

A simplified annual supervision plan

This additional example is part of the CGAP Technical Guide, [*Digital Financial Services for Financial Inclusion: Tools for Supervisors*](#). It provides a practical illustration produced during CGAP's work with several country supervisors on DFS supervisory frameworks. This document is part of the Technical Guide's collection of Additional Examples and Guidance. Its utility and applicability to specific country contexts depends on factors such as the availability of data and other resources, the stage of development of DFS markets, experience with risk-based supervision, and institutional arrangements for supervision.

Introduction

This document is intended to serve payments departments that supervise digital payment services providers (PSPs). It is a simple example of how to develop an annual work program and offers useful guidance on designing a multiyear supervisory strategy. Its relevance depends on how the supervisory department's functions are defined, its organizational structure, the availability of human resources for supervision (as opposed to supporting activities), and the prior existence of supervisory guidance, manuals, and workplans. Its relevance depends on the availability of quality (accurate, timely, complete) data to be used for supervisory purposes. If quality data are not available, improving data should be among the department's top priorities.

This example of developing a supervisory work program assumes the payments department has at least two key functions:

- **Oversight.** The oversight function focuses on market-level monitoring of the national payments system's (NPS) performance (e.g., reliability, availability, other indicators). Oversight feeds the supervisory function with periodic, ad hoc, and on-demand information about the market or even specific PSPs. It is primarily an offsite function but can eventually include onsite activities, such as conducting a thematic review that combines mystery shopping with other techniques.
- **Supervision.** The supervisory function is focused on PSP-level analyses comprised of both offsite and onsite activities. The intent is to assess the level of regulatory compliance of individual PSPs and their overall performance on key indicators. Regulatory compliance evaluation takes into consideration the applicable regulations and supervisory goals the payments department covers. These could include consumer protection, efficiency, safety, reliability, interoperability, competition, and combating financial crimes such as anti-money laundering/combating the financing of terrorism (AML/CFT).

Steps for Developing a Supervisory Work Program

STEP 1. ARTICULATE STRATEGIC OBJECTIVES

The first step a payments department must undertake in organizing its oversight and supervisory activities is to articulate its strategic objectives. This becomes the basis for identifying the department's functions and activities and developing its organizational chart.

- Strategic objectives often stem from the law that created the supervisory authority (e.g., a central bank act) or the financial sector law (e.g., a banking law).
- Example objectives include:
- Promote, regulate, and supervise payments and settlements systems, payment instruments, and PSPs
- Ensure the effectiveness, safety, soundness, and reliability of the NPS, including payments systems and instruments, payment services, and the institutions providing such structures
- Ensure legal and regulatory compliance by NPS participants
- Ensure the financial soundness of critical payments system infrastructure
- Ensure a level playing field in the NPS, and fair and equitable access and use of payments system infrastructure
- Maximize NPS efficiency
- Maximize interoperability based on collaboration
- Foster healthy competition within retail payment services
- Ensure reasonable retail payment costs to society

STEP 2. DEFINE DEPARTMENTAL FUNCTIONS AND ACTIVITIES

A payments department's functions result from its strategic objectives, for instance:

- NPS oversight
- Supervision of payments systems, operators, instruments, and PSPs
- Licensing and authorizations
- Regulation, supervisory policy, and guidance
- Research
- Communications and external affairs
- Administrative functions

Some functions can be combined under the same unit, such as regulation with research and communications with administrative functions.

The activities performed under each function need to be detailed. Each unit in charge of various functions needs a responsible staff member or head to oversee and coordinate the

execution of activities by a team or an individual; to set priorities; to monitor performance indicators; and to coordinate with other departments. It is important to consider that, with the exception of administrative functions, all functions require a minimum level of specialized expertise. Careful and strategic rotation of staff allows expertise to build up and maximum efficiency and efficacy to be gained—especially for core supervisory functions.

OVERSIGHT AND SUPERVISORY FUNCTIONS

Scope and approach

The difference between oversight and supervision is not clear cut. In practice, payments overseers combine offsite market monitoring activities and onsite inspections of systematically important payments infrastructure. These types of activities are essentially the same as those conducted by prudential supervisors across the globe.

This document encourages the use of these terms (i.e., oversight and supervision) as different functions: one focused on market-level analyses and one focused on institution- or system-focused assessments. Yet in practice, their respective activities could be combined under a single unit and a single term used. However, it is important that both institution-focused and market-focused perspectives exist and are pursued.

Both oversight and supervision would cover all large value and retail payments systems, providers, instruments, and services, and prioritize higher risk or impact systems and providers. Naturally, systemically important market infrastructure or payments and settlement systems like real time gross settlement (RTGS) and clearinghouses are higher priority than most retail PSPs and systems. However, some retail PSPs do reach a volume of transactions and number of users that makes them systemically important from the perspective of policy objectives such as consumer protection, competition, and efficiency.

International standards provide key benchmarks for oversight, in particular the Principles for Financial Market Infrastructures (PFMI)—the main reference for best practices in PSP supervision, including, to a certain extent, retail PSPs. The PFMI support and encourage risk-based supervision.

Oversight and supervisory activities are deeply interrelated. They complement and inform each other. An approach that eliminates barriers to information sharing and collaboration between the two maximizes efficiency and efficacy, and reduces unnecessary overlap.

The oversight function

NPS oversight focuses on the NPS as a whole. It is primarily completed via offsite monitoring and prioritizes offsite data analyses. Oversight activities include:

- 1. Monitoring key NPS indicators** for NPS performance evaluation and identifying trends in regard to:
 - Payment instruments base (e.g., electronic funds transfer (EFT), checks, cards, e-money, cryptocurrencies, central bank digital currency)
 - Payment access points (channels) network
 - Usage of payment instruments and channels

- Cost of payment services (e.g., cross-border remittances, domestic transfers)
 - Financial inclusion
 - NPS targets, for example, in terms of growth of noncash payments vs. cash payments
 - Settlement of financial market trades
 - Competition issues
 - Interoperability and efficiency
- 2. Monitoring availability and reliability of critical infrastructure**, such as telecommunications, ATM networks, clearinghouses, and RTGS
 - 3. Monitoring interdependencies and related risks** in NPS, including coordinating self-assessments of interbank payments systems
 - 4. Monitoring systemically important systems and markets**, such as RTGS, securities settlement systems, repo markets, interbank forex markets, etc.
 - 5. Review of operational rules** and the design and operations of systems in order to:
 - Assess level of compliance with the applicable legal and regulatory framework
 - Assess whether rules align with international good practices
 - Evaluate fairness and equilibrium of access and usage rules, as well as cost considerations
 - Identify the need for follow-up supervisory activities
 - Assess risks system changes and updates
 - Ensure NPS efficiency

The supervisory function

Supervision is focused on assessments of individual payments systems operators (PSOs), PSPs, payment instruments, and their related products—together referred to as payment services. Supervisory activities include:

- 1. Institution- or system-based assessments** focused on individual systems and their PSOs, PSPs, and their services, including offsite and onsite activities. Objectives may include:
 - Identify risks and assess the practices used to manage risks, including credit, liquidity, legal, operational, settlement, business, systemic, and replacement risks
 - Regularly test business continuity arrangements—at least in systemically important systems, PSOs, and PSPs
 - Assess governance arrangements, rules, and procedures that specify the responsibilities, access criteria, and rights of system participants
 - Assess business conduct practices and consumer risk management

- Evaluate the existing financial, material, and human resources of individual PSOs and PSPs
- Evaluate the process of generating reliable reports for the supervisor

2. Thematic reviews or assessments limited to specific topics or services within a segment of the regulated market or the whole market. These differ from studies and research as they are useful in identifying good and bad practices, as well as emerging risks in areas covered by existing regulation or to gather insights for future regulation. Thematic reviews could potentially be placed under the oversight function or combined with research into a separate unit. Thematic reviews can be followed up by specific inspections or inquiries into individual PSPs or PSOs. Examples of thematic reviews in the area of payments include:

- Merchant discount rates
- Transaction fees
- Internal controls
- Data breaches
- Consumer disclosures
- Product bundling
- Capacity to face margin calls by clearing systems
- Consumer complaints handling

3. Research units can have their own research agenda that need not be related to supervisory activities and the work program. For instance, research areas could include consumer payments preferences, investigation of obstacles to adoption and use of payment accounts and transactions, obstacles to an increased national payments (merchants) network, adoption of unregulated novel instruments such as cryptocurrencies, surveys of fintech companies active in the market, etc.

STEP 3. MAP AND SEGMENT THE REGULATED NPS

It is necessary to map the entire regulated NPS and its supporting structures (e.g., telecommunications) by identifying market players. The map should be as updated as possible at all times. Mapping and the consistent use of standard terms and definitions help supervisors organize their work programs, identify domestic and international benchmarks for peer groups, assess risks at the segment level, and internally and externally communicate on oversight and supervision activities, risk outlook, and market developments. Mapping can be divided into:

1. Infrastructure

- RTGS
- Mobile operators that support payments infrastructure
- Major cloud computing providers, if relevant

- Security printers
- Clearing systems
- Settlement systems

2. PSPs

- E-money issuers (EMIs)
- Other retail PSPs, including banks
- Relevant third-party providers (e.g., software developers, payment aggregators, account information service providers [AISPs], payment initiation service providers [PISPs])
- Card issuers and card merchant acquirers
- Money transfer operators (MTOs)

3. Instruments/services

- Cards
- E-money
- Prepaid instruments
- Checks
- EFT, instant payments
- Remittances
- Cryptocurrencies
- Stablecoins
- Central bank digital currency, if relevant
- Cash

4. Mechanisms and channels

- Internet
- Point of sale (POS)
- Agents (banks and nonbanks)
- Mobile payment application programming interfaces (APIs) (e.g., Samsung Pay, Apple Pay)
- Branches
- Instant payments systems

5. Markets

- Forex, repo, securities, and derivatives

STEP 4. IDENTIFY PRIORITIES IN MULTIYEAR STRATEGIES

It is useful to develop a multiyear strategy that guides supervisory work and spells out in a succinct document:

- The risk outlook for the NPS
- The NPS's development goals
- Priorities for the coming years
- How the payments department will address risks
- How the payments department will evaluate itself and its key performance indicators (KPIs)
- Draft budget for the payments department

Strategies can be incorporated into annual reports, even though those reports are forward-looking rather than reports of work already done. Annual work programs will detail the activities prioritized in the multiyear strategy.

STEP 5. CREATE THE ANNUAL WORK PROGRAM

It is necessary to calculate the total available staff weeks in the first days of the planning year, including newly hired or soon-to-be-hired staff. In some countries, one staff member would represent 52 weeks of work minus holidays, vacation, and other planned leave. The work program should indicate estimated level of effort to complete each activity. To deal with unforeseen work and absences, it is advisable to leave approximately 15 to 20 percent of total staff time unplanned.

There are many software solutions available to help supervisors plan and monitor implementation of their supervisory work program. In many cases, management platforms like these are developed in-house by the supervisory authority's IT department. IT can help supervisors build Gantt charts; update the status of different activities; flag completed, delayed, or cancelled activities; highlight approaching deadlines; manage staff time and availability; link to the leave and vacation system; and provide other functionalities.

While the following template (a Word document) does not suggest that payments departments use Word to track work programs, a similar document can be a start if software is not available. Rudimentary planning is better than no planning at all.

Finally, the activities indicated in Template 1 are for illustrative purposes only.

TEMPLATE 1. Example of an annual supervision plan

Function	Timeline	Priority level	Activity	Segment	Entity/system/instrument	Staff members	Level of effort (weeks)	Total level of effort
Supervision			Initial full risk assessment: EMIs	PSP – EMI	All EMIs			
Supervision			Update manual for risk assessment: EMI	PSP – EMI	–			
Supervision			Initial full risk assessment: EMI	PSP – EMI	EMI B			
Supervision			Focused follow-up assessment: EMI	PSP – EMI	EMI C			
Supervision			PFMI assessment	FMI	FMI Z			
Supervision			Focused follow-up assessment: PSP	PSP – EMI	PSP D			
Supervision			Thematic review: Disclosure of transaction fees to consumers	Instrument: Prepaid	All issuers of prepaid instruments			
Supervision			Thematic review: Agent management	PSP – EMI	All EMIs			
Supervision			Thematic review: Use of third-party cloud providers	PSP – All	All PSPs			
Oversight			Pilot suptech visualization tool to revamp NPS risk dashboard	All	All NPS			
Oversight			Monitor NPS indicators and global markets, create internal reports	All	All NPS			
Licensing			Finalize pending licenses/authorizations	PSP	All			
Licensing			Set up digital licensing workflow and channel	All	All			
Policy and Regulation			Finalize proposal for cloud computing regulation	–	–			
Policy and Regulation			Participate in financial inclusion strategy discussions	–	–			
Communi-cations			Review payments department website	–	–			
Research			Prepare annual payments report	–	–			
Total								
Reserve (cushion) staff time for unplanned activities								