

WEBINAR

Drivers and Barriers of Regulatory Change Processes in Digital Finance

Lessons for Funders

January 30, 2020
9:00 am to 10:00 am (US ET)



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Technical details

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4. The webinar recording will be emailed to all attendees and registrants.

Speakers



Barbara Scola
CGAP



Patrick Meagher
CGAP



Ahmed Dermish
UNCDF

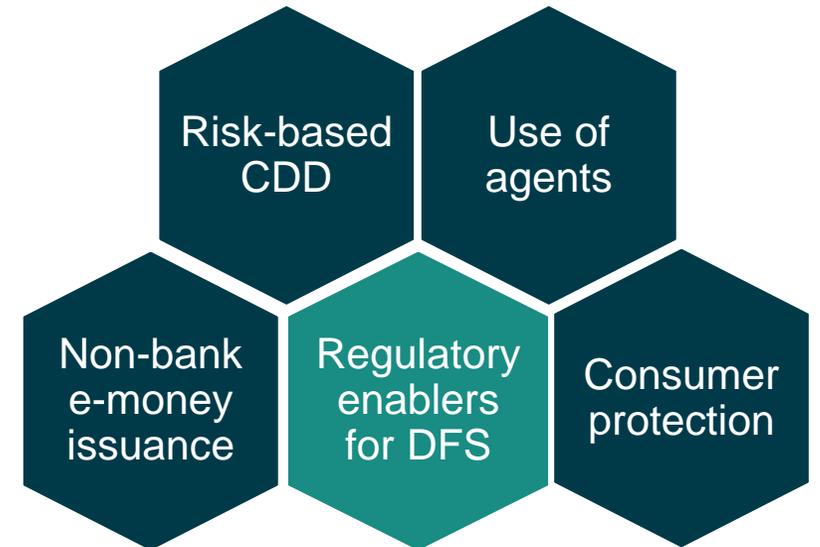


Brian Muthiora
GSMA

Agenda

9:00	Introductions
9:05	Barriers to DFS regulatory reforms
9:15	Enabling policy and regulation: the case of UNCDF
9:30	Discussion with speakers
9:50	Q&A

Funder support for regulatory change: do solutions match problems?

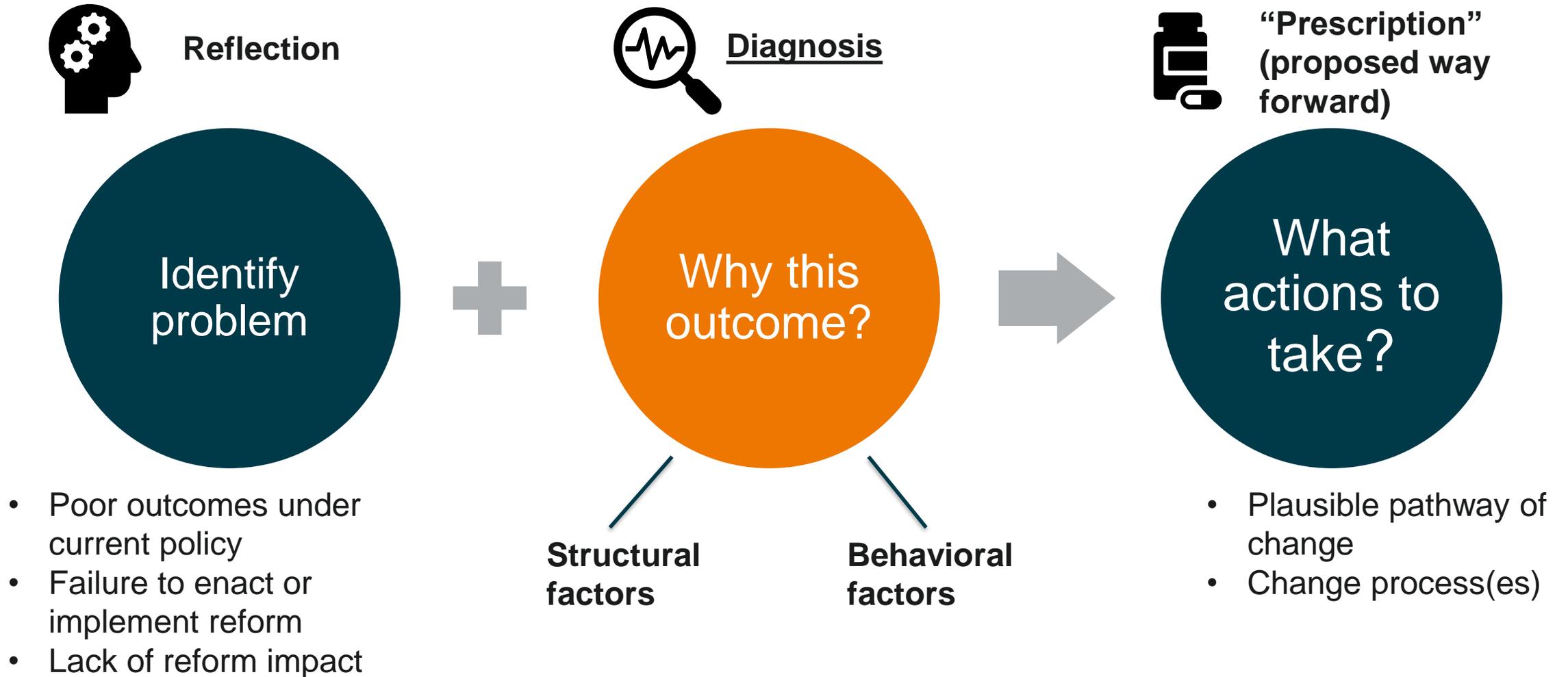




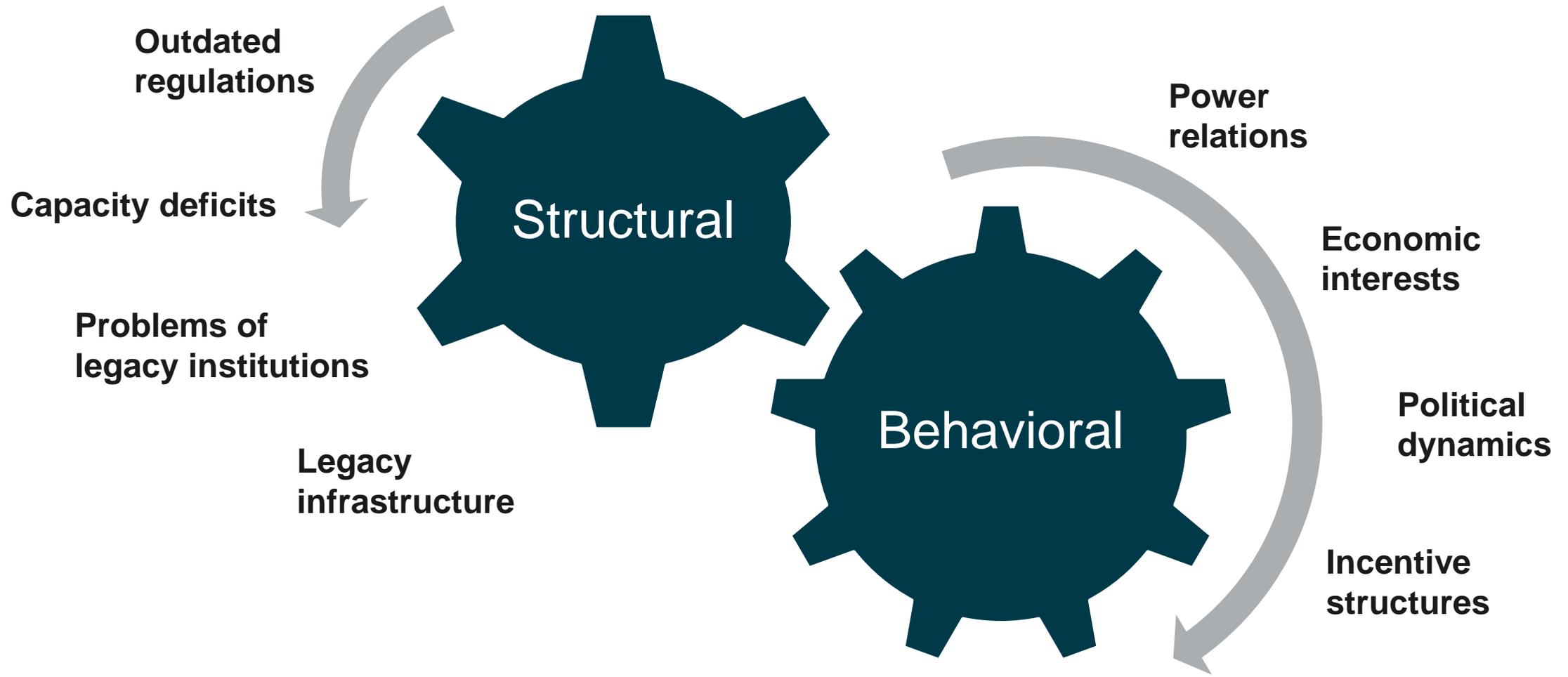
Barriers to DFS regulatory reform

Patrick Meagher, CGAP consultant

Regulatory reform processes: problem diagnosis



Regulatory diagnostics: structural & behavioral factors

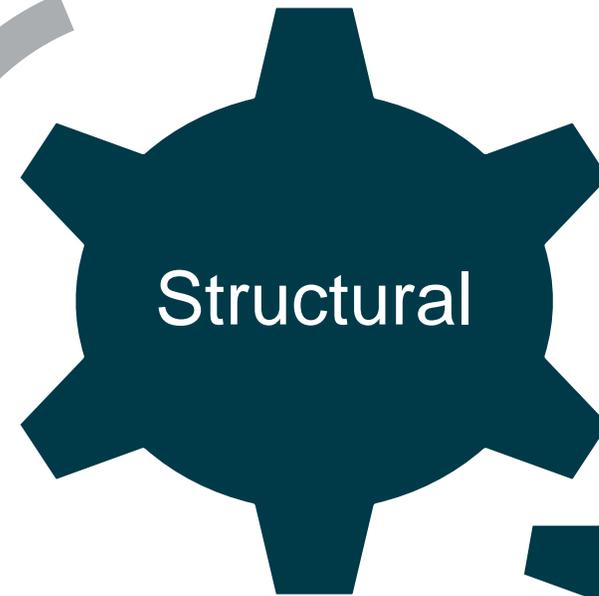


Regulatory diagnostics: application to DFS context

Regulators may lack **clear authority** for new entities/products

Established **legal and regulatory frameworks** can complicate reform

Legislative and regulatory processes may be uncoordinated, subject to weak capacity, politicized, or compromised



International pressure: e.g., foreign investors, remittance flows, FATF scrutiny, donor agencies

Regulators are often **conservative and risk-averse**

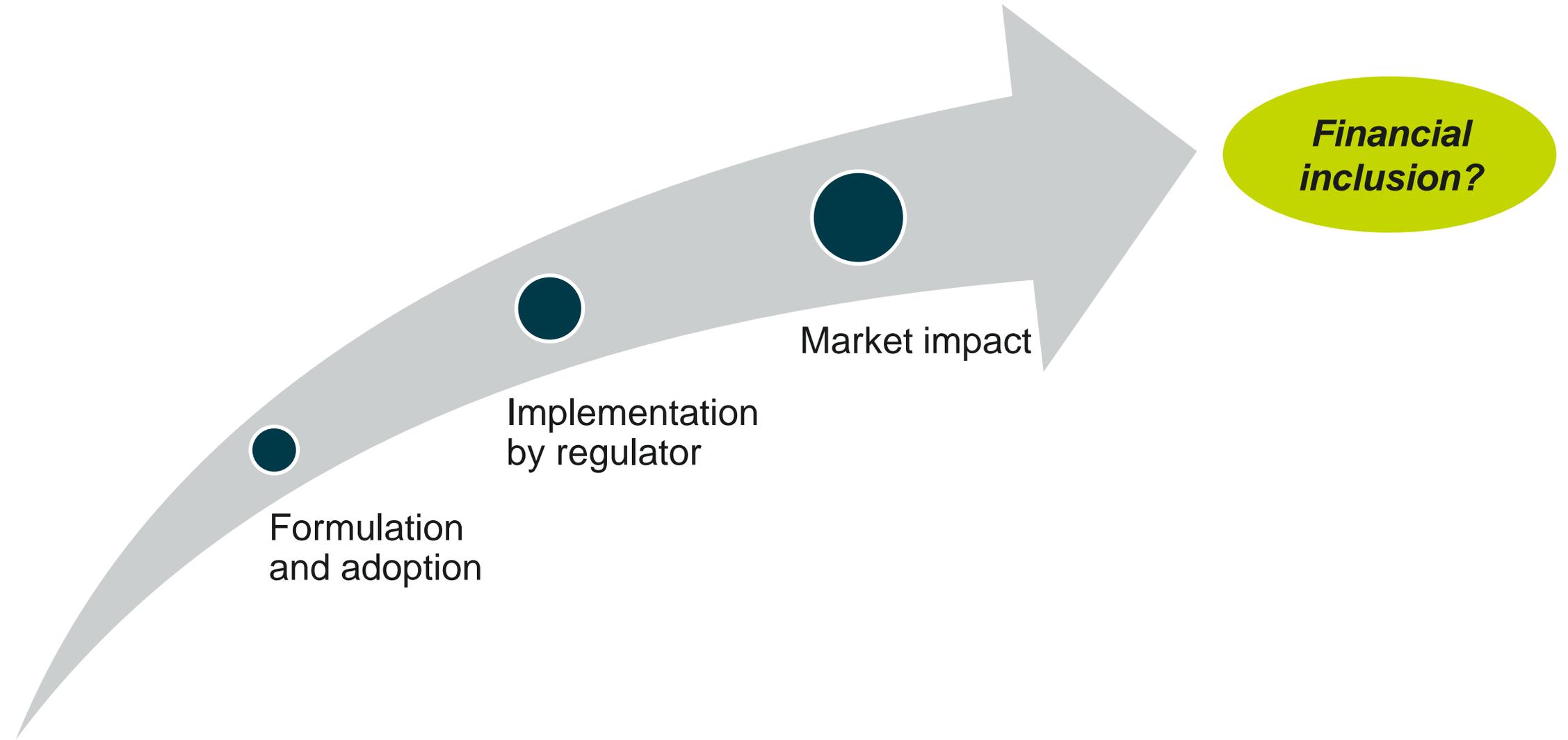
Entrenched banking sectors lobby against non-bank FIs, steer reform process



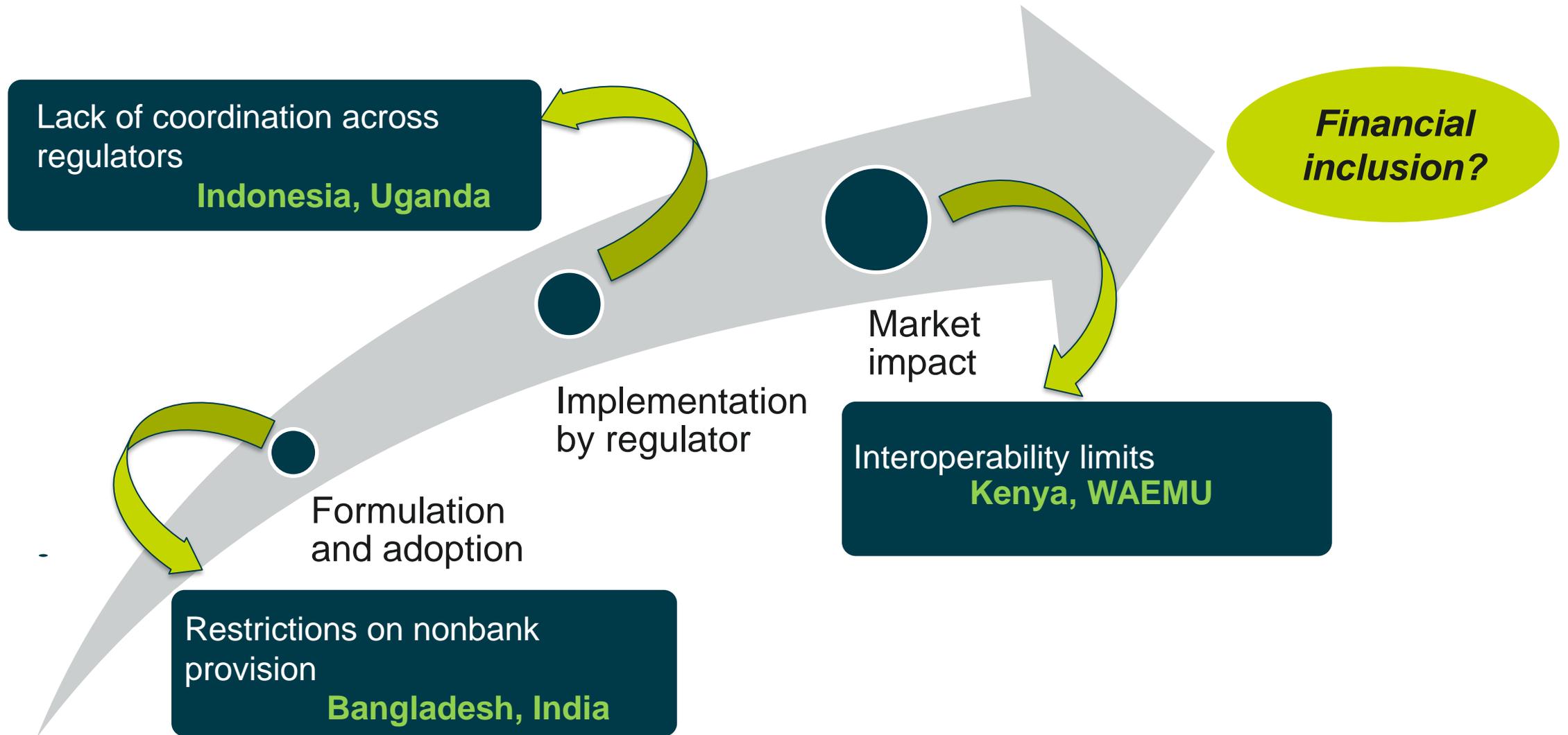
New market entrants are less organized, lack voice

The poor/unbanked may lack strong advocates, political support

Phases of regulatory reform



DFS regulatory reform: barriers at different phases



*“**Political economy analysis [PEA]** is concerned with the interaction of political and economic processes in a society: the distribution of power and wealth between different groups and individuals, and the processes that create, sustain and transform these relationships over time”*

OECD DAC

Diagnostic (PEA) questions: understanding the sector

Roles and responsibilities: Who are key stakeholders? What are their roles and mandates?

Ownership Structure: What proportion state-owned vs. private? Large vs. small institutions?

Power Relations: What power held by specific groups/ individuals? How do interest groups influence policy?

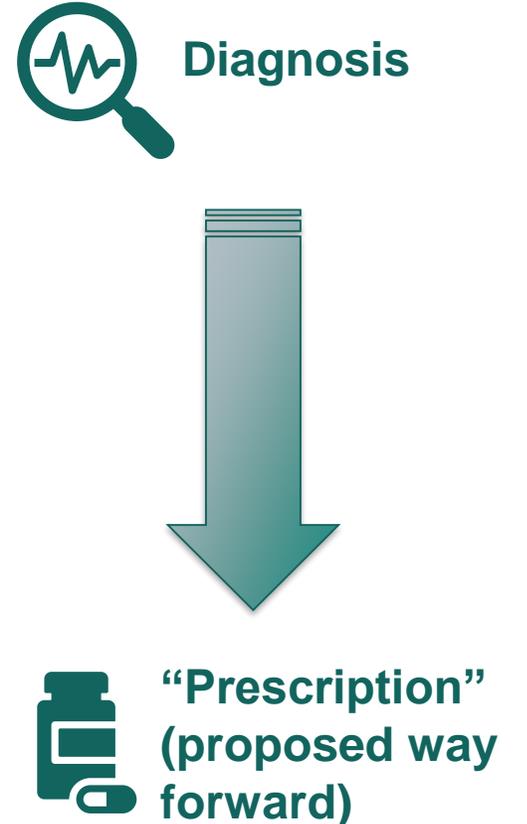
Regulatory capture: Is there rent-seeking/ undue influence? Where is this prevalent? Who benefits most?

Decision-Making: How are decisions made? Who participates in these decision-making processes?

Implementation: Are decisions implemented? Where are key bottle-necks? Are these due to lack of capacity or adverse incentives?

From diagnosis to recommended “prescription”

- What are the “drivers” of reform?
- Who are likely to be the “winners” and “losers” from reforms?
- Are there effective reform “champions” within the sector? What about anti-reform champions?
- Is there a feasible pathway to reform?
- Are there “second best” reforms that might overcome the obstacles?
- Will reforms be effective? What constraints?



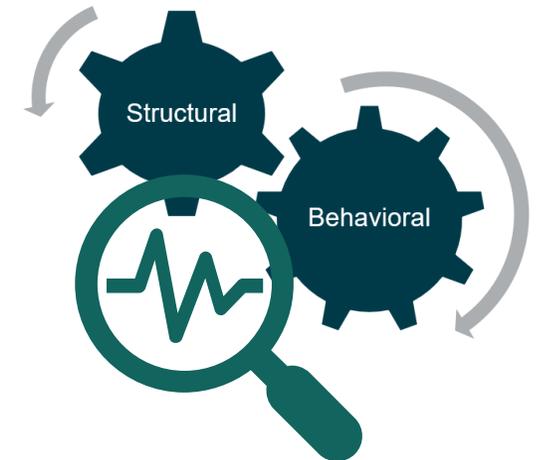
Summary: role of PEA in DFS reform processes

Adding political economy factors to technical analysis can:

- Diagnose poor outcomes in different phases of reform
- Sharpen advice and steer away from avoidable obstacles
- Help optimize reform design, entry points, timing and sequence.

Caveats

- Accurate analysis depends on understanding of local interests, relationships, norms, power dynamics
- PEA is less about policy proposals than about potential barriers to (or enablers of) policy reform.



More information on DFS reform phases & barriers

Issues: obstacles to successful reform	Source of obstacle: interests, structural constraints
Formulation and adoption	
Restrictions on nonbank provision	Conservative central bank, sector dominance by large / state-owned banks
Heavy, prescriptive regulation of agents	Legacy framework restricts outsourcing, agency
Little or no provision for simplified CDD	Inclusion loses out in priority-setting, FATF and FIU take hard line
Neglect of consumer issues, data protection	Sector lobbies (banking, e-commerce) disfavor protections
Implementation by regulator	
Lack of coordination across regulators / sectors	Legacy framework pits regulators against one another
Inconsistent 'siloes' regulation, arbitrage	Institution-based framework
Little openness to innovation, experimentation (exceptions, "sandbox")	Conservative central bank, sector dominance by large / state-owned banks
Excessively rigid approach to licensing	Competition within or between financial regulators

More information on DFS reform phases & barriers (ctd.)

Issues: obstacles to successful reform	Source of obstacle: interests, structural constraints
Market impact (providers, customers)	
DFS agents: limited numbers, weak performance	Distribution costs, low population density, adverse agent economics (viability)
Interoperability: limits prevent growth to scale	Resistance by dominant provider (bank, MNO, switch), competition regulator is 'hands-off'
Risk-based CDD too rigid or too vague, blocks financial inclusion	Central bank and FIU conservative; lack of clear risk guidance or tiers leads to over-compliant approach
Other policies weaken provider interest	E.g. tax, telecom, e-transaction rules.
Weak DFS uptake by the poor	Cash preference, fees, sparse distribution points, digital divide, financial literacy



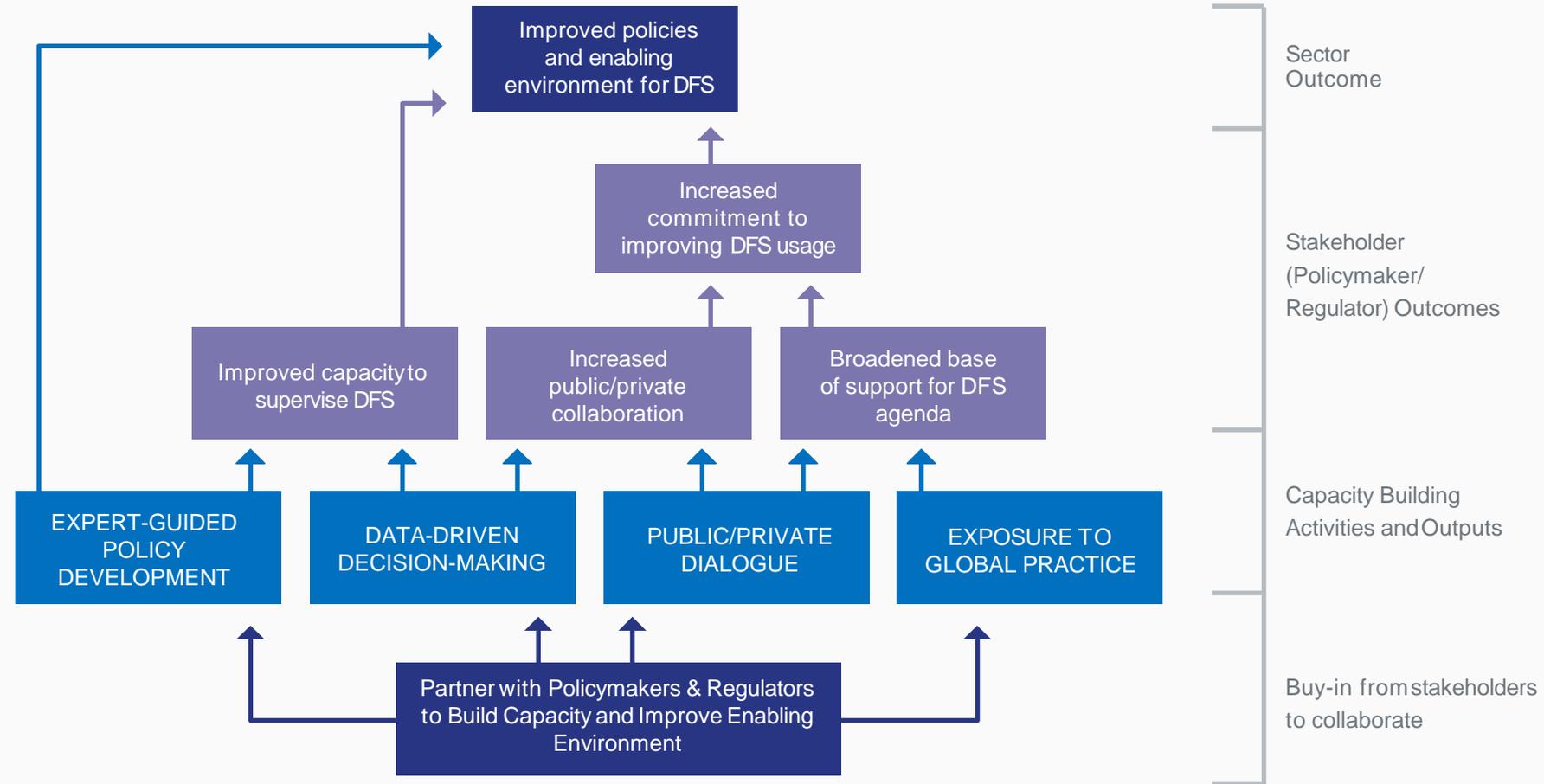
Enabling Policy & Regulation

Ahmed Dermish, UNCDF

WE FOCUS ON CLEAR OUTCOMES WHICH COLLECTIVELY CONTRIBUTE TO CHANGE



Unlocking Public and Private Finance for the Poor



WE DEVELOP 'LINES OF INQUIRY' TO LEAD TO CLEAR POLICY CHOICES AND ACTIONS



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Finance for the Poor

Identify
stakeholders
within and
outside
government

Review relevant
policies/laws

Pinpoint 'policy
anchors'
(national
priorities)

Findings vs.
conclusions

Develop lines of
inquiry to
understand
market context

Draw
international
comparisons

Options vs.
recommendations

SIERRA LEONE: CONSUMER PROTECTION



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LINES OF INQUIRY: Regulation and Market Context

- **Legal and supervisory framework:** *How complete and consistent is the current regulatory framework for consumer protection?*
- **Business models:** *How do the different business models manage activities that impact consumer protection?*
- **Fair treatment and business conduct:** *What is the current understanding of 'fairness' and how does it impact conduct of business?*
- **Disclosure and transparency:** *How is important information shared with customers?*
- **Complaints handling:** *What are common customer complaints and how are they managed?*

POLICY OPTIONS: Possible Courses of Action

- Harmonise consumer protection elements** across all guidelines for consistency and completeness
- Add data protection elements
- Agree definitions and examples** to support subjective terms such as *transparency, fairness, appropriateness*
- Standardise compliance data** for consumer protection through agreed indicators or templates

- Centralise BSL's complaints function
- Launch a public awareness campaign on consumer rights

NEXT STEPS: Process Toward Implementation

- Debrief workshop to decide preferred policy option
- Learning agenda on consumer protection for regulators
- Review of draft consumer protection regulations (based on option chosen)
- Industry consultation on draft rules
- Finalise and issue consumer protection guidelines





Unlocking Public and Private
Finance for the Poor

THANK YOU



Q&A with Speakers



Barbara Scola
CGAP



Patrick Meagher
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Ahmed Dermish
UNCDF



Brian Muthiora
GSMA

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Thank you

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