Luxembourg
- > World Economic Forum
- > Zonky



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