# THE SUPERVISION OF FINTECH IN THE AFRICA REGION: A CASE STUDY OF GHANA

CASE STUDY

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This case study is a product of the African Financial Inclusion Policy Initiative (AfPI) and its Expert Group on Financial Inclusion Policies (EGFIP).

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# BACKGROUND

Ghana has been developing a broad and vibrant FinTech scene, particularly in payment services. By September 2022, there were as many active e-Money customers (19.9 million) as the population 15 and over, reflecting growth of 141 percent from January 2020, while the value of e-Money transactions tripled during the pandemic.[1]

Besides payment services, FinTech firms are also engaged in crowdfunding, loans, pension and insurance distribution, as well as providing ancillary services to other financial institutions such as e-KYC, onboarding, and data analytics.

These activities are covered by the Payment Systems and Services Act,[2] enacted in 2019 with the specific purpose of allowing entities other than banks to engage in certain financial activities. The law allows the Bank of Ghana (BoG) to regulate new digital financial activities, usually in conjunction with other laws. For example, crowdfunding activities have been regulated based on the Payment Act and the Banks and Specialised Deposit-Taking Institutions Act.[3]

Based on the Payment Systems and Services Act, the BoG has defined six categories of FinTech licenses: Dedicated Electronic Money Issuers, Payment Service Providers (PSP) in three tiers (Standard, Medium and Enhanced), Payment Service Provider Schemes (to cater to associations of PSPs), and the last category, Payment and Financial Technology Service Providers, which comprises a wide range of FinTech activities: Digital product development, delivery and support services; Credit scoring predictive analytics; AML/CFT centralized platforms; Fraud management services; and Know your Customer and Customer Due Diligence authentication services. By the end of 2022, the BoG had issued 46 licenses, mostly Enhanced PSPs.[4]

[1] Bank of Ghana. 2023. FinTech Statistics. Available at: https://www.bog.gov.gh/fintech-innovation/fintech-statistics/

[2] Parliament of the Republic of Ghana. (2019). Payment Systems and Services Act. Available at: https://www.bog.gov.gh/wp-content/uploads/2019/08/Payment-Systems-and-Services-Act-2019-Act-987-.pdf

[3] Bank of Ghana. 2021. Available at: Crowdfunding Policy: https://www.bog.gov.gh/wp-content/uploads/2022/03/CROWDFUNDING-POLICY.pdf

[4] Bank of Ghana. 2023. Licence Categories. Available at: https://www.bog.gov.gh/fintech-innovation/licence-categories/

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| TYPE OF LICENSE | NUMBER |
|---|---|
| DEDICATED ELECTRONIC MONEY ISSUER | 5 |
| PSP (SCHEME) | - |
| PSP ENHANCED LICENSE | 34 |
| PSP MEDIUM LICENSE | 4 |
| PSP STANDARD LICENSE | 2 |
| PAYMENT AND FINANCIAL TECHNOLOGY SERVICE PROVIDER | 1 |

The first three categories have identical regulatory requirements, while the other three have reduced requirements, mostly systems and technology certifications.

From the BoG's point of view, there is as much collaboration as competition between FinTech firms and traditional financial institutions. The latter find FinTech business models more flexible and a more cost-effective method to reach certain segments of the population, especially in the case of insurance and pension providers.

**Also, e-Money issuance has proved to be a successful business, prompting the parent of one of the largest PSPs, a telecommunications company, to spin-off the subsidiary and sell shares in the local stock market.**

This development, in part, is due to the BoG's role in promoting FinTech, primarily to enhance competition and promote financial inclusion.

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**The BoG conducted a survey in 2018 to gauge the extent of non-traditional financial services in the country and identified 71 entities engaging in FinTech activity.[5]**

These findings prompted the bank, first to promote the above-mentioned Payment Systems and Services Act and, in 2020, to establish a Fintech and Innovation Office (FIO), "responsible for the licensing and oversight of dedicated electronic money issuers (mobile money operators), payment service providers, closed loop payment products, payment support solutions and other emerging forms of payment delivered by non-bank entities. The office will also develop policies to promote FinTech, innovation and interoperability in Ghana."[6] Correspondingly, the BoG adopted a proportionality approach to regulate FinTech activities.

[5] Addison, E. 2018. Opening Keynote Address. Available at: https://www.bog.gov.gh/wp-content/uploads/2019/07/KEYNOTE-ADDRESS-BY-DR.-ERNEST-ADDISON-GOVERNOR-BANK-OF-GHANA-AT-EUROMONEY-GHANA-WEST-AFRICAN-CONFERENCE-HELD-ON-SEPT.-25-2018.pdf

[6] Bank of Ghana. 2020. Bank of Ghana establishes Fintech and Innovation Office. Available at: https://www.bog.gov.gh/wp-content/uploads/2020/05/Press-Release-Bank-of-Ghana-Establishes-FinTech-Innovation-Office-2.pdf

# FINTECH SUPERVISION AT THE BANK OF GHANA

Since its creation, the Fintech and Innovation Office (FIO) has been the main supervisor for licensed FinTech firms. As inferred from the description above, this office combines licensing and authorization, offsite and onsite supervision, research and policy strategy, as well as Fintech promotion, in addition to managing the bank's regulatory sandbox and an innovation hub, and being the point of contact with the industry.

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This mandate sets the FIO apart from other FinTech offices within central banks, generally more focused engagement with the industry and FinTech promotion.

Although the FIO follows the BoG's general guidelines in its supervisory work, including a risk-based approach, it recognizes that FinTech poses unique challenges which require specific methods. For instance, it is focused on an activity-based approach, providing the flexibility to engage with non-regulated firms if it detects transactions that may be deemed within the scope of the BoG's regulations.

The office is organized into three units:

1. oversight and supervisory research data
2. onsite supervision, licensing and authorization
3. Fintech promotion and innovation

This is clearly observed in its continuous online monitoring of new products, services, and providers in the market, both to enhance its understanding of emerging activities as well as to identify non-compliance with the legal framework. For example, the FIO regularly seeks providers of payment-like services which can be provided without proper licenses, and also scans for providers, both licensed and unlicensed that offer other types of financial products, such as insurance or pension plans.

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# INTERNAL AND EXTERNAL COORDINATION AND COOPERATION

As a result of its investigations, the FIO may detect financial activities that may fall within the remit of other departments either within the BoG or in other regulators.

Internally, BoG management issued a document setting the relationship between the three departments with supervisory powers (the Banking Supervision Department, Other Financial Services Supervision Department, and the FIO) as well as the legal department, the Payments Systems Department, and the IT Department. The BoG also seeks to have harmonized procedures on supervision matters, thereby, allowing for a smooth transfer of cases between departments, if required. This is reflected in a single procedure used by all departments.

Externally, the cooperation between agencies involved in financial activities is ensured by the Financial Stability Advisory Council, established by a Presidential Decree in 2018.[7] Its members are high ranking officers of the Ministry of Finance, the National Insurance Commission, the Securities and Exchange Commission, the National Pensions Regulatory Authority, the Ghana Deposit Protection Corporation, and the Governor and a Deputy Governor of the BoG. The members signed a Memorandum of Understanding and agreed to set up a working group to coordinate regulation and supervision among its members.[8]

There is also a regulators forum for AML/CFT, which includes representatives from the Ghana Revenue Authority, the Gaming Commission and the Financial Intelligence Centre, as well as the BoG, the National Insurance Commission, and the Securities and Exchange Commission. The important items for discussion include the role of FinTech in transactions conducted through digital channels and in providing e-KYC and onboarding services to other financial institutions.[9]

[7] Ministry of Finance. 2019. Fiscal, and Financial Stability Councils now Established. Available at: https://mofep.gov.gh/news-and-events/2018-01-03/fiscal-and-financial-stability-councils-now-established

[8] Bank of Ghana. 2022. Financial Stability review 2021. Available at: https://www.bog.gov.gh/wp-content/uploads/2022/11/Financial-Stability-Review-2021_Final.pdf

[9] Bank of Ghana. 2020. Financial Stability Review 2019. Available at: https://www.bog.gov.gh/wp-content/uploads/2020/09/Financial-Stability-Review-Dec-2019.pdf

# FINANCIAL INCLUSION CONSIDERATIONS

At the core of FIO activities is financial inclusion, which involves identifying features in FinTech products and services that promote financial inclusion as well as those that are detrimental to financial inclusion or the well-being of customers.

In considering an application for a license, the FIO considers whether a new product or service can only be provided to users of devices with the latest technologies. In such cases, the FIO asks the applicant to modify the service to ensure that less modern devices (such as feature phones) are capable of providing the same or similar access without diminishing security.

The FIO also takes into consideration the financial literacy requirements which a new product of service demands, especially when users are prompted to automatically acquire a complex financial product, for example, a bundled insurance policy, when receiving funds into their wallet. If the relevant app or platform does not provide sufficient information or warns users of the risks or costs involved, the FIO may require the provider to separate the transactions and to require the consumer's explicit authorization to purchase the bundled product.

**It is also important to highlight how supervisory work, with a financial inclusion perspective, provides feedback to amend regulations. This was the case with the rules setting the requirements for merchant registration by PSPs.**

FIO officers noted that many merchants were being rejected by PSPs because they could not comply with certain documents, such as tax identification numbers. This led the FIO to suggest to BoG management the creation of a tiered merchant classification system, with requirements proportional to their business volumes.

# AN AGILE SUPERVISOR

An important lesson from the FIO experience is the benefit of designing its supervisory process considering the data driven model of FinTech firms. The FIO mandated that supervised entities submit granular data instead of traditional reports with aggregated information.

In parallel, the FIO developed in-house IT tools to process the granular data to analyze the performance of entities and detect risky activities. This system is used in addition to the BoG's Online Regulatory and Analytics Surveillance System (ORASS).

At the same time, informed by the findings from the research unit within the FIO, its supervisory processes are modified to incorporate emerging developments and threats into their offsite and onsite processes.

The capacity which the FIO has to analyze the granular data of supervised entities in order to detect certain patterns that would not have been possible with aggregated reports, has enabled them to adapt to the restrictions on onsite examinations during the COVID pandemic.

**The FIO was able to maintain close surveillance of all FinTech activities, even with the increased number of users, volumes, and transactions referred to before, and has incorporated most of the changes brought by mobility restrictions into their offsite processes.**

# RECOMMENDATIONS FROM THE FIO EXPERIENCE

1 Support from top management for FinTech regulation and supervision is essential. International policy guidelines, such as the Alliance for Financial Inclusion's Sochi Accord and the World Bank-IMF's Bali Fintech Agenda, are useful in illustrating the significance of well-developed FinTech strategies.

2 FinTech supervision must be provided with adequate resources, and it is preferable that it avoid being placed in a payments department, which has other concerns regarding financial infrastructure.

3 FinTech supervisors need to be open to innovative ideas, it is not useful to be cast in the traditional banking supervision model. Agility and willingness to adapt are key.

4 Engage with the industry to understand their needs and for them to understand the supervisory perspective. This is better accomplished through a forum or association of all stakeholders in the FinTech scene.

5 Robust supervision of AML/CFT, market conduct, cybersecurity, payments, outsourcing, and fraud management processes, with a financial inclusion focus, are critical to having a successful FinTech ecosystem, as this mitigates bad outcomes for its usually newly included customers.

6 A broad legal framework that is flexible enough to allow new developments through existing regulations is preferrable as it can be updated as needed. FinTech is an evolving phenomenon and new products, services and business models appear continuously, often going beyond current regulatory boundaries and definitions.

7 FinTech supervisors must leverage the speed and availability of modern IT systems to better analyze granular data from supervised entities on a frequent, if not, real-time basis. SupTech investment is also needed to make better use of the data and to better support supervisors.

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