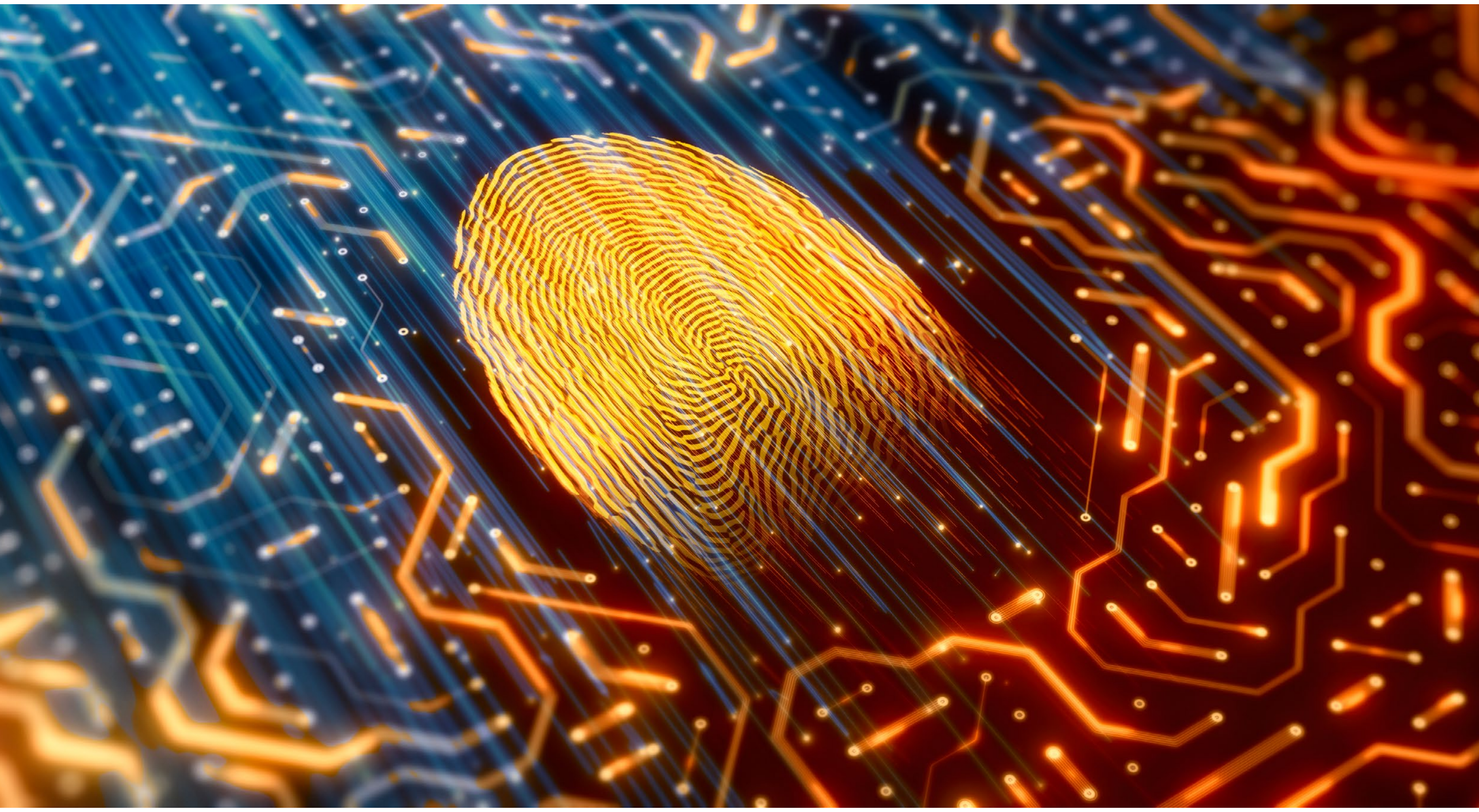
FINANCIAL INCLUSION STRATEGY (FIS) PEER LEARNING GROUP

DIGITAL FINANCIAL SERVICES (DFS) WORKING GROUP

INTEGRATING DIGITAL FINANCIAL SERVICES INTO A NATIONAL FINANCIAL INCLUSION STRATEGY

Guideline Note No. 51
May 2022



GUIDELINE NOTE

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ACKNOWLEDGMENTS

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We would like to extend a special thanks to Pavel Shoust (consultant) for his contributions to this guideline note.

We would like to thank AFI member institutions, partners and donors for generously contributing to development of this publication

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INTRODUCTION

The objective of this guideline note is to provide actionable and pragmatic guidance on integrating digital financial services (DFS) into National Financial Inclusion Strategies (NFIS) to the members of the Alliance for Financial Inclusion (AFI).

This guideline note follows the approach and methodology of the AFI NFIS Policy Model and is aligned with the NFIS lifecycle stages of pre-formulation, formulation, and implementation. It highlights elements most relevant to DFS. It also complements other DFS-related AFI knowledge products such as the Policy Framework on the Regulation, Licensing and Supervision of Digital Banks[1], AFI Policy Model for E-Money[2], Guideline Note on Cybersecurity for Financial Inclusion: Framework and Risk Guide[3] and others. Readers of this Guideline Note are encouraged to consult other knowledge products for more in-depth analysis of the issues mentioned in the document.

The content of this guideline note is enriched by the feedback of the AFI members[4] and their experience of formulating and implementing NFIS, and international practices of leveraging DFS to support financial inclusion objectives.

1 Digital Financial Services Working Group (DFS WG). 2021. "Policy Framework on the Regulation, Licensing and Supervision of Digital Banks". November. Alliance for Financial Inclusion. Kuala Lumpur. Available at: https://www.afi-global.org/publications/policy-framework-on-the-regulation-licensing-and-supervision-of-digital-banks/

2 Digital Financial Services Working Group (DFS WG). 2019. "Policy Model for E-Money". September. Alliance for Financial Inclusion. Kuala Lumpur. Available at: https://www.afi-global.org/publications/policy-model-for-e-money/

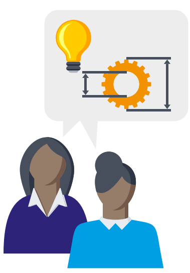
3 Digital Financial Services Working Group (DFS WG). 2019. "Cybersecurity for financial inclusion: framework & risk guide". Guideline Note 37. Alliance for Financial Inclusion. Kuala Lumpur. Available at: https://www.afi-global.org/publications/cybersecurity-for-financial-inclusion-framework-risk-guide/

4 Authors are grateful to representatives of the, Bangladesh Bank, Bank of Papua New Guinea, Bank of Uganda, La Comisión Nacional Bancaria y de Valores (CNBV), and Maldives Monetary Authority for sharing their experience of integrating DFS considerations in their past, current or prospective National Financial Inclusion Strategies.

FIGURE 1: PHASES OF THE NFIS LIFECYCLE

PRE-FORMULATION

> Make sure that DFS definition reflects local circumstances.
> Map the existing DFS-related activities and strategic documents.
> Identify public and private stakeholders relevant to DFS.
> Engage with peer regulators.
> Integrate DFS considerations into demand-side and supply-side diagnostics.
> Identify data sources relevant for DFS.



FORMULATION

> Integrate DFS in NFIS vision statement and overarching goal.
> Identify barriers that may prevent DFS implementation and access.
> Identify relevant target policy areas.
> Identify how DFS can contribute to actions related to disadvantaged groups, youth, the elderly, forcibly displaced persons.
> Integrate digital financial literacy considerations.
> Ensure alignment with AML/CFT efforts.
> Consider cybersecurity risks.
> Identify NFIS targets that are relevant to DFS and how they will be assessed.
> Identify DFS-related quick-win actions.

IMPLEMENTATION

> Ensure inter-agency cooperation
> Support efficient intra-agency coordination
> Plan capacity building for the implementing stakeholders
> Incorporate emerging technologies and business models in the NFIS mid-term review

PHASE 1
PRE-FORMULATION

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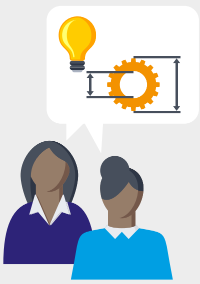


The pre-formulation stage is crucial for subsequent implementation of the NFIS. At this stage, regulators need to first clearly outline the scope of DFS as a lack of context may restrict efficiency of NFIS-based policies.

Policymakers should also be aware that successful implementation of DFS requires involvement of a wider scope of stakeholders, from both the public and private sectors. Private stakeholders may include unlicensed (unauthorized) or unregulated entities that are sometimes outside the regulator's purview. From the regulatory perspective, some DFS providers also fall under the regulation of several entities, all of which are relevant for NFIS implementation.

Pre-formulation is also an important stage to ensure that DFS are recognized as a crucial NFIS pillar and, subsequently, efficiently support NFIS objectives.

A. MAKE SURE THAT THE DFS DEFINITION REFLECTS LOCAL CIRCUMSTANCES

'Digital financial services' is a generic term and may have a different meaning in different circumstances and jurisdictions. Likewise, there is no universal definition of 'FinTech'.

Therefore, it is important to identify wording that reflects the state of the local market and major stakeholders. Using a definition that is too broad may hinder a focused approach to NFIS-related activities. Similarly, an overly-narrow definition will limit the scope of activities that could be included in NFIS.

There are three approaches to integrating definitions of DFS into NFIS. The first approach is to define DFS through the scope of products and services or service providers. This is the case for the NFIS in Bangladesh[5] where DFS are defined through the scope of digital financial service providers (DFSPs), i.e. Mobile Financial Services (MFS), operators who are associated with banks, and payment service providers which are not banks.

5 National Financial Inclusion Strategy – Bangladesh (NFIS-B), Page 25. (Government of Bangladesh. "National Financial Inclusion Strategy – Bangladesh (NFIS-B). Available at: https://fid.gov.bd/sites/default/files/files/fid.portal.gov.bd/notices/98ddd286_f45f_4895_9a98_10c34c9ade0c/Draft%20National%20Financial%20Inclusion%20Strategy%20Bangladesh%20(NFIS-B).doc#:~:text=National%20Financial%20Inclusion%20Strategy%20(NFIS)%20is%20a%20roadmap%20of%20actions,to%20achieve%20financial%20inclusion%20objectives

BOX 1: BANGLADESH NFIS: DEFINING DFS

The Bangladesh NFIS outlines the following scope of payment service and digital financial service providers:

- mobile financial service (MFS) operators who are associated with banks
- payment service providers which are not banks
- payment system operators

The NFIS also includes support service providers such as:

- payments technology companies
- fintech companies
- mobile network operators (MNOs)
- internet service providers (ISPs)

The second approach is to rely on the definitions developed by international institutions. This approach is taken in Liberia, which uses the definition of the G-20 High-level Principles for Digital Financial Inclusion in their NFIS: "financial products and services, including payments, transfers, savings, credit, insurance, securities, financial planning and account statements. They are delivered via digital/electronic technology such as e-money (initiated either online or on a mobile phone), payment cards and regular bank accounts"[6].

The third approach taken by some policymakers is not to include a separate definition of DFS or FinTech at all. For example, in Nigeria the NFIS does not reference DFS and FinTech, although innovative products, services and delivery channels are mentioned throughout the document. However, the Central Bank of Nigeria is working on the National FinTech Strategy where more details on the scope of FinTech are expected[7].

As seen from the current NFIS practices, sticking to a narrow definition of DFS might be counterproductive as it limits regulators' discretion while possibly excluding useful financial innovations. Alternative approaches are to be explored to ensure that digital financial services are integrated in every element of NFIS.

Another important takeaway is that DFS should not be reduced to innovative payment services only. It should also include digital lending, digital assets and other innovative products, delivery channels, and business practices.

B. MAP THE EXISTING DFS-RELATED ACTIVITIES AND STRATEGIC DOCUMENTS

Support for DFS might be a separate priority on the national level. It is possible that certain DFS-related initiatives would already be implemented and used by the time an NFIS is formulated or reviewed.

Various activities might be scattered across different strategic documents and priorities. For example, requirements to support implementation of cashless payments might be included in the national strategic initiatives to support electronic commerce (e-commerce). Measures like tax reliefs for using or accepting cashless payments might be a part of the national tax strategy. Some of the national initiatives may have an indirect effect on the development of the DFS sector. For example, plans to amend regulation on electronic signatures and conclusion of electronic contracts will affect business procedures in the financial sector as well. A digital literacy strategy might be implemented by the authorities responsible for education policies. These and similar initiatives and strategic policies need to be taken into account at the NFIS pre-formulation stage.

Certain DFS-related activities can be implemented on a regional level. One of the prominent examples is the establishment of regional regulatory sandboxes (RSB) that require a coordinated approach towards acceptance and review of applications to test new products and services in safe environment, as well as other elements of the RSB lifecycle.

BOX 2: PACIFIC REGIONAL REGULATORY SANDBOX

The monetary authorities and central banks of the sovereign countries of the Pacific Islands Regional Initiative (PIRI) decided to launch the Pacific Regional Regulatory Sandbox to enable applicants to test their financial services as easily, conveniently and efficiently as possible, in a timely and cost-effective manner, without placing undue risk on customers and the financial systems of the participating countries.

6 G20 High-level Principles for Digital Financial inclusion, page 3. (The Group of 20. 2016. "G20 High-Level Principles for Digital Financial Inclusion". Global Partnership for Financial Inclusion. Available at: https://www.gpfi.org/sites/default/files/documents/G20%20High%20 Level%20Principles%20for%20Digital%20Fin ancial%20Inclusion%20-%20 Full%20version-.pdf)

7 Hannig, Alfred. 2021. "Kick-off Meeting for Central Bank of Nigeria National FinTech Strategy - Opening remarks by Dr. Alfred Hannig". Transcript delivered at Kick-off Meeting for Central Bank of Nigeria National FinTech Strategy, 22 June 2021. Available at: https://www.afi-global.org/newsroom_speeches/kick-off-meeting-for-central-bank-of-nigeria-national-fintech-strategy-opening-remarks-by-dr-alfred-hannig/

BOX 2: continued

All communications with the applicants and among participating regulators will be facilitated through the shared electronic platform. Although countries will retain sovereignty over defining the eligibility of applicants, testing parameters and regulatory reliefs, they will be encouraged to actively exchange information, and share responsibilities throughout the regulatory sandbox lifecycle.

> View here

Regulators' international DFS-related commitments – such as the **AFI Sochi Accord**[8] which reflects AFI members' commitment to leverage DFS for financial inclusion – shall also be factored into NFIS.

> View here

C. IDENTIFY PUBLIC AND PRIVATE STAKEHOLDERS RELEVANT TO DFS

DFS stakeholder mapping is part of the wider stakeholder mapping exercise. It is therefore important to conduct a comprehensive analysis of the current stakeholder ecosystem in the country and beyond.

Typically, there are six groups of stakeholders relevant for DFS, as listed below.

1. One group is licensed or authorized providers of innovative products or services that may include electronic money institutions, mobile-wallet providers, as well as traditional financial institutions. This will also include digital banks that primarily deliver financial services through digital channels and may be subject to lighter regulatory requirements than 'traditional' financial institutions.[1] The scope of regulated entities, as well as their designations, may vary across the countries. It is important to keep in mind that innovative financial products, services, or new delivery channels can be implemented both by the smaller innovative firms and incumbent financial institutions. Therefore, both should be represented in the category of private stakeholders.
2. Another group is dedicated 'last mile' providers. These offer financial services in cooperation with regulated financial services providers such as mobile network operators, bank agents and other entities.
3. Entities that provide technical services to FSPs – such as vendors – are also included. Vendors may play an important role in digitalization of the financial market. Moreover, their engagement is crucial for the implementation of standardization policies and infrastructure-related projects, such as open banking, digital KYC and others.
4. Also included are entities that provide innovative financial services that are not currently regulated, for example, digital assets providers.
5. Industrial bodies, associations or innovation hubs, must also be taken into account. They may not themselves provide financial services but they still play an important role in coordinating actions of stakeholders, potentially giving room for self-regulation. FinTech hubs may also provide consultations to FinTech firms, assist them in attracting investor capital and provide other support.
6. Finally, there are the international institutions and development partners. Some development institutions are already providing DFS-related support to the policymakers. It is important to ensure that these activities are aligned with the NFIS policy actions.

For example, the Bangladesh NFIS[10] outlines two types of DFS stakeholders: payment service/DFSPs such as mobile financial service (MFS) operators who are associated with banks; payment service providers apart from the banks such as payment system operators and

8 Alliance for Financial Inclusion. Sochi Accord: FinTech for Financial Inclusion. Available at: https://www.afi-global.org/global-voice/maya-declaration/sochi-accords/

9 See AFI's Policy Framework on the Regulation, Licensing and Supervision of Digital Banks. (Digital Financial Services Working Group (DFS WG). 2021. "Policy Framework on the Regulation, Licensing and Supervision of Digital Banks". November. Alliance for Financial Inclusion. Kuala Lumpur. Available at: https://www.afi-global.org/wp-content/uploads/2021/11/DFSWG-framework_FINAL.pdf.

10 National Financial Inclusion Strategy – Bangladesh (NFIS-B), Page 25. (Government of Bangladesh. "National Financial Inclusion Strategy - Bangladesh (NFIS-B). Available at: https://fid.gov.bd/sites/default/files/files/fid.portal.gov.bd/notices/98ddd286_f45f_4895_9a98_10c34c9ade0c/Draft%20National%20Financial%20Inclusion%20Strategy%20Bangladesh%20(NFIS-B).doc#:~:text=National%20Financial%20Inclusion%20Strategy%20(NFIS)%20is%20a%20roadmap%20of%20actions,to%20achieve%20financial%20inclusion%20objectives

support service providers such as payments technology companies, FinTech companies; mobile network operators (MNOs), and internet service providers (ISPs).

BOX 3: PAPUA NEW GUINEA: ENGAGEMENT WITH THE INDUSTRIAL ASSOCIATION

The choice of stakeholders will also depend on how active they are in the market and their relevance in terms of financial inclusion objectives. For example, non-regulated entities may not be prominent and therefore their inclusion in the NFIS lifecycle might be premature.

One of the solutions is to work with the industrial associations that represent smaller players. This was the case for Bank of Papua New Guinea, which engaged the Papua New Guinea Digital Commerce Association (PNGDCA). The PNGDCA acted as a proxy for innovative FSPs during the NFIS lifecycle.

D. ENGAGE WITH PEER REGULATORS

AFI members are actively engaging with their regional peers for the duration of the NFIS lifecycle. Such engagement is relevant for DFS considerations as well. It generally covers three areas.

Firstly, there is peer learning through capacity building events, facilitated by AFI or other institutions.

Secondly, some regulators indicate that experience and achievements of regional peers can be used as benchmarks for planning domestic DFS-related activities and setting DFS-focused targets.

Thirdly, regulators might also look at the regional-level coordination and cooperation. For example, closer regional economic cooperation may affect cross-border remittances. Close economic ties may also indicate the need for regional switches to ensure interoperability of payment schemes operating in neighboring countries. For example, Uganda cooperated with the East African Community and Common Market for Eastern and Southern Africa (COMESA) to discuss cross-border projects, including the implementation of a payment switch throughout the NFIS lifecycle.

E. INTEGRATE DFS CONSIDERATIONS INTO DEMAND-SIDE AND SUPPLY-SIDE DIAGNOSTICS

Demand-side diagnostics are conducted to determine usage of financial services and their penetration, while supply-side diagnostics map existing products and services, and assess readiness of the FSPs to offer services that support financial inclusion goals.

Demand-side analysis should consider potential gaps between penetration of a particular product or service and its actual usage: users might be deterred from actively using the financial products for multiple reasons, including lack of trust or financial literacy, and predominance of an informal economy. If these factors are neglected, NFIS actions might not be tailored suitably. For example, a large segment of the population owning an account might be misinterpreted as an indication of universal financial inclusion when in fact most of the accounts lie dormant and have very

FIGURE 2: BANGLADESH BANK WORKED CLOSELY WITH THE WIDE RANGE OF INTERNATIONAL DEVELOPMENT INSTITUTIONS TO SUPPORT DIFFERENT ELEMENTS OF NFIS LIFECYCLE[11]

11 Based on the written feedback received from Pinaki Ranjan Sarker, Bangladesh Bank.

limited effect on financial inclusion and the welfare of the population.

Policymakers should distinguish between two categories of products and services for the purposes of supply-side DFS diagnostics. The first consists of innovative products and services such as electronic wallets, mobile wallets, digital assets, etc. The second category includes new delivery channels, such as internet banking, digital lending, QR-codes, and so on. The lines between these two may be blurred but it is important to ensure that innovative business processes and interfaces are included in the analysis as they play significant role in supporting financial inclusion.

BOX 4: TYPES OF NEW TECHNOLOGIES AS DEFINED BY FATF

International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation[12] (Recommendation 15) provides classification of new technologies by differentiating between a) new products and new business practices, including new delivery mechanisms and b) the use of new or developing technologies for both new and pre-existing products. Policymakers may use it as a benchmark for their own country-specific classification.

The supply-side of DFS also correlates with the availability of infrastructure such as internet penetration, access to mobile phones as well as penetration of the agent network.

Demand- and supply-side diagnostics should go beyond retail clients and also cover micro, small and medium enterprises' (MSMEs) access to DFS, such as acquiring payments, ability to pay salaries via cashless methods, access to finance, insurance, and other products and services.

F. IDENTIFY DATA SOURCES RELEVANT FOR DFS

Policymakers are encouraged to use reliable quantifiable data to determine priority financial inclusion policies. However, obtaining information on DFS usage and products might be problematic. Unless necessary data can be obtained directly from FSPs (e.g. when reporting is mandated), regulators may use such data sources as Findex, as well as reports prepared by national FinTech associations.

Since DFS development is also dependent on available infrastructure, data sources that cover mobile phones usage, access to the internet or mobile network are important. Sometimes even customs data – for example, related to import of POS-devices, ATM machines or other self-service devices – might be relevant to assess trends and the state of the market. Apparently, these data sources are maintained by agencies other than financial regulators. Therefore, efficient inter-agency coordination is required not only to obtain this data but also to understand the applied methodology.

Lacking local data sources, many regulators use databases maintained by international organizations, such as Findex (World Bank), and the GSMA database, and IMF's Financial Access Survey. FinScope surveys are also conducted across several jurisdictions to assess financial behavior using a standardized methodology.

There are two considerations that need to be taken into account when using international data sources. Firstly, regulators need to be aware of the methodology used. Sometimes information collected through surveys might be subject to bias and may not reflect behavioral aspects of DFS access and usage. Secondly, universal methodologies may not reflect local circumstances, thus limiting its explanatory power: for example, they may not cover widely used DFS products. Therefore, direct comparability of different jurisdictions might be troublesome. Thirdly, differences in methodology makes comparisons between different sources impossible or inefficient.

Therefore, to ensure evidence-based NFIS actions, regulators need to look at a wider scope of data sources and also analyze the methodology behind them.

Sex-disaggregated data on usage of DFS may provide more insights about existing gender gaps in access to financial services. For example, in Sri Lanka, the Financial Inclusion Survey[13] which included sex-disaggregated data, highlighted the existing gender gap in mobile phone ownership as well as mobile money usage.

Policymakers should critically analyze available data sources. If significant gaps are found, it might be useful to look into establishing new reporting requirements or devising a plan for periodic surveys to efficiently track the NFIS impact and implementation.

12 FATF. 2012. "International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation". FATF/OECD. Paris. Retrieved in 2021. Available at: http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-recommendations.html

13 National Financial Inclusion Strategy for Sri Lanka (2021-2024). (Regional Development Department. 2021. "National Financial Inclusion Strategy for Sri Lanka (2021-2024)". Central Bank of Sri Lanka. Colombo. Available at: https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/NFIS%20Summary_%20English_.pdf)

PHASE 2 FORMULATION

A	Integrate DFS in NFIS vision statement and overarching goal
B	Identify barriers that may prevent DFS implementation and access
C	Identify relevant target policy areas
D	Identify how DFS can contribute to actions related to disadvantaged groups, youth, the elderly, forcibly displaced persons (FDPs)
E	Integrate digital financial literacy considerations
F	Ensure alignment with AML/CFT efforts
G	Consider cybersecurity risks
H	Identify NFIS targets that are relevant to DFS and how they will be assessed
I	Identify DFS-related quick-win actions

At the formulation stage, policymakers should be aware that DFS are not a goal in itself but should support financial inclusion goals. DFS-related policies should thus be deeply integrated into NFIS elements, from overall goals to specific targets.

It is important for policymakers to appropriately identify policy areas that are relevant for their particular jurisdiction. Not all DFS solutions are effective for all countries; therefore, a choice of the relevant DFS solutions and policies will depend significantly on local circumstances. Such circumstances may include the level of financial and digital literacy, availability of infrastructure, penetration of mobile phones, and main financial inclusion challenges.

Misidentification of priority policy areas will have a negative effect on the impact of NFIS implementation. Significant resources may be misdirected, creating frustration among stakeholders. It is crucial to ensure that DFS implementation supports actions specifically related to disadvantaged groups such as women, youth, FDPs and others.

Another important policy choice is identification of DFS-related targets. An appropriate methodology is required to correctly assess NFIS progress related to DFS priorities, as incorrect assessment may misguide stakeholders and could create a gap between expectations and actual results of NFIS implementation. Some of the targets can be achieved in the shorter term, contributing to the stakeholders' buy-in and showcasing relevance and importance of DFS-related actions.

A. INTEGRATE DFS IN NFIS VISION STATEMENT AND OVERARCHING GOAL

According to the AFI NFIS Policy Model, the NFIS vision statement shall define medium- and long-term goal(s) of the strategy. As such, it is a high-level description of the ultimate goal(s) of NFIS. Regulators' experience thus far does not indicate that DFS shall necessarily be integrated into the vision statement. This can be explained by the fact that DFS are not the goal in itself but rather a means to achieve financial inclusion in the country. NFIS shall also be technology-neutral to ensure that DFS are used and supported when it is appropriate and promotes efficiency.

Although DFS may not be integrated in the vision statement or overarching goal, DFS are still an important element of most NFIS:

- **In Sri Lanka**[14], digital finance and payments are recognized as one of four NFIS Pillars.
- **In Liberia**[15] the DFS pillar includes the DFS Legal/Regulatory Framework and Institutional Capacity, the Oversight Framework, Facilitating DFS Usage, Leveraging Large Volume Flows to Increase Digital Payments and Financial Inclusion.
- **In Bangladesh**[16], Upscaling Digital Financial Services and Fintechs is stated as one of the goals of NFIS. Digitization and innovation are identified as 'two key base approaches' of the NFIS.

There is no universal approach towards including a separate chapter or section on DFS in the NFIS. Some policymakers (for example, in Mexico) decided to disperse DFS-related considerations across the NFIS, while the Maldives Monetary Authority is planning to dedicate a separate chapter to DFS considerations.

Each policymaker will need to decide which option will work better, taking into account certain circumstances and the NFIS structure.

B. IDENTIFY BARRIERS THAT MAY PREVENT DFS IMPLEMENTATION AND ACCESS

DFS considerations shall be integrated into the analysis of the financial inclusion barriers. As noted in the AFI NFIS Policy Model, these barriers might be relevant for both the supply- and demand-side.

There are three groups of barriers that might be relevant for DFS.

First, infrastructure barriers may negatively impact supply of financial services. These include availability and usage of mobile devices, access to mobile communications and the internet, and geographical coverage of agent networks. Some countries may also face more systemic infrastructure barriers, such as power outages. It is understandable that financial policymakers cannot address all of these infrastructure gaps, as they do not relate to their specific mandate. However, understanding and acknowledgement of these barriers may help formulate the relevant NFIS actions.

For example, low penetration of point-of-service (POS) terminals may suggest that the rollout of QR-codes could be a more efficient solution to stimulate cashless payments. Alternatively, insufficient usage of smartphones will limit usability of QR-codes, as feature phones rarely have cameras. In these cases, other alternatives (such as USSD-banking) should be explored.

Secondly, DFS implementation is highly dependent on regulation. Inflexible regulatory requirements may stifle innovation in the financial sector. For example, a prohibitive stance on digital onboarding or engaging agents for customer due diligence (CDD) may be a limiting factor for scaling up new products and services. Lack of legal clarity is also a barrier for the rollout of digital financial services: for example, in cases where products, services or market practices are either unregulated or regulated in excessively broad terms. For example, market players can be allowed to conduct remote CDD in line with a risk-based approach; however, lack of guidance on practical mechanisms may deter them from exploring this opportunity.

It should also be recognized that not all regulatory barriers necessarily fall within the regulator's remit, highlighting the importance of inter-agency coordination.

Thirdly, barriers may also include inefficient market structure. For example, lack of competition will hinder implementation of innovative products and services, as the incumbent(s) do not have incentives to minimize their costs or cater to the needs of the less profitable customer segments. Competition concerns may also arise in the markets with multiple players. Certain business practices can lead to lock-in effects where customers suffer from information asymmetries: they are limited in shopping for best market propositions and may face higher costs if they are switching to another FSP. Solutions such as open banking or account switching can be used to address these challenges.

BOX 5: OPEN BANKING

Open banking means the exchange of consumer data between banks and other financial service providers (i.e., data holders), on the basis of customer consent, with other financial service providers and/or third-party providers such as fintechs (i.e., account information service providers and payment initiation service providers —both known as data users)[17].

14 Sri Lanka NFIS (2021-2024): https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/NFIS%20Summary_%20English_2.pdf

15 Liberia NFIS (2020-2024): https://documents1.worldbank.org/curated/en/405051583394983755/pdf/National-Financial-Inclusion-Strategy-2020-2024.pdf

16 Bangladesh NFIS (2021-2026) https://fid.gov.bd/sites/default/files/files/fid.portal.gov.bd/notices/98ddd286_f45f_4895_9a98_10c34c9ade0c/Draft%20National%20Financial%20Inclusion%20Strategy%20Bangladesh%20(NFIS-B).doc#:~:text=National%20Financial%20Inclusion%20Strategy%20(NFIS)%20is%20a%20roadmap%20of%20actions,to%20achieve%20financial%20inclusion%20objectives

17 Open Banking: How to Design for Financial Inclusion, page 4 (Plaitakis, Ariadne. Staschen, Stefan. 2020. "Open Banking: How to Design for Financial Inclusion." Working Paper. CGAP. Washington, D.C. Available at: https://www.cgap.org/sites/default/files/publications/2020_10_Working_Paper_Open_Banking.pdf

Another example of market inefficiency is a lack of interoperability. Where this is the case, consumers are not able to move funds freely between different instruments or FSPs, nor are they able to do it instantly and at a low cost. The lack of interoperability creates competition concerns and is usually addressed through regulatory actions (i.e. mandated interoperability), infrastructural interventions (e.g. by implementing switches or similar solutions) or a combination of the same.

Finally, there can be barriers that are associated with insufficient levels of financial and digital literacy, lack of capacity, and a low level of trust.

BOX 6: THE BANGLADESH NFIS APPROACH TOWARDS FINANCIAL LITERACY IN DFS

The Bangladesh NFIS recognizes that lack of financial literacy is a deterrent to adoption of DFS (i.e. demand-side barrier).

To address this, the NFIS envisages collaboration with development partners and behavioral insights experts to identify design features, price incentives, and marketing messages that will encourage low-income groups to adopt and actively use DFS.

C. IDENTIFY RELEVANT TARGET POLICY AREAS

NFIS target policy areas are very context-specific; it is therefore difficult to provide a comprehensive list of all DFS-related topics. Areas that are relevant for some countries may not apply others.

However, policymakers might look into the following (non-exhaustive) list of DFS-related areas to address financial inclusion issues as identified at the NFIS pre-formulation phase:

Product-level policy areas related to introduction or support of certain products and services relevant for financial inclusion:

- electronic money
- payment cards (including debit, credit and prepaid cards)
- instant payment systems (IPS)
- QR-code based payments
- digital credit
- digital insurance

Regulatory-level policy areas related to the business practices of the financial service providers and interaction with the customers:

- interoperability arrangements
- CDD requirements[18]
- data protection requirements[19]
- tax reliefs implemented to steer users or merchants towards cashless payments
- regulation of new types of financial service providers (e.g. third-party service providers)
- disclosure of information about terms of services and usage of electronic signatures
- cybersecurity requirements[20]
- open API (open banking) requirements.
- regulatory sandboxes[21].

For more information on innovative regulatory approaches see **AFI's Innovative Regulatory Approaches Toolkit**

> View here

The selection of the relevant DFS-related policies that will be pursued throughout the NFIS implementation will depend on the current state of financial inclusion, DFS usage, and supply- and demand-side barriers. The particular policies will depend on the local circumstances and state of financial inclusion.

18 See KYC Innovations, Financial Inclusion and Integrity. Guideline No. 32. (Digital Financial Services Working Group (DFS WG). 2019. "KYC Innovations, Financial Inclusion and Integrity in Selected AFI Member Countries". Guideline Note 32. Alliance for Financial Inclusion. Kuala Lumpur. Available at: https://www.afi-global.org/publications/kyc-innovations-financial-inclusion-and-integrity-in-selected-afi-member-countries/)

19 See AFI Guideline Note on Data Privacy for Digital Financial Services . (Digital Financial Services Working Group (DFS WG). 2021. "Guideline Note on Data Privacy for Digital Financial Services". Guideline 43. Alliance for Financial Inclusion. Kuala Lumpur. Available at: https://www.afi-global.org/publications/guideline-note-on-data-privacy-for-digital-financial-services/)

20 For more information see AFI Guideline Note on Cybersecurity for Financial Inclusion: Framework and Risk Guide. (Digital Financial Services Working Group (DFS WG). 2019. "Cybersecurity for financial inclusion: framework & risk guide". Guideline Note 37. Alliance for Financial Inclusion. Kuala Lumpur. Available at: https://www.afi-global.org/publications/cybersecurity-for-financial-inclusion-framework-risk-guide/

21 For more information on innovative regulatory approaches see AFI's Innovative Regulatory Approaches Toolkit (Digital Financial Services Working Group (DFS WG). 2019. "Innovative Regulatory Approaches Toolkit". Alliance for Financial Inclusion. Kuala Lumpur. Available at: https://www.afi-global.org/publications/innovative-regulatory-approaches-toolkit/)

For example, countries with limited penetration of financial products and services may look into creating a conducive environment for simple payment and savings products. Jurisdictions where most of the residents are already using digital payment services might be more interested in improving access to digital insurance, trade finance and other more complicated services.

BOX 7: NIGERIA'S NFIS

Nigeria NFIS outlines strategies for each NFIS target by differentiating products, channels and enablers.

Products	Channels	Enablers
> Payments	> Deposit Money Banks Branches	> KYC
> Savings	> Microfinance branches	> Financial literacy
> Credit	> ATMs	> Consumer protection
> Insurance	> POS	> Initiatives for women
> Pensions	> Agent banking	> Children and Youth initiatives

D. IDENTIFY HOW DFS CAN CONTRIBUTE TO ACTIONS RELATED TO DISADVANTAGED GROUPS, YOUTH, THE ELDERLY, AND FDPS.

AFI's Guideline Note on Integrating Vulnerable Groups in National Financial Education Programs and Strategies[22] outlines how specific policies can be aimed at supporting women, youth, FDPs, and other vulnerable groups.

Bearing in mind that DFS is only a tool to support achievement of financial inclusion goals, regulators should first identify demand and supply barriers faced by vulnerable groups. These will impart the necessary information as to whether DFS can be used to overcome these barriers.

DFS can contribute to the well-being of disadvantaged groups in a number of ways:

- new delivery channels, such as mobile banking or agent networks may provide access to the groups that may have trouble visiting bank offices
- digital financial literacy policies will support capability of the vulnerable groups and responsible usage of financial products and services
- digital onboarding mechanisms will allow those groups that may not have reliable documentation (such as FDPs) get access to basic financial services

E. INTEGRATE DIGITAL FINANCIAL LITERACY CONSIDERATIONS

Financial literacy is a crucial element of the NFIS. The emergence of digital financial services also highlights the importance of digital financial literacy (DFL).

BOX 5: DFL

DFL can be defined as acquiring the knowledge, skills, confidence, and competencies to safely use digitally delivered financial products and services, to make informed financial decisions and act in one's best financial interest per individual's economic and social circumstance[23].

Usage of new delivery mechanisms requires specific knowledge and skill set that might be different from traditional financial products and services. Apart from basic digital skills (e.g. how to use a mobile phone) using DFS also requires a new set of skills and competencies related to:[24]

- managing personal data and privacy
- understanding terms and conditions of digital financial product, including all costs and related risks
- comparing information, terms and conditions and associated costs of different DFS providers

In considering integrating DFL considerations in NFIS, regulators should also be aware of the risks related to potential gaps or misalignment between DFL and availability of DFS. Aggressive rollout of e-wallets, payment cards or more traditional products and services through new delivery channels - such as the remote opening of bank accounts or provision of online loans - to customers with limited DFL levels, may lead to a higher incidence of fraud, over-indebtedness and other negative effects over the medium- and long-term. For example, FSPs may actively promote digital products and services with terms and conditions not properly understood by the customers.

22 Consumer Empowerment and Market Conduct Working Group (CEMC WG). 2021. "Integrating Vulnerable Groups in National Financial Education Programs and Strategies". Guideline Note 48. Alliance for Financial Inclusion. Kuala Lumpur. Available at: https://www.afi-global.org/publications/integrating-vulnerable-groups-in-national-financial-education-programs-and-strategies/

23 Digital Financial Literacy Guideline Note. No. 45, page 5 (Consumer Empowerment and Market Conduct Working Group (CEMC WG) and Digital Financial Services Working Group (DFS WG). 2021. "Digital Financial Literacy". Guideline Note 45. Alliance for Financial Inclusion. Kuala Lumpur. Available at: https://www.afi-global.org/publications/digital-financial-literacy/)

24 Digital Financial Literacy. Guideline Note. No. 45, page 8 (Consumer Empowerment and Market Conduct Working Group (CEMC WG) and Digital Financial Services Working Group (DFS WG). 2021. "Digital Financial Literacy". Guideline Note 45. Alliance for Financial Inclusion. Kuala Lumpur. Available at: https://www.afi-global.org/publications/digital-financial-literacy/)

Another example is customers not being able to fully adhere to cybersecurity rules and thus becoming more vulnerable to fraudsters. These negative effects might be difficult to spot (as they are rarely referenced as NFIS targets) and may even accumulate and manifest outside the NFIS time scope. Moreover, lack of DFL might also impact the demand for non-payment related services, such as insurance, as they are less intuitive for potential customers.

Lack of demand in turn decreases incentives for insurance companies to invest in new market propositions. These considerations are relevant for other non-payment services (e.g. trade-based financing, leasing, etc.) as well.

Policymakers are encouraged to look into either incorporating DFL considerations in NFIS or aligning NFIS with the dedicated National Financial Education Strategy (NFES) that includes DFL elements. The review of an NFES as part of the NFIS implementation might be considered as well.

F. ENSURE ALIGNMENT WITH AML/CFT EFFORTS

Anti-money laundering and countering the financing of terrorism (AML/CFT) and financial inclusion policies are deeply interrelated. According to FATF Guidance on Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion,[25] an "over-compliance" approach by regulators and financial institutions could exacerbate the risk of financial exclusion. At the same time, inability to use appropriate formal financial services can be a source of elevated money laundering and terrorism financing risks, as not all the financially excluded should be automatically considered as being of low risk.

From the financial inclusion perspective, it is important to primarily look at current onboarding requirements such as CDD. Excessively stringent CDD procedures can be a barrier, especially for individuals lacking appropriate official documentation and individual entrepreneurs working in informal sectors.

Policymakers are encouraged to explore different options to minimize onboarding costs both for the customers and FSPs. These may include simplified CDD based on limited scope of identity documents, simplified verification procedures, or implementing digital identity solutions.[27]

BOX 9: THE ROLE OF TIERED KYC FOR FINANCIAL INCLUSION IN MOZAMBIQUE

The Mozambique NFIS recognizes CDD for account opening as a significant impediment for financial inclusion, as only 58 percent of the population has a national ID or national tax ID. To this end, the NFIS envisages establishment of a dedicated working group to consider introducing tiered KYC requirements.

Full implementation of tiered KYC might require a longer-term effort; yet regulators can undertake some high-impact steps - such as establishing a focused working group - that can result in significant progress within six to nine months, and, as such, can be defined as a 'quick win action'[26].

G. CONSIDER CYBERSECURITY RISKS

Safety and resilience are crucial attributes of inclusive financial products and services. Data breaches, unreliable uptime and other drawbacks may negatively impact consumers' trust towards a regulated financial sector. As FSPs and consumers are embracing new technologies, they are increasing their exposure to cybersecurity risks. The same is true for policymakers that implement SupTech[28] solutions and become more reliable on information technologies to execute their mandate.

During the formulation phase, policymakers should be aware of the existing gaps in cybersecurity policies, by analyzing the available data on fraud in the financial sector, for example. In this regard, DFS-related actions should be complemented by steps taken to strengthen the cyber-resilience of the financial sector. Policymakers may also look into aligning NFIS policies with the existing national cybersecurity frameworks, if applicable.

25 FATF. 2013-2017. "Anti-money laundering and terrorist financing measures and financial inclusion - With a supplement on customer due diligence". FATF/OECD. Paris. Available at: www.fatf-gafi.org/publications/financialinclusion/documents/financial-inclusion-cdd-2017.html

26 Mozambique National Financial Inclusion Strategy 2016-2022: Mid-Term Review, page 11. (World Bank. 2020. "Mozambique - National Financial Inclusion Strategy for 2016-2022: Mid-Term Review (English)". World Bank Group. Washington, D.C. Available at: http://documents.worldbank.org/curated/en/732551572441523589/Mozambique-National-Financial-Inclusion-Strategy-for-2016-2022-Mid-Term-Review

27 FATF. 2020. "Guidance on Digital Identity". FATF/OECD. Paris. Available at: www.fatf-gafi.org/publications/documents/digital-identity-guidance.html

28 Supervisory technology

Regulatory cybersecurity requirements might be complemented by internal capacity buildings and awareness campaigns for private stakeholders. This will again highlight that DFS is not a goal in itself but rather the means for attaining financial inclusion goals, and, as such, should be implemented responsibly.

H. IDENTIFY NFIS TARGETS THAT ARE RELEVANT TO DFS AND HOW THEY WILL BE ASSESSED.

As highlighted in the AFI NFIS Policy Model, NFIS should include specific quantitative and qualitative targets to measure the success of implementation.

Some of these targets might be directly or indirectly related to DFS implementation.

Based on AFI members' experiences, qualitative targets can be categorized into three groups:

1. DEVELOP AND ADOPT DFS-RELATED REGULATIONS.

Policymakers should bear in mind that there can be significant gaps between development of regulation or legal amendments, their adoption and subsequent entry into force. Regulatory reforms will have impact only after they can be legally enforced. Setting mere 'development' of regulatory changes as an NFIS target may misrepresent the results of NFIS implementation.

2. DEVELOP ROADMAPS AND STRATEGIES.

These would be aimed at the digitization of particular segments of the financial sector or of public entities (e.g. for the purposes of collecting fees and taxes in cashless form). It should be noted that each of these documents may have its own timeline and the results of implementation may go beyond the period covered by NFIS.

3. PROVIDE TECHNICAL SUPPORT TO STAKEHOLDERS, INCLUDING DIGITAL LITERACY INITIATIVES FOR CONSUMERS, CAPACITY BUILDING FOR PRIVATE STAKEHOLDERS, AND OTHER POLICIES.

These quantitative targets may be complemented by qualitative targets, such as the number of participants (including the number of female participants), the number of institutions that participated in the training, and others.

Quantitative targets are more straightforward as they usually relate directly to the usage of DFS. DFS-related qualitative targets can be categorized into the following groups:

> indicators related to DFS access points (such as ATM, self-service kiosks, agent locations, etc.)

BOX 10: AFI'S CYBERSECURITY FOR FINANCIAL INCLUSION: FRAMEWORK AND RISK GUIDE OUTLINES SEVEN KEY PRINCIPLES FOR CYBERSECURITY RELEVANT FOR FINANCIAL INCLUSION POLICIES:

PRINCIPLES FOR REGULATORS, POLICY MAKERS AND SUPERVISORY AUTHORITIES	
Principle I	Regulation and compliance
Principle II	Cooperation with local and international stakeholders

PRINCIPLES FOR SERVICE PROVIDERS	
Principle III	Protecting customers
Principle IV	Secure delivery of services
Principle V	Managing internal risks
Principle VI	Understanding your partners
Principle VII	The longer term

- number of customers (individuals, MSMEs, or other legal entities) using innovative financial services such as payment cards, online or mobile banking, etc.
- number of customers using new delivery channels (e.g. those who applied for a loan online)
- indicators showing intensity of using DFS services (e.g. share of C2B[29] transactions related to cash-out transactions, number of active users, number of transactions per user, etc.)

It should be noted, however, that each quantitative target should have a clear methodology behind it; otherwise, its dynamics might be misleading and not reflect the actual effects of NFIS implementation. For example, the number of users would heavily depend on whether all users or only 'active' users are calculated. Similarly, how 'activity' is defined (what type of transaction will count as activity and after how long the user/account is considered 'dormant') will also impact the measured outcome.

Regulators should make sure that all reporting entities adopt the same methodology and ensure that there is a common reporting standard that ensures collection of relevant data. Regulators may also find it useful to combine different data collection methods, such as reporting by the consumer entities and customer surveys. It can also be helpful to use multiple indicators to capture certain developments: for example, penetration rate of cashless payments. The methodology of the statistics on payments and financial market infrastructures developed by the BIS Committee on Payments and Market Infrastructures[30] can provide valuable insights in reporting standards related to payments.

As with other NFIS targets, DFS indicators should also be sex-disaggregated whenever possible, to ensure that gender considerations are fully taken into account in assessing NFIS implementation.

I. IDENTIFY DFS-RELATED QUICK-WIN ACTIONS

Execution of DFS-related policies may take significant time. Moreover, due to investment cycles, FSPs may not be able to implement new market propositions right away. Therefore, lack of immediate results in supporting financial inclusion through DFS usage in the country may prove discouraging.

To show tangible results in a shorter-term and create momentum, regulators should identify quick-win actions that will not require significant resources.

There can be two types of quick-win actions. The first would be to finalize DFS-related projects that were initiated prior to NFIS implementation. The NFIS can support the existing DFS-related reforms and give them additional impetus. The second suggested quick-win action is to overcome some DFS-related barriers through additional guidance and explanatory letters or letters of no objections, without necessarily changing regulations.

Extensive consultations with the private stakeholders are needed to identify efficient quick-win actions and ensure that NFIS actions have immediate effects for consumers, including customers belonging to vulnerable groups.

29 Consumer-to-business

30 Bank for International Settlements (BIS). 2017. "Methodology of the statistics on payments and financial market infrastructures in the CPMI countries (Red Book statistics)". CPMI Papers No.168. August 30 2017. BIS. Basel. Available at: https://www.bis.org/cpmi/publ/d168.htm

PHASE 3 IMPLEMENTATION

A	Ensure interagency cooperation
B	Support efficient intra-agency coordination
C	Plan capacity building for the implementing stakeholders
D	Incorporate emerging technologies and business models in the NFIS mid-term review

The NFIS implementation phase illustrates the multidimensional nature of DFS. FSPs often partner with non-financial firms – such as MNOs – and leverage the existing communication infrastructure. Non-financial companies often fall outside the mandate of the financial regulator though they play an important role in expanding access to DFS.

By doing so, they also contribute to NFIS implementation efforts. Policymakers are encouraged to cooperate with other regulators (for example, communication agencies) to ensure a consistent approach and avoid potential gaps that may prevent efficient enactment of NFIS policies.

Some policymakers have already established dedicated units to support DFS (such as Innovation Offices[31]). These units should be deeply involved in NFIS implementation as they have the internal capacity and an understanding of the local DFS market.

Since the DFS sector constantly evolves, all stakeholders involved in the NFIS implementation should have the relevant and updated knowledge and expertise. This is crucial for public and private stakeholders who were previously not engaged in DFS-related efforts. Capacity building should be balanced, showcasing both the advantages and the risks of new technologies. Ongoing knowledge exchange will ensure that all stakeholders share a similar vision for NFIS.

A mid-term review of NFIS is an integral part of the implementation phase. DFS-related considerations should be integrated in the review process to ensure synchronized implementation and timely changes in the plan.

A. ENSURE INTER-AGENCY COOPERATION

As financial technologies evolve, new types of players are becoming increasingly involved in provision of innovative financial services. These new actors, such as MNOs, postal services, BigTechs[32] and others, play

31 Innovation Hub/Office is a 'Innovation Facilitator set up by a supervisory agency that provides support, advice or guidance to regulated or unregulated firms in navigating the regulatory framework or identifying supervisory policy or legal issues and concerns. See: How Regulators Respond to Fintech. Fintech Note No. 5 (World Bank. 2020. "How Regulators Respond To FinTech: Evaluating the Different Approaches - Sandboxes and Beyond". Fintech Note. No. 4. World Bank. Washington, DC. Available at: https://openknowledge.worldbank.org/handle/10986/33698)

32 BigTechs are 'large technology firms' such as Alibaba, Amazon, Facebook, Google or Tencent (see: Annual Economic Report (Bank for International Settlements. 2019. "Annual Economic Report. June 2019". BIS. Basel. Available at: https://www.bis.org/publ/arpdf/ar2019e.htm))

a significant role in catering to the needs of the financially excluded. They are also sometimes subject to supervision of multiple regulatory bodies.

The NFIS governance structure should recognize the possible overlap of regulatory mandates and include all relevant regulatory bodies to ensure a consistent approach. This is especially relevant in cases where non-financial regulators - such as telecommunication agencies - may not be fully aware of the financial inclusion objectives and scope of services that are provided (directly or indirectly) by their supervised entities.

In some jurisdictions, different types of FSPs are supervised by different regulators. For example, this is the case in Pakistan where banks and payment institutions are supervised by the State Bank of Pakistan, while non-banking finance companies are regulated by the Securities and Exchange Commission.[33]

Lack of coordination among different regulatory bodies is likely to create gaps in the overall NFIS and could potentially lead to contradicting policies. Moreover, active cooperation with non-financial regulators might be valuable for the purposes of collecting information related to NFIS targets.

B. SUPPORT EFFICIENT INTRA-AGENCY COORDINATION

Efficient intra-agency coordination plays an important role in NFIS implementation, as all participating units should be aligned in terms of the goals, vision, priorities, and targets of the NFIS.

Policymakers need to ensure that existing internal DFS-focused departments are actively involved throughout the NFIS lifecycle. Some regulators already have internal structures empowered to support DFS and financial innovators. These structures, such as innovation offices or other dedicated departments, have extensive knowledge and understanding of the local FinTech market. In certain cases, they may also have good working relationships with private stakeholders.

Regulators may choose to either include representatives of the aforementioned units in different elements of the NFIS institutional structures (for example, in some or all working groups) or establish a separate working group dedicated to DFS, where a

33 Securities and Exchange Commission of Pakistan. “SECP - What We Do”. Available at: https://www.secp.gov.pk/about-us/what-we-do/

BOX 11: NIGERIA'S NFIS

Nigeria's National Financial Inclusion Strategy clearly identifies the roles and responsibilities (including those for the purposes of monitoring and evaluation) of key stakeholders. This includes the National Communication Commission (NCC) which is mandated to create an enabling environment for competition among operators in the industry as well as ensuring the provision of qualitative and efficient telecommunications services throughout the country:

NCC ROLES AND RESPONSIBILITY
Define a plan for the Federal Government to invest in fibre optic cables for mobile network operators
Mandate dedicated bandwidth for data services to give priority to payments and other e-channels as a temporary measure to drive mobile payments
Institute and publish statistics on network downtime to incentivize operators to keep the network active

NCC RESPONSIBILITY FOR SPECIFIC INFORMATION (TO BE PROVIDED TWICE A YEAR)
Percentage of network downtime in the communications industry
Number of Mobile Network Operators (MNO)
Total active mobile subscribers for the industry as well as per MNO detailed by gender and other key demographics.

representative of the DFS-focused internal unit may act as coordinator. For example, the Maldives Monetary Authority established a separate DFS Working Group within the NFIS institutional structure to proactively engage stakeholders throughout the formulation and implementation stages.

C. PLAN CAPACITY BUILDING FOR THE IMPLEMENTING STAKEHOLDERS

The capacity of the implementing stakeholders (public and private) is an essential part of DFS-related NFIS actions. As technologies and business models evolve, it is crucial to be aware of international best practices, emerging risks, and opportunities provided by DFS. Extensive knowledge and awareness are also required to manage the expectations of stakeholders, in particular, those related to the rollout of new products and services. Expectations left unmanaged may lead to stakeholders' frustration and disappointment. Moreover, capacity building exercises help to create a common understanding of the NFIS approach among all stakeholders.

Capacity building exercises are especially relevant in cases where the NFIS includes the implementation of innovative regulatory approaches, such as innovation offices, regulatory sandboxes or electronic-KYC (e-KYC). These approaches require more active involvement with innovative FSPs and obtaining the capacity to make informed decisions about the applicability, appropriateness and potential risks of new products and services.

A lack of capacity may increase risk in situations where growth is prioritized over security and sustainability. Inability to adequately assess the risks of digital onboarding, including e-KYC may also have detrimental effects on the ability of FSPs to prevent abuse by money launderers and terrorist financers and, ultimately, on the efficiency of the national AML/CFT regime.

Capacity building can be facilitated through conferences, seminars or more in-depth tailored educational programs. Using these various options, policymakers may engage with external parties to conduct peer learning sessions, collaborate with local universities, and leverage regulators' own learning platforms.

Regulators should also bear in mind that the content of capacity building programs should be relevant and tailored to the audience.

D. CAPTURE EMERGING TECHNOLOGIES AND BUSINESS MODELS IN THE NFIS MID-TERM REVIEW

The NFIS mid-term review usually includes adjustment of the NFIS scope, targets or implementation plan to accommodate changing circumstances, internal or external. This also includes the emergence of new technologies and business models.

In theory, a regulatory approach needs to be technology-neutral and abstain from focusing on specific products, services, technologies or providers.[34] In practice however, NFIS reference particular technologies, as they may be instrumental to cater to the needs of the financially included or assessing the strategy's progress.

The emergence of new technologies and business models may change the scope and implementation plan of an NFIS. Therefore, the following DFS-related developments should be taken into account during the mid-term review of the NFIS:

- **New DFS players may emerge.** These might include new unregulated entities that have started or are willing to start providing innovative financial services. These firms need to be included in the NFIS scope and, if appropriate, the institutional structure, as they may compete with the incumbents and scale-up quickly. While they can provide additional opportunities for financial inclusion, they also pose potential risks to the consumers if not properly regulated or supervised.
- **There may also be an emergence of new types of products and services or delivery channels.** These new market propositions could be implemented or scaled up after the NFIS launch. NFIS stakeholders must take note of emerging products as these may not only affect the state of financial inclusion both positively and negatively. If excluded from the NFIS evaluation plan, they could also distort NFIS monitoring efforts.

34 Stability, Financial Services and Capital Markets Union. 2019." Expert Group on Regulatory Obstacles to Financial Innovation (ROFIEG): 30 Recommendations on Regulation, Innovation and Finance - Final Report to the European Commission - December 2019." European Commission. Brussels. Available at: https://ec.europa.eu/info/publications/191113-report-expert-group-regulatory-obstacles-financial-innovation_en

CONCLUSION

This guideline note outlines the main DFS-related considerations that policymakers are encouraged to take into account throughout the NFIS lifecycle. It provides pragmatic views on how DFS can be properly integrated into NFIS, to ensure that innovative products and services have a positive impact on end users.

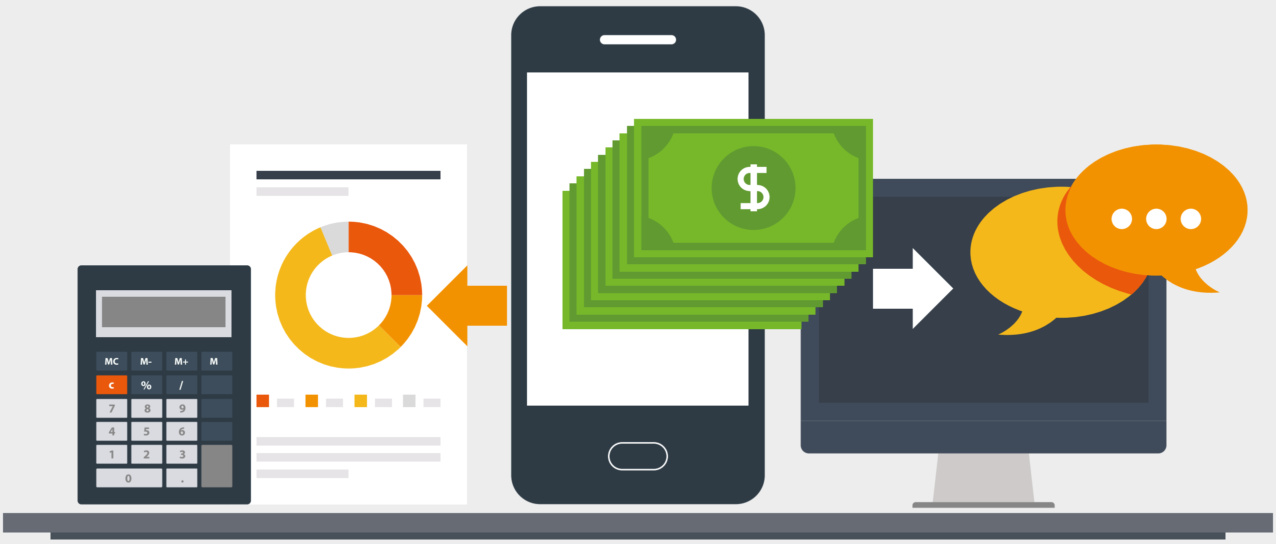
As DFS is a cross-cutting issue, more in-depth analysis of the topics mentioned in the guideline note can be found in thematic AFI knowledge products referenced throughout this document.

It is also important to keep in mind that DFS implementation is not a goal in itself but rather an instrument to expand access to more inclusive, affordable, safe, and appropriate financial services.

As illustrated in this guideline note, DFS considerations should be fully taken into account throughout each stage of the NFIS lifecycle. The pre-formulation stage is crucial to clearly outline what is included in the scope of DFS, as this will define all DFS-related elements of the NFIS. This will also help to map relevant stakeholders and ongoing initiatives.

The formulation stage of the NFIS highlights the multifaceted nature of the DFS. It reflects the fact that the growth of DFS is not only an integral part of global digitization trends, but also very context-specific. From this perspective, the main challenge for policymakers is to identify DFS-related areas and considerations that are relevant for the specific jurisdiction, taking into account structure of the market, existing financial inclusion gaps, capacity, and other factors. The formulation stage is crucial to identify actions that will ensure the secure and efficient implementation of DFS products and services which will support financial inclusion goals.

At the implementation stage, policymakers are encouraged to be aware of the cross-cutting nature of DFS. NFIS should be based on solid inter-agency coordination and leverage existing DFS-focused units within regulatory agencies to ensure that NFIS goals are achieved. Policy actions should also be complemented by efficient capacity building efforts for both public and private stakeholders.



GLOSSARY

AFI	Alliance for Financial Inclusion
AML/CFT	Anti-money laundering/countering financing of terrorism
API	Application Programming Interface
ATM	Automated Teller Machine
BIS	Bank of International Settlements
C2B	Consumer-to-business
CDD	Customer Due Diligence
COMESA	Common Market for Eastern and Southern Africa
DFES	Digital Financial Education Strategy
DFL	Digital Financial Literacy
DFS	Digital Financial Services
DFSWG	Digital Financial Services Working Group
e-KYC	electronic-KYC
FATF	Financial Action Task Force
FDPs	Forcibly Displaced Person or Persons
FISPLG	Financial Inclusion Strategy Peer Learning Group
GSMA	GSM Association
IPS	Instant Payment System
ISP	Internet Service Provider
KYC	Know Your Customer
MFS	Mobile Financial Service
MNO	Mobile Network Operator
NCC	National Communication Commission
NFES	National Financial Education Strategy or Strategies
NFIS	National Financial Inclusion Strategy or Strategies
PIRI	Pacific Islands Regional Initiative
POS	Point-of-sale
QR-code	Quick Response code
RSB	Regulatory Sandbox
SupTech	Supervisory Technology

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