Financial Inclusion + Stability, Integrity, and Protection (I-SIP)

Policy Making for an Inclusive Financial System

A toolkit for financial sector policy makers

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CGAP

Inclusion

Stability

Integrity

Protection

How can this toolkit help you?

You are reading this toolkit because you have important policy decisions to make. But you also face serious questions or problems to solve.

- Your institution wants to address financial inclusion, but you have other objectives that concern you: stability, integrity, and protection.
- Your institution often makes decisions based on intuition, but you are concerned about unintended consequences.
- In your organization, it is difficult to establish a structured process in your organization that will enable you to have a proper evaluation or discussion of a key policy issue.
- You are facing an increasingly fast-changing and complex financial landscape and have little time to assess a proposed policy intervention.

These and other barriers may be making it hard for you to make progress. This Toolkit is designed from real-world experiences to take you through a structured process to arrive at policy decisions and to effectively implement them.

While this is not a formula that guarantees success, the process has been used in multiple policy-making environments and has often led to good policy outcomes.

ACKNOWLEDGMENTS

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A quick take:
The I-SIP Approach in action

Jasmine is a financial services regulator in Country X. She has long been concerned about the high use of informal cross-border remittance channels. The people using these channels are financially excluded, and the channel's informality diminishes financial integrity and poses higher risks of money laundering and terrorist financing.

About a year ago, she and her colleagues tried to apply a structured framework that balanced the four key financial sector objectives—inclusion, stability, integrity, and consumer protection (I-SIP). They introduced a new category of remittance services providers that would be limited to the retail market, and would not have to be linked to an authorized dealer. They also lightened several other requirements for this new provider category, to encourage more remittance services providers to formalize their services. Jasmine realized that lighter entry requirements had the potential to adversely affect stability, but thought that this would be mitigated by increased financial inclusion and giving a "green light" for integrity, because increased use of formal channels was expected to significantly reduce the number of untraceable transactions.

What has changed in one year's time? Jasmine is reviewing the latest report on the state of the remittance sector: 12 providers have applied for licenses, and four licenses have already been granted. The number of customers using these formal remittance channels grew by 20 percent, and the estimated volume of informal cross-border remittances was reduced by 15 percent. Jasmine is satisfied with these initial results, but she knows she needs to keep her finger on the pulse of any further developments to be able to swiftly respond to changes in the sector and evolving policy priorities.

Contents

Overview of the I-SIP Approach

- What is I-SIP?
- The basics
- How to use this toolkit

What is I-SIP?

Financial sector policy makers and international standard-setting bodies (SSBs) have traditionally pursued the core objectives of financial stability, financial integrity (i.e., preventing financial crimes), and financial consumer protection. In 2010, the G20 leaders recognized and endorsed financial inclusion as a pillar of the global development agenda and recognized its interrelations with the three other objectives. The leaders also called on SSBs[1] to deepen the work in this area upon the creation of the G20 Global Partnership for Financial Inclusion. As a result, these SSBs have included the financial inclusion angle into their guidance, consistent with their core mandates, and have increasingly been working together to address cross-cutting issues relevant to financial inclusion.

As of 2018, the number of countries publicly committed to promoting financial inclusion tops 90 and continues to grow.[2] Many of these countries' financial regulators and supervisors[3] are explicitly tasked with implementing policies and strategies on financial inclusion (**I**) alongside their core responsibilities for promoting micro- and macroprudential stability (**S**), financial integrity (**I**), and protecting financial consumers (**P**), collectively referred to as **I-SIP.**[4]

There can be other objectives beyond I-SIP. *Often the I-SIP objectives are not pursued for their own sake, but rather as enablers of broader societal ends, such as fostering competition, generating employment, alleviating poverty, reducing inequality, or spurring more inclusive economic growth. Although competition could also be considered an objective on its own and is implicitly intertwined with the other I-SIP objectives, it will not be explored in this toolkit.*

Why are the four I-SIP objectives important?

INCLUSION

"Financial inclusion efforts seek to ensure that all households and businesses, regardless of income level, have access to and can effectively use the appropriate financial services they need to improve their lives. The potential benefits of financial inclusion are not only significant for individuals but for economies as well. Financial inclusion is linked to a country's economic and social development and plays a role in reducing extreme poverty. Research indicates that financial inclusion is not only positively correlated with growth and employment, but it is generally believed to causally impact growth."[5]

STABILITY

Financial stability is important because it is a key contributor to price stability and positively affects the real economy in other ways as well. A stable financial system is also important because it reinforces trust in the system. It prevents phenomena such as a run on banks, which can destabilize an economy. A sound financial system signals to the public that their money is handled in a way that will not unduly jeopardize it. This is especially important for savings, including pension savings.[6]

INTEGRITY

"[M]oney laundering, terrorist financing, and related crimes to the integrity and stability of the financial sector and the broader economy...can discourage foreign investment and distort international capital flows. They may also result in welfare losses, draining resources from more productive economic activities, and even have destabilizing effects on other countries. In an increasingly interconnected world, the harm done by these activities is global."[7]

PROTECTION

"Robust consumer protection in financial services and financial literacy and capability are needed to (i) ensure that financial markets are deep and serve the broad population, (ii) provide access to financial services for low-income households, and (iii) ensure long-term stability in the financial system. Strong consumer protection and financial literacy are building blocks for financial markets. They help to build consumer trust in financial institutions and ensure that financial institutions serve the needs of the population, including low-income households, which often lack access to basic financial services."[8]

The basics

This Toolkit provides a structured approach for managing the complex interplay among the I-SIP objectives—**the I-SIP Approach**—based on extensive analysis of how countries have managed the interrelations, or linkages, among these four objectives.

For effective policy making, consider all four I-SIP objectives. Inclusion, stability, integrity, and protection are interrelated, and under the right circumstances, are **mutually reinforcing.** While each of these objectives is valuable on its own, failing on one objective can lead to problems with others—this is why it is important to get all of them right.

The main idea of the I-SIP Approach is to **identify** linkages between these objectives and **manage** these linkages to design policies that lead to **improved outcomes,** where synergies between the objectives are maximized, and any trade-offs or negative outcomes avoided or minimized.

The I-SIP Approach will help you break down the complex linkages among the I-SIP objectives into manageable pieces. This is done by analyzing the direct effect of a policy intervention on one of the I-SIP objectives and the linkages it triggers between pairs of the I-SIP objectives (e.g., inclusion and stability, or inclusion and protection). The resulting six pairs of objectives provide a holistic picture of how the objectives affect each other.

See Annex A for examples of specific policy interventions that have been analyzed using the I-SIP Approach.

These six pairs of linkages highlight the relative risks and benefits across the four objectives. By analyzing these pairs, policy makers can develop balanced, proportionate policy interventions, or adjust existing ones, taking into account their significance for the financial system as a whole.

SIX PAIRS OF THE LINKAGES AMONG THE I-SIP OBJECTIVES

1	INCLUSION	⟷	STABILITY
2	INCLUSION	⟷	INTEGRITY
3	INCLUSION	⟷	PROTECTION
4	STABILITY	⟷	INTEGRITY
5	INTEGRITY	⟷	PROTECTION
6	PROTECTION	⟷	STABILITY

The pair-wise analysis is a necessary simplification of real-world policy making. While such pair-wise analysis can be conducted using each pair of the four I-SIP objectives, policy makers must manage all four objectives at the same time. They cannot make decisions based on a simple two-dimensional grid. Moreover, a given policy intervention will have different potential effects on each of the four objectives, depending on the specific country context, and the linkages among them will evolve over time.

Analyzing direct effects and linkages. The I-SIP Approach assesses the direct effect(s) a policy intervention has on an I-SIP objective and the potential synergies and trade-offs that this effect might trigger between each pair of the four I-SIP objectives, such as inclusion and stability, or stability and protection. This Toolkit focuses on identifying and managing the linkages among I-SIP objectives.

There are three possible classes of linkages for each pair of the I-SIP objectives:

- **Negative.** A trade-off, where one objective is achieved at the cost of the other.
- **Neutral.** When there is no effect on the objectives.
- **Positive.** A synergy, where achieving one supports achieving the other objective.

A **direct effect** *is a change relating to one of the I-SIP objectives that is directly caused by the policy intervention. For example, a change in a stability-linked prudential rule (e.g., lowering minimum capital requirements) has a direct effect on stability, yet the primary objective of the change might be to advance financial inclusion (on the assumption that there is a linkage between lower barriers to entry and financial inclusion).*

Impact on financial inclusion

Impact on financial stability	NEGATIVE	NONE	POSITIVE
POSITIVE	Stability enhancing, inclusion reducing	Stability without inclusion trade-off	Win-win
NONE		Ineffective policy	Inclusion without stability trade-off
NEGATIVE	Lose-lose		Inclusion enhancing, stability reducing

- Zone of synergy between the objectives
- One objective is achieved without negatively impacting another
- Policies that would have no effect on either objective
- Trade-off zones between the objectives
- Zones where there is loss for no gain

See Annex B for examples of positive and negative linkages between the six pairs of the I-SIP objectives.

How do linkages between the I-SIP objectives work at a big-picture level?

Examples of possible synergies	Examples of possible trade-offs and negative linkages
INCLUSION ⟷ STABILITY	
DIVERSIFICATION. An inclusive financial sector has a diversified, stable retail deposit base that increases financial stability. Similarly, financial inclusion may help lenders diversify their loan portfolio, mitigate credit risk, and reduce dependence on large borrowers, thus reducing potential systemic risk.	**PRESSURES ON SUPERVISORY CAPACITY.** Allowing new categories of providers (e.g., deposit-taking microfinance institutions) to increase financial inclusion puts pressure on the supervisory authority because of additional responsibilities. Relaxing prudential or consumer protection requirements for a new class of providers introduces ways to arbitrage the existing tiers of regulatory requirements. It may even threaten stability because of the large exposure between existing and new tiers that is not well understood or managed.
INCLUSION ⟷ INTEGRITY	
GREATER TRACEABILITY OF TRANSACTIONS. As more people enter into the formal financial sector and leave the untraceable cash economy, more transactions are traceable and electronic. These are monitored and reported by formal financial institutions.	**AML/CFT COMPLIANCE ENTAILS COSTS.** Compliance with AML/CFT requirements is burdensome and costly for financial services providers, particularly in countries without ID systems that cover the poor, leading to a decrease in customers' access.
INCLUSION ⟷ PROTECTION	
IMPROVED PROTECTION AND REDUCING RISKS TO CONSUMERS OF UNREGULATED PROVIDERS. Increased inclusion often means increased consumer protection because formal providers are more likely to be subject to effective consumer protection regulation than informal providers. Effective access to regulated financial services allows households to avoid potential abuse and fraud by unscrupulous providers in the informal sector.	**NEW TECHNOLOGY MAY POSE RISKS TO CONSUMERS.** Using new technology may raise consumer protection challenges, such as compromised personal identification numbers (PINs) or fund transfer errors, and first-time users may face technology challenges. If use of the new technology scales fast, existing measures for protection may be inadequate.
STABILITY ⟷ INTEGRITY	
TRUST BUILDING AND FINANCIAL SYSTEM STRENGTHENING. Reduction in and prevention of financial crime builds public confidence in the financial system and helps to make the system stronger and more secure.	**DE-RISKING.** Larger global banks may terminate or severely restrict their relationships (e.g., curtail products or services) with certain categories of clients or countries because of perceived AML/CFT risks and compliance costs. Among other adverse consequences, this may affect the ability to send and receive international payments, or drive some payment flows underground, with potential negative consequences on growth, financial inclusion, stability, and integrity of the financial system.
INTEGRITY ⟷ PROTECTION	
IMPROVED PROTECTION THROUGH FORMALIZATION. Use of formal regulated and supervised channels supports improved consumer protection against fraud, financial abuse, and exploitation.	**CUSTOMER DUE DILIGENCE REQUIREMENTS UNADJUSTED FOR CONTEXT CAN UNDERMINE CONSUMER PROTECTION.** Overly strict customer due diligence requirements set forth for lower-income consumers or those lacking formal ID documents may drive these consumers out of the formal regulated and supervised financial services and channels and into the informal market where they are not protected against fraud, financial abuse, and exploitation.
PROTECTION ⟷ STABILITY	
SOUND INSTITUTIONS BETTER PROTECT CLIENTS. Prudentially regulated institutions protect their clients' savings and are more likely to be subject to consumer protection regulation.	**CONSUMER PROTECTION ISSUES IN LENDING CAN NEGATIVELY IMPACT STABILITY.** Consumer over-indebtedness can affect the financial solvency of providers if it leads to a deterioration in the quality of their loan portfolios. This may also cause a systemic risk if it leads to a general slump in repayment discipline and thus negatively affects the stability of the banking sector.

See Annex B for more examples of positive and negative linkages between the I-SIP objectives.

How to use the Toolkit

This Toolkit is for policy makers who design new policy interventions, amend existing ones, or assess the effects of implementing regulations with a financial inclusion dimension, while simultaneously considering the other core policy objectives. Other users such as consultants and development organizations who work to support policy makers may find it useful as well.

Use this approach to analyze both new and existing policies. The I-SIP Approach should be applied to *specific policy interventions* (ranging from laws and regulations to guidance)—either planned (*ex-ante*) or existing ones (*ex-post*), as well as at different stages of these policy interventions (from proposals of policies to revisions of existing ones).

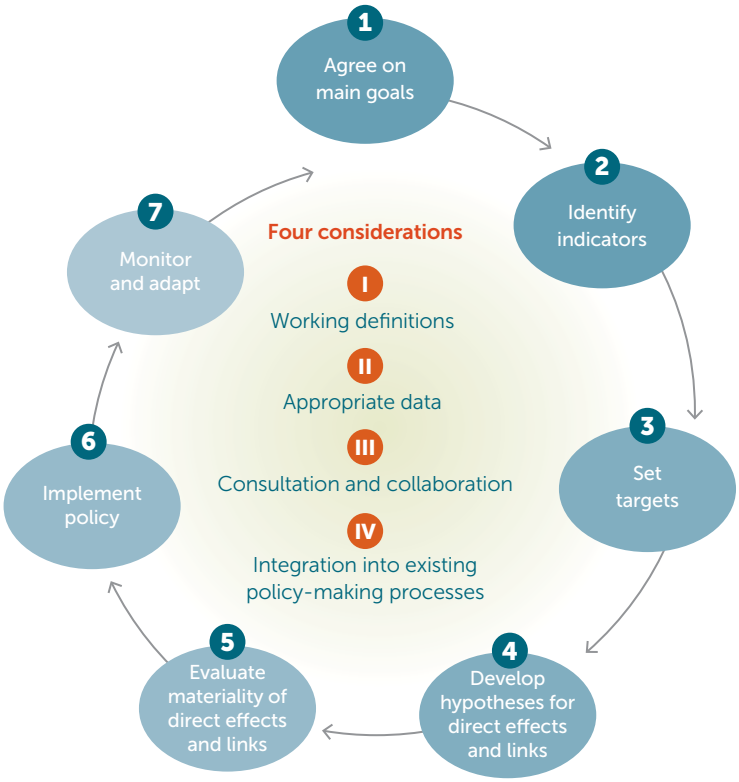
Use it as a framework for systematically thinking through the issues; it is not intended to be a precise formula for success. Policy making is as much an art as a science, and every country's situation and policy priorities are unique and differ from each other. This approach is designed to help you understand the complex interrelationships among the four I-SIP objectives—inclusion, stability, integrity, and protection and make informed decisions for managing them—not to arrive at scientific conclusions.

Adapt the I-SIP Approach to your country context. This Toolkit features real-life examples where country names are intentionally omitted to underscore that country context is crucial. One country's experiences should not be used as a template for another country without accounting for country-specific factors, such as market structure, regulatory framework, and capacity and constraints of supervisors.

Apply the four considerations before jumping to the seven-step implementation process. Each consideration may be relevant at different stages of the implementation process.

Use the worksheets in the last section of the Toolkit to document your thinking and apply the approach to your own policy interventions.

The seven-step implementation process and four considerations to be applied along the way



Four things to consider as you start

I. Working definitions of the I-SIP objectives

II. Appropriate data

III. Consultation and collaboration

IV. Integration into existing policy making processes

Overview

To get the best results from the I-SIP Approach, the following considerations should be applied across the seven-step process. At each step, icons indicate which considerations apply.

Working definitions of the I-SIP objectives

Appropriate data

Consultation and collaboration

Integration into existing policy-making processes

I. Working definitions of the I-SIP objectives

Ensure you know what each of the I-SIP objectives means. Working definitions for objectives will help you to (i) have a common conceptual and strategic understanding of the objectives and their potential effects; (ii) decide what indicators may help you measure the effects of the policy intervention; and (iii) see potential gaps in the policy intervention.

You may need to come up with your own working definitions for these objectives because there are no globally accepted and comprehensive definitions of the I-SIP objectives, and those you may have in your country may not be appropriately defined for a particular policy intervention. Financial sectors around the world are multidimensional and continuously evolving, as are the various dimensions of these objectives.

- **Use evolving global standards as guidance.** As you will see from examples that follow, international organizations provide some ideas about what makes up the concepts of inclusion, stability, integrity, and protection. Use these resources to build your understanding of the I-SIP objectives and align your working definitions.
- **Check if your country has already defined the I-SIP objectives.** Possible sources of information include your country's national financial inclusion strategy, if one exists, for a definition of financial inclusion, though it may need to be adjusted to fit your policy intervention. For help defining the other objectives, refer to documents such as your country's financial stability report from your country's financial sector regulator or other financial sector authorities. You also may reference what other countries have done, but make sure to adjust definitions used by other countries to apply to your country's context.
- **Be prepared to develop your own working definitions!** If there are no existing definitions that fit your needs (e.g., national definitions may have been developed with other objectives in mind), you will need to create your own working definitions.
- **Ensure your definitions are appropriately comprehensive and specific.** Key elements of each objective should be identified and addressed to allow you to measure the effects of your policy intervention against the objectives.

Key elements to consider

Each I-SIP objective is multidimensional. Breaking down the I-SIP objectives into their key elements will help you sharpen the goals of your policy intervention and select indicators to measure the effects of the policy intervention.

INCLUSION[9]	STABILITY[10]	INTEGRITY[11,12]	PROTECTION[13]
• Access to financial services • Usage of financial services • Quality of products and service delivery • Impact of financial inclusion on households' and firms' outcomes	Stability (no disturbances, resistance to shocks) in: • Financial infrastructure • Financial institutions • Financial markets	• Assessment, understanding, management, and mitigation of money laundering/ financing of terrorism risks • Customer acceptance policy • Customer and beneficial owner identification, verification, and risk profiling • Ongoing monitoring • Information management • Reporting of suspicious transactions and frozen assets	• Disclosure and transparency • Fair treatment and business conduct • Data protection and privacy • Dispute resolution mechanisms • Guarantee schemes and insolvency • Financial capability

See Annex C for more resources on defining the I-SIP objectives.

II. Appropriate data

Think creatively and pragmatically about what data you will need to monitor the effects of the policy intervention, to manage the linkages among the I-SIP objectives, and to track progress in reaching your targets and indicators.

Different countries and policy interventions are likely to require different indicators and associated data to measure the achievement of the I-SIP objectives and manage the linkages among the objectives.

- **Collaborate with other departments and public agencies.** The first place to look for data is your own agency, because supervisory authorities gather a lot of data on regulated financial institutions (e.g., through regulatory returns). However, reporting among a regulator's departments often is uneven, so it's important to collaborate with all that might have relevant data to find what you need. Other public agencies, even outside the financial sector regulators (such as the telecommunications ministry), may also collect relevant data.
- **Establish baselines and collect data regularly**. Ideally, data should be gathered before policy is implemented. This creates a baseline from which to monitor the policy's effects on the I-SIP objectives. Data should then be regularly collected and analyzed to track progress and to allow you to make proportionate adjustments when necessary.
- **Use soft data if there are no hard data.** In the absence of "hard" (quantitative) data, "soft" (qualitative) data are better than no data at all. Soft data include interviews with policy makers, regulators, financial services providers, and other market stakeholders who have insights into how a specific policy change has affected the achievement of the I-SIP objectives and the linkages among them. Interviews with consumers of financial services can also be useful. Think creatively for good proxies of the data needed.
- **Concentrate on quality not quantity.** Having more data is not always better. Prioritize which data are critical to monitoring the effects of the policy intervention in question, managing the linkages, and tracking progress.

WHAT IF THERE ARE NOT ENOUGH DATA, OR IF THERE IS LIMITED CAPACITY TO COLLECT DATA?

One country demonstrated the value of thinking creatively in this situation. When the country drafted its regulations on nonbank financial institutions (NBFI), it was difficult to collect comprehensive data on all aspects of the NBFIs' operations because there were over 6,000 of them, and the regulatory and supervisory authority had limited supervisory capacity. To overcome this hurdle, the regulator combined existing database information on NBFIs' activities with findings from an inspection that examined 10 percent of them, to inform a comprehensive set of draft regulations that addressed major risks. This approach, however, did not eliminate the need to collect the necessary data on NBFIs' operations moving forward to evaluate the effect of the draft regulations.

See Annex D for data sources.

III. Consultation and collaboration

Consult widely and regularly with a range of internal and external stakeholders, to get a range of views on possible effects of the policy intervention on the I-SIP objectives and to develop measurable indicators. Collaborate with other agencies to ensure your policy interventions are aligned with theirs.

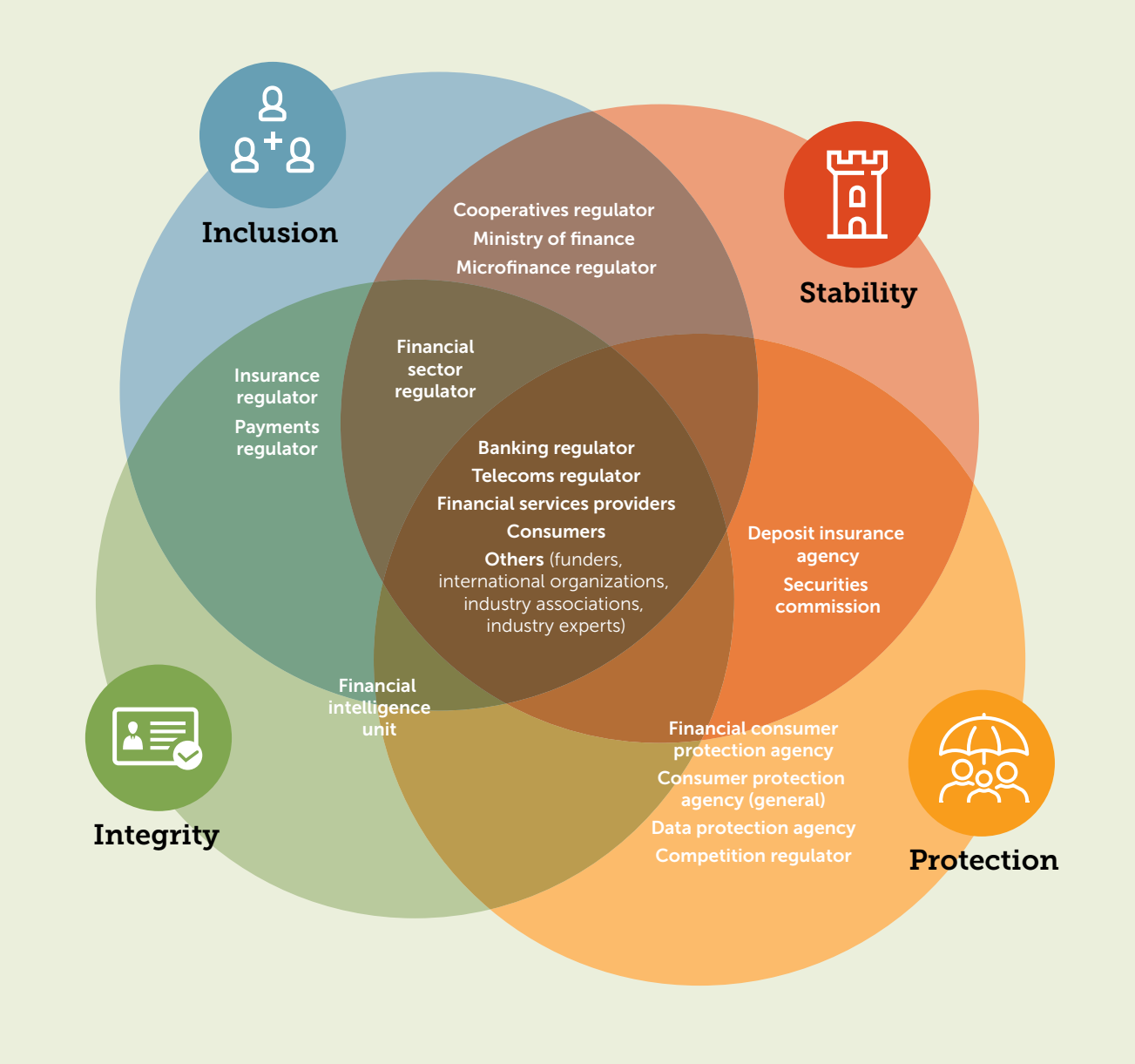
- **Consider stakeholder mapping.** Stakeholder mapping will help identify which stakeholders are most useful to engage with and to what degree, as well as which of them is likely to support or oppose the policy intervention.
- **Consult widely, yet proportionately.** Many countries have a mandatory consultation process, but this may not be adequate or sufficient, depending on the nature of the policy intervention. A broad spectrum of stakeholders across the supply chain—from regulators and providers to consumers—may need to be consulted. As with data, the degree of consultation should be proportionate to the likely scale and effect of the policy intervention.
- **Consult and collaborate at an inter- and intra-agency level.** This is necessary since responsibility for each of the I-SIP objectives likely rests across various public agencies or various departments within a given public agency. In some countries, the main responsibility for all four I-SIP objectives rests across departments within the central bank or the main financial services regulator (e.g., financial inclusion committee, prudential supervisory department, financial intelligence unit, and a consumer protection or market conduct department).

  The stakeholders with whom you need to collaborate will depend on the given policy intervention in question, but at a minimum, they would include authorities whose mandates include the I-SIP objectives and any other relevant government agencies (e.g., the ministry of agriculture, if the intervention targets farmers).

  Within agencies, regulators often form task forces or technical teams with members from different departments. For inter-agency collaboration, this could take the form of a steering committee or another type of coordinating body.
- **Get providers' perspectives on likely market responses.** Consulting with financial services providers will help you better understand the likely market response to regulatory changes, surface new insights, and reduce the risk of unintended consequences. Explore the providers' views on how the proposed policy intervention could affect their operations. For example, what impact might it have on their compliance costs, operational model, incentives to serve certain consumer groups, and product mix? The providers with whom you consult ultimately will be decided by the nature of the policy intervention. Sometimes, it might be more efficient to work with industry associations that represent a large number of providers.
- **Document the insights and provide feedback.** Document the major comments and views expressed during consultations and use them to refine the draft policy intervention, as appropriate. Inform participants who were consulted about how issues they raised have been addressed.

See Annex E for more information and tools to help you design your consultation and collaboration processes.

Possible stakeholders to consult or collaborate with



Examples of types of consultation and collaboration

Models of coordination bodies for financial inclusion strategies

Drawing from a wide range of country experiences, the World Bank categorized coordination bodies for a specific policy intervention—financial inclusion strategies. The three models, which are not mutually exclusive, include:[14]

- **Consultative.** The coordinating structure is a steering committee with representatives from various implementing agencies and other relevant actors drawn from the private sector and/or donors.
- **Mandate-based.** The coordination body is responsible for meeting set targets and ensuring that relevant agencies implement financial inclusion reforms.
- **Partnership.** Formal or informal relationships are formed between a coordinating body and implementing agencies (e.g., through institutional partnerships or memoranda of understanding).

EXAMPLES OF INTER- AND INTRA-AGENCY COLLABORATION

COUNTRY A. The financial services authority created an internal task force to help different departments, including policy-making and supervision units, coordinate so that they could develop a "branch-light" regulatory framework and ensure appropriate enforcement.

COUNTRY B. The central bank worked closely with the Ministry of Information Technology to develop regulations for digital financial services.

COUNTRY C. The financial regulator; the ministry of economy, which supported micro, small, and medium-sized enterprises (MSME) development; the cooperatives sector supervisor (some financial cooperatives provided microcredit to MSMEs): and the finance ministry in charge of allocating resources to support lending to MSMEs worked together to develop a new microcredit framework.

Ways to consult with the private sector and consumers

- Open public meetings
- Workshops with representatives of financial services providers
- Online access to the draft policy intervention for comments
- Interviews with stakeholders for feedback
- Consumer surveys and research tools (e.g., focus groups and other behavioral research methods)
- Consultations with consumer advocacy bodies
- Frameworks to harness innovation, including "wait and see" approach, "test and learn" approach, and regulatory sandboxes.

COUNTRY EXAMPLE OF PRIVATE SECTOR CONSULTATION

In **COUNTRY X,** consultation with providers is an important element in the central bank's approach of incremental policy change to manage I-SIP linkages. For example, a consultative group with wide industry participation was set up during the initial development of regulations to enable digital financial services. Ten years later, it still meets periodically as needed to manage I-SIP linkages. In addition, the central bank routinely publishes new regulations for public comment before they are finalized and issued.

Not all private sector consultations will be institutionalized as in this example. Ad hoc consultation exercises are also very important because feedback from private sector stakeholders enriches policy making.

Frameworks to harness innovation in the private sector[15]

A **"WAIT AND SEE"** approach is used when an innovation is not yet fully understood and the regulator chooses to let it develop before deciding whether (and how) to intervene.

A **"TEST-AND-LEARN"** approach is where a regulator, in close cooperation with an innovator, crafts a framework to test a new idea in a live environment and adopts safeguards (pursuant to, e.g., a memorandum of understanding, no enforcement action letter, or letter of no objection) to minimize the impact of potential failure and to set criteria against which to measure success. Based on testing, the regulator decides whether to grant the innovator permission to launch the innovation marketwide, which may involve a licensing process and may require regulatory changes.

A **REGULATORY SANDBOX** is a framework set up by a financial sector regulator to allow small-scale, live testing of innovations by private firms in a controlled environment (operating under a special exemption, allowance, or other limited, time-bound exception) under the regulator's supervision. Sandboxes set objectives, identify eligibility, and set parameters for experiments. Regulatory sandboxes can enable innovations that are likely to benefit excluded customers, regardless of whether inclusion is a key objective.

IV. Integration into existing policy-making processes

Managing the linkages among the I-SIP objectives is an ongoing, iterative process. To make the most use of the I-SIP Approach, think about how to integrate it into your existing policy-making processes, and follow it systematically.

- **Integration can take different forms,** from establishing a team or unit in your agency or creating a new structure, or a task force or working group.
- **Make I-SIP a formal responsibility, with high-level authority.** Regardless of the form of integration, it's important that staff are formally tasked with identifying and managing the linkages among the I-SIP objectives when they are designing and reviewing policy interventions. Staff should have the authority to collaborate with other government agencies and private sector stakeholders, collect the necessary data, and possibly make decisions on changing the policies.
- **Create an independent new team or integrate this function into an existing department.** If one unit or department is responsible for policy making, it needs to have the capacity to implement the I-SIP Approach. If several departments or agencies are involved, it may make sense to set up an I-SIP team that advises on methodology, while the actual policy making would be done by the department or agency in charge of it.
- **Be proportionate.** As with the other elements of the I-SIP Approach, the resources invested in the I-SIP team should be proportionate to the policy intervention.

OPPORTUNITIES TO INTEGRATE THE I-SIP APPROACH

STANDING INTRA-AGENCY COMMITTEE. In country A, the central bank created a committee of representatives of different departments that oversee financial inclusion, banking supervision, payments supervision, AML/CFT, consumer protection, and statistics. The committee meets when regulations on financial inclusion need to be discussed.

INTER-AGENCY BODY. In country B, the central bank spearheaded efforts to establish a national financial inclusion strategy. It prepared an initial draft of the text and convened an inter-agency body. The body was made up of more than a half-dozen government agencies that contributed to developing the strategy through a highly consultative process. This body was later institutionalized as a standalone Financial Inclusion Task Force that oversees the implementation of the strategy across all participating public authorities.

PART OF REQUIRED PROCESS. In some countries, a process for interagency and intraagency consultation is considered a standard part of the legislative "order of action." This provides an opportunity to integrate the I-SIP Approach into this process.

A successful I-SIP team needs:

- High-level support
- Team members who understand the linkages among the I-SIP objectives
- A commitment to implementing the I-SIP Approach
- The mandate and resources to implement the I-SIP Approach
- The authority to:
  - Access data
  - Collaborate/coordinate within and outside the agency
  - Consult with providers
  - Provide expert advice to policy-making departments

The seven-step process

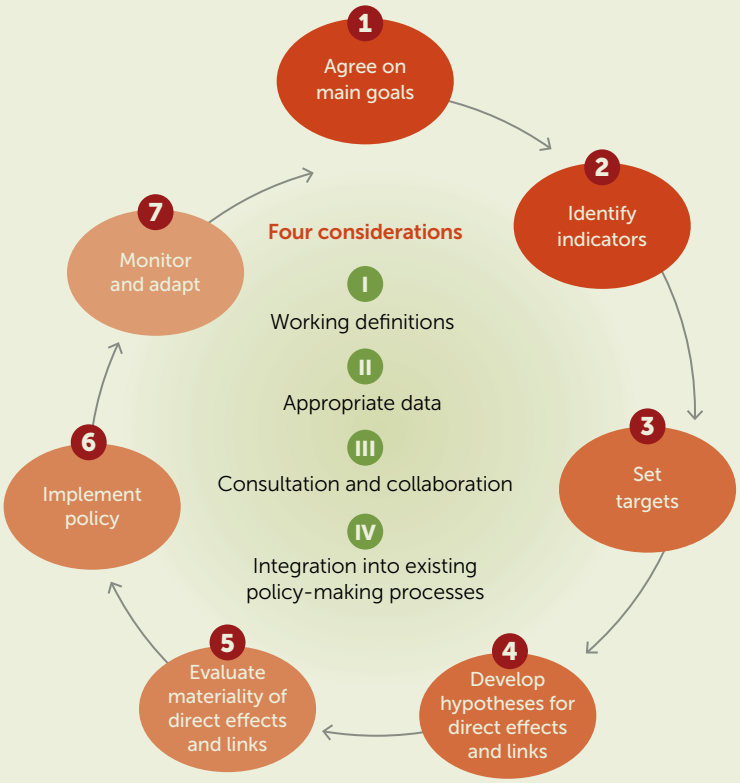
1. Agree on the main goals of the policy intervention
2. Identify measurable indicators for the I-SIP objectives
3. Set targets
4. Develop hypotheses for direct effects and linkages
5. Evaluate the materiality of direct effects and linkages
6. Implement the policy intervention
7. Monitor and adapt

Overview

The I-SIP Approach involves a seven-step process that is designed to enable policy makers to systematically **identify** and **manage** the linkages between the I-SIP objectives so that they can achieve **improved policy outcomes.**

Overall, the process follows a similar but more structured path of how policy interventions are traditionally developed and implemented and how their effects are assessed and revised accordingly, so that it can be integrated into most institutions' policy making processes relatively easily. It is an iterative process that should be repeated over time as circumstances change and new data come in. It may require further policy-adjustments.

The four important considerations discussed apply across the seven steps; icons will indicate which of them are most critical for each step.



STEP 1:
Agree on the main goals of the policy intervention

First, figure out what you are trying to achieve with the proposed policy intervention, whether it is a new one or an adjustment of an existing policy.

- **What is the main goal?** Which of the I-SIP objectives does the policy intervention in question intend to address and advance? To minimize the risk of unintended or negative consequences, it is important to be clear about the scope of the policy intervention while you're in the policy design phase.
- **Collaborate from the beginning.** Stakeholders in the policy intervention need to have a common understanding about its main goal. You should consult and collaborate with stakeholders within your agency and in other agencies as needed. Consider whether the policy intervention would involve a big change or just a minor adjustment. The bigger the change, the greater the need for wider, more intense consultation. You may choose to conduct a stakeholder mapping exercise (see Annex E) to systematically determine which stakeholders are most useful to engage with and to what degree.

Remember that each of the four I-SIP objectives is multidimensional. Revisit the working definitions of the objectives and the elements they involve, to sharpen the goal of your policy intervention.

STEP 1 CHECKLIST

- Agree on the working definitions for the four I-SIP objectives to ensure clarity and common understanding during discussions.
- Agree on the intervention's scope and goals. Does the main goal you've initially identified in the proposed policy intervention resonate with your colleagues from other departments or agencies? Is there a potential conflict? How can you help to ensure alignment? Since you all have a stake in the intervention, you need to have a common understanding.
- Identify the primary I-SIP objectives of the intervention. Among financial inclusion, financial stability, financial integrity, and financial consumer protection, which elements are the most important for this particular policy intervention?
- Identify secondary I-SIP goals (if any) in the intervention. Does the intervention have goals related to the other I-SIP objectives?

EXAMPLES

In **COUNTRY A,** a law on savings and credit societies was passed to establish the rules in the sector and to understand the size of the market. The primary goal of the law was clearly financial stability—to provide legal certainty and set standards for the growth and development of a stable nonbank savings and credit sector, where savings and credit societies are in good financial health and have sound management structures. A secondary, but related, goal was financial inclusion, because a stable savings and credit societies sector can serve clients better.

In **COUNTRY B,** policy makers are in the early stages of drafting a national financial inclusion strategy but disagree about what constitutes financial inclusion. Some policy makers believe the main goal should be to eradicate poverty, others think that the strategy should create an enabling environment for small businesses. Before a national strategy for financial inclusion can be drafted, policy makers need to collaborate to develop a common understanding about what financial inclusion means for their country.

STEP 2:
Identify measurable indicators for the I-SIP objectives

Once you've agreed on the main goals of your policy intervention, you need to develop measurable indicators to track the observed effects of the policy intervention after it is implemented, and adjust accordingly.

- **Align the indicators with the goal of the policy intervention, based on your working definitions of the I-SIP objectives.** Different policies require different indicators for each of the I-SIP objectives, depending on the focus of the intervention. The choice of indicators depends on which elements of the I-SIP objectives are targeted or are likely to be affected by the policy intervention, and the ability to measure them. Having clear, comprehensive, and detailed working definitions of the I-SIP objectives at the outset will help you choose. The table on page 26 provides examples of indicators.
- **Support indicators with relevant data or other evidence.** Ideally, data should be gathered before undertaking the policy intervention. These data would become the baseline from which to monitor the effects of the policy intervention on the I-SIP objectives. Data would then be regularly collected and analyzed to effectively manage linkages.
- **Liaise with stakeholders to identify practical indicators.** Consult with the agencies responsible for each I-SIP objective and other stakeholders, including financial services providers, to identify appropriate indicators. Some agencies may already have relevant indicators and data.
- **Establish a system for monitoring the indicators and collecting data.** Data collection should be institutionalized, if possible (e.g., through annual regulatory returns from financial services providers, or regular surveys that are conducted every two years).

STEP 2 CHECKLIST

- Refer to the working definitions of the I-SIP objectives and check which elements of the objectives will be addressed by the policy intervention.
- Consult with stakeholders to:
  - Develop relevant indicators that allow progress to be tracked.
  - Get baseline data for the indicators.
- Set up a system for collecting data and monitoring indicators.

Examples of quantitative indicators

INCLUSION	STABILITY	INTEGRITY	PROTECTION
Access to financial services • % of adults with an account at a formal financial institution Usage • % of adults used mobile phone to make a payment Quality • Average monthly cost to have a basic account, based on the official minimum wage	Financial soundness of deposit-taking institutions • Regulatory capital to risk-weighted assets • Liquid assets to total assets (liquid asset ratio) • % of nonperforming loans	Financial intelligence • Number of suspicious transaction reports received Supervisors appropriately supervise and regulate financial institutions for AML/CFT compliance commensurate with their risks. • Number of onsite AML/CFT monitoring or inspections	Complaints handling and redress • % of consumers who have contacted a consumer protection authority to solve a problem regarding financial services within the past 3–6 months and had their problem resolved within 2 months Fair treatment • % of consumers who have felt mistreated by the staff at a financial institution

Which indicators should you choose?

Each of the four objectives can be measured by several indicators that reflect different aspects of the I-SIP objectives. However, there are some inherent challenges with measuring the effects of a given policy intervention on the I-SIP objectives:

- **Inclusion.** Access and usage of financial services are relatively easily measured; however, the quality of financial services and/or their impact on the target population typically are more difficult to measure.
- **Stability.** Measuring observed effects of a given policy intervention on financial stability can be a challenge. For example, the fact that nothing has happened could be due to good fortune or could be an indication of sufficient safeguards. Defining indicators that sufficiently measure the stability dimension of a given intervention is, therefore, subject to inherent limitations. For example, although profitability, solvency, and liquidity can be used as indicators for stability, they are not sufficient to predict the risk of contagion among institutions (i.e., when a shock in one institution spreads out and affects others), which can spread even to safe and sound institutions.
- **Integrity.** Measuring observed effects of an intervention on financial integrity can be relatively straightforward (e.g., data from suspicious transaction monitoring).
- **Protection.** Data on consumer complaints may be a measure of the effects of a policy intervention on financial consumer protection, though this indicator depends on the maturity of the complaints handling and dispute resolution mechanisms and on the newness of a policy intervention. For systems in early stages and new policies, an upward trend in the number of complaints may be a sign of a positive effect of the policy intervention, because this may be seen as a result of increased awareness (or these consumers are now covered by protection mechanisms). For more mature markets, increased consumer complaints may be a sign of a negative effect of the policy intervention on consumer protection (i.e., consumers are less satisfied or become more vulnerable as a result of the intervention).

See Annex F for resources and examples on the I-SIP indicators, including financial inclusion indicators that reflect current trends in global thinking.

EXAMPLES

Before the creation of the Global Findex,[16] **COUNTRY C** was considering adopting regulations on banking and microfinance sectors to increase financial inclusion. To inform the development of these regulations, the country conducted its first national financial inclusion survey to provide policy makers and practitioners with baseline information on supply, access, demand, and quality of formal and informal financial services. Based on the results of the survey, policy makers established concrete, measurable, and verifiable indicators. For example, the finding allowed the central bank to update its Maya commitments[17] to include, "[i]ncrease the degree of financial inclusion which is currently at 25 percent to at least 50 percent by 2015 as measured by account ownership at a formal financial institution."

After the central bank of **COUNTRY D** issued e-money regulations, it collected various data on e-money (e.g., number of e-money accounts, number of transactions). However, there was no clarity around the indicator used to measure the activity of e-money accounts. Because of this, e-money issuers interpreted "e-money usage" in a variety of ways and submitted information based on time that ranged from 30-day windows to 90-day windows, which made comparisons difficult.

STEP 3:
Set targets

Targets are a powerful instrument for transparency and accountability. They help set clear priorities and ambitious goals, and can send clear signals of intent to key stakeholders.

- **Establish targets for the main goals of your policy intervention.** You do not need to have targets for all the indicators. You would want to have targets for the main goal or goals of your policy intervention. The target for the primary I-SIP objective is likely to be a specific positive effect, such as a percentage increase in the number of adults with access to a formal financial institution. For other objectives, the target might simply be not to have a negative effect (e.g., no compromise on stability).

  The targets may be high level, and often are quantifiable (e.g., have five new providers; 1 million new customers; 10 new products, etc.).

- **Discuss appropriate targets with key stakeholders to avoid unwanted consequences.** Targets send important signals to the financial sector. It is essential to consult with key stakeholders to ensure they interpret the signals as they are intended. Carefully considered target setting can help avoid creating inappropriate incentives and counter-productive behaviors. Consultations with financial services providers can be particularly valuable for understanding how the market will react. Targets based on expected market responses can be a good benchmark of the success of a policy.

- **Establish a timetable for reviewing progress periodically.** This will enable you to monitor progress against your targets, foresee trends, and make adjustments, if necessary.

STEP 3 CHECKLIST

- Revisit the main goals of your policy intervention.
- Refer to the indicators you have developed and determine which of them will help you track progress toward achieving your main goals.
- Consult with stakeholders to agree on targets.
- Establish a timetable for reviewing progress of the policy intervention against the targets set.

Examples of targets for policy X

INCLUSION	STABILITY	INTEGRITY	PROTECTION
60% of adults will have access to a formal financial institution by 2020	10% decrease of non-performing loans for largest commercial banks within a year	Increase number of onsite AML/CFT inspections by 10% within a year	30% decrease in consumer complaints with regard to e-money within a year

Be SMART

Specific	Is the target clear, straightforward, and specific? • Only clear and specific targets can provide clear signals to stakeholders.
Measurable	Is the target measurable and can its progress be tracked using relevant indicators? • If a target is not measurable, progress toward the target cannot be systematically monitored. • Tracking progress creates strong incentives to meet the target. • Tracking provides insights into challenges and opportunities. • Being measurable compels the use of reliable indicators to monitor progress.
Attainable	Is the target attainable while still being ambitious? • The target needs to strike a balance between being ambitious/aspirational and realistic. • Unattainable targets tend to damage the credibility of stakeholders.
Relevant	Is the target relevant in relation to the country context, stated goal(s) and/or objectives, strategic priorities, and strategic measures? • A target that is not aligned with any one of these cannot be considered sound.
Time-bound	Is the target associated with a specific time frame? • A target without a deadline does not send a strong message that it will be achieved. • Specifying a deadline encourages stakeholders to act in a timely way.

Source: AFI Guideline Note 20: National Financial Inclusion Strategies Toolkit. August 2016. https://www.afi-global.org/sites/default/files/publications/2016-08/Guideline%20Note-20%20FIS-Toolkit.pdf

EXAMPLES

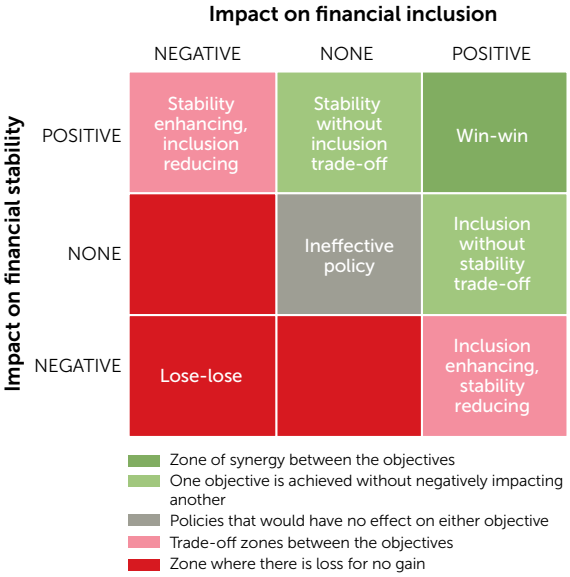
Data from the first Global Findex (2011)[18] indicated that **COUNTRY E** had one of the lowest levels of financial inclusion worldwide—few people had accounts in financial institutions and used formal financial services (less than 5 percent). The country was determined to improve its standing and set an ambitious, yet achievable, target to bring account ownership up to 40 percent of the population in six years. The plan was to implement a set of targeted policy interventions aimed at linking government payments and wages to bank accounts. By 2017, the country exceeded its target with over 45 percent account ownership.

COUNTRY F set what proved to be an overly ambitious target in its Maya Declaration commitment.[19] It aimed to increase access to formal financial services to 60 percent in 2017, from 30 percent in 2011. However, it fell short by over 20 percent because of certain country conditions that were not considered. Factors such as lack of the necessary identification documents for know-your-customer requirements and lack of financial education contributed to the slow expansion in financial access.

STEP 4:
Develop hypotheses for direct effects and linkages

Consider the direct effects of the intervention on an I-SIP objective and develop linkage hypotheses—that is, identify the likely types of positive and negative linkages among the I-SIP objectives triggered by the proposed intervention.

- **Linkage hypotheses will help you understand the full range of potential consequences.** Strictly speaking, all policy interventions will affect all the I-SIP objectives to different degrees because all I-SIP objectives are linked. Therefore, it is important to focus on the linkages that appear most likely to be material (see Step 5).
- **Benefit from synergies and avoid unnecessary trade-offs and other negative outcomes among the I-SIP objectives.** Avoid ineffective policies that do not advance any of the objectives.
- **Consult and collaborate** with other public agencies or departments, as in the previous step, as well as with financial services providers.



STEP 4 CHECKLIST

- Refer to the working definitions of the I-SIP objectives and identify which elements of the objectives will be addressed by the policy intervention.
- Consult with stakeholders to:
  - Discuss possible direct effects of the policy intervention.
  - Brainstorm possible linkages between the pairs of objectives—linkage hypotheses.
- Assess potential synergies and trade-offs.

See Annex B for more information and insights on linkages among the I-SIP objectives.

These tips will guide you through the process of developing the hypotheses for direct effects and linkages, and will address the nature of consultation and collaboration required in this step.

DIRECT EFFECTS

A direct effect is a change relating to one of the I-SIP objectives that is directly caused by the policy intervention. For example, an integrity-linked rule such as relaxed know-your-customer requirements for lower-risk transactions has a direct effect on financial integrity, yet the primary objective of the change is to advance financial inclusion (assuming that there is a linkage between reduced account-opening requirements and financial inclusion).

IDENTIFYING LINKAGES

To identify potential types of synergies or trade-offs between the pairs of I-SIP objectives, it is useful to develop hypotheses of what effects can be triggered by the given intervention (linkage hypotheses). This can be done at a generic/high level (see Annex B) and at the policy-specific level. Risks and benefits are rooted in the local policy context and must be determined for each specific policy intervention to maximize synergies and minimize trade-offs and other negative linkages between financial inclusion and the other three objectives.

Here are some of the important characteristics of linkage hypotheses:

- Linkages between objectives can be positive (synergies) or negative (either trade-offs when one objective is advanced at the cost of the other, or "double negatives" when neither is advanced) or even both at the same time.
- The overall net-effect on any one objective can be indeterminate because each objective can be subject to both positive and negative effects at the same time.
- The analysis should focus on the changes introduced by the policy intervention in question, and the benchmark is what applied before the change or the trend before the policy was introduced.

From this high-level brainstorming with other policy makers, you should have an initial list of hypotheses about direct effects, potential trade-offs, and potential synergies. But this list reflects only the policy maker side. To have a more fully informed view, you should go through the same exercise with private sector representatives who will be affected by the proposed intervention.

To better understand the nature and extent of linkages among the I-SIP objectives, consult with financial services providers to help you to better understand the likely market response to regulatory changes, surface new insights, and reduce the risk of unintended consequences (e.g., regulatory arbitrage). Ask providers to give their views on anticipated effects of a concrete policy proposal on clearly defined indicators.

CONSULTING PROVIDERS

You should consult with providers who would have a critical role in implementing the policy intervention in question, or who would be significantly affected by it. Depending on the nature of policy intervention, this may include a wide variety of financial institutions, as well as FinTech companies, mobile network operators, agents, and others who provide financial services. It may be more efficient to work with industry associations that represent many providers. Ultimately, deciding who you should consult will be determined by the policy intervention in question.

However, as with other inputs such as data, more consultation between policy makers and the private sector is not always better. Consultation carries costs in time and resources for both parties. Effective consultation balances the cost and benefit of the appropriate level of consultation at different stages in the design cycle of a new policy.

EXAMPLE

Creating a new licensing category of microfinance institutions (MFIs) in **COUNTRY G** can result in increased financial inclusion if new organizations are registered and grow, or if existing organizations grow faster than they otherwise would have.

Inclusion—Direct effect

- **POSITIVE.** A new class of retail services providers was created as a direct result of the intervention.

Stability—Inclusion linkages

- **POSITIVE.** Effective financial regulation improves the operations of the MFIs that get licensed, which can build the confidence of banks and other investors in MFIs (i.e., attracting more funding), making it possible for MFIs to extend more loans to more people.
- **NEGATIVE.** Predatory lending practices of consumer lenders and payday lenders operating under the law (as a result of weak consumer protection measures that don't prohibit predatory lending practices) can taint the reputation of the sector and undermine consumer trust in and use of the financial system.
- **NEGATIVE.** Additional regulatory responsibilities can strain the central bank's supervisory capacity and distract it from managing potentially bigger risks.

Integrity—Inclusion linkages

- **POSITIVE.** An increase in the numbers of people served by MFIs should have a positive impact on integrity because more transactions will be taking place in the electronically traceable world of formal finance.
- **NEGATIVE.** Compliance with AML/CFT requirements may be burdensome and costly for MFIs.

Protection—Inclusion linkages

- **POSITIVE.** Categorizing MFIs as a new institutional type makes it possible to apply consumer protection rules.
- **POSITIVE.** Consumer protection provisions in the Microfinance Law—if appropriate—can have a positive effect on inclusion if it causes customers to gain trust in the sector.
- **NEGATIVE.** Conversely, the lack of appropriate consumer protection standards, despite being regulated by the central bank, can undermine trust in the sector and have a negative effect on inclusion.

STEP 5:
Evaluate the materiality of direct effects and linkages

Manage linkages to maximize the synergies and minimize potential trade-offs and other negative outcomes. Since it is not possible to optimize all the objectives[20] and manage all linkages, you will need to focus on those that seem likely to be the most material.

- **Be clear about your priorities based on the goals of your policy intervention,** and decide which outcomes you want to achieve, and which of those are most material and offer opportunities for most synergies among I-SIP objectives.
- **Develop criteria for estimating materiality.** For each of the pair-wise linkages (e.g., inclusion–protection) you've identified, develop criteria for assessing the likely materiality of the effects triggered by the linkage (e.g., number of transactions, number of consumers affected, number of users) and the likelihood of their occurrence.

  If one of the I-SIP objectives or linkages is highly visible (see example on the following page), you may overestimate its materiality. Refer to the criteria you've developed and think about the likely magnitude of the consequences if a trade-off between the I-SIP objectives develops, to assess how material an objective or linkage is.
- **Be proportionate.** Make sure that your decisions reflect the materiality assessment. The benefits of the policy intervention should be balanced with the overall costs.
- **Remember, this is not a counting exercise.** Numerous immaterial synergies won't necessarily offset a single material trade-off.

STEP 5 CHECKLIST

- List all goals of your policy intervention and direct effects and linkages you've identified.
- Develop criteria for estimating the materiality of the effects triggered by the linkages.
- Analyze potential synergies and trade-offs and prioritize those that are most important.
- Consult with stakeholders to:
  - Confirm your analysis and agree on priorities.
  - Agree whether certain trade-offs are acceptable.
  - Make sure overall costs do not outweigh benefits.
  - Discuss possible adjustments to the policy intervention.
- Adjust the policy intervention before launching.
- Inform respective stakeholders on the decision.

See Annex G for additional resources on proportionality.

EXAMPLES

The central bank of **COUNTRY H** has long been an intuitive manager of I-SIP linkages. It monitors the financial sector's reaction to its policy interventions and amends policies accordingly. When the central bank developed regulations on the use of a new credit reporting bureau, it recognized the high costs associated with contributing to and requesting credit reports from the credit bureau. While the authority could have mandated from the start that the numerous small regional banks in the country use the credit bureau, it has not yet taken any regulatory action and instead is monitoring voluntary uptake. It plans to mandate the participation in the credit bureau only when a critical mass of regional banks report data regularly and accurately, at which stage the additional costs would be justified by the benefit of using it.

Consumer protection issues in **COUNTRY I** related to activities of credit-only microcredit lenders have been highly visible both through consumer complaints and media coverage. The central bank developed a new regulatory framework for these microcredit companies that requires all of them to (i) re-register under the new framework; (ii) comply with detailed consumer protection rules; and (iii) meet newly introduced minimum capital and capital adequacy requirements. Although consumer protection issues required a regulatory response, the requirement to re-register brought about an additional cost for providers that was likely passed on to consumers. Most importantly, the minimum capital and capital adequacy requirements are tools to address stability concerns; however, credit-only lenders do not pose a direct risk to stability.

The new framework has not yet become fully effective, but based on market analysis, many microcredit lenders would have to leave the market, which would have a negative effect on inclusion. There is also a risk that some of them may decide to continue operating informally, which would not only undermine the objective of consumer protection (since the informal providers would not be covered by the new framework) but would also pose a risk to the integrity of the financial system because transactions of these providers would be untraceable.

STEP 6:
Implement the policy intervention

The way policy interventions are implemented is country-specific and depends on whether it involves a change in law (typically requiring parliamentary approval) or whether it can be implemented by the regulator (as is typically the case for regulations).

Decide on a timetable for launching your policy intervention, including time for providers to get up to speed.

- **Grace period for full compliance.** You may want to give the industry time to prepare for the policy, or you may need time to get your own systems ready.
- **Gradual implementation.** You may decide to implement your policy intervention gradually—building in transitional period(s) for the industry to comply with specific requirements. In some cases, existing providers are given to a longer grace period to fully comply, while new entrants are required to comply from day one.
- **Don't rush it.** A carefully considered phasing in of a policy can reap rewards; a rushed implementation can backfire.

STEP 6 CHECKLIST

- Decide on the timetable for the implementation (consider grace periods or transitional periods, as necessary).
- Implement the policy intervention according to your country's procedures.

EXAMPLES

When **COUNTRY J** decided to implement a regulation on savings and loans associations, which had not been regulated previously, the regulator knew that not all the associations would be able to meet the new prudential and other requirements from day one. Enforcing the regulation in full right away would likely lead to many of them closing, thus reducing people's access to savings and loans services. To ensure continued access to these services as well as compliance with the new requirements, the regulator introduced a gradual implementation of the regulation. It provided for two transitional periods, each of them 18 months long. During the first period, the associations had to re-register under the new law and meet a set of basic requirements. During the second period, they had to meet advanced requirements to be able to continue to function. This gradual approach meant that associations were able to stay in business because they were given sufficient time to comply.

In a rush to regulate its microfinance industry, **COUNTRY K** was considering setting very low minimum capital requirements for community-based MFIs. The low threshold led thousands of new entrants to register. This overburdened the central bank's supervisory capacity and monitoring and reporting systems. The regulator is revisiting the minimum capital requirement and at the same time is preparing its systems to be able to supervise community-based MFIs.

STEP 7:
Monitor and adapt

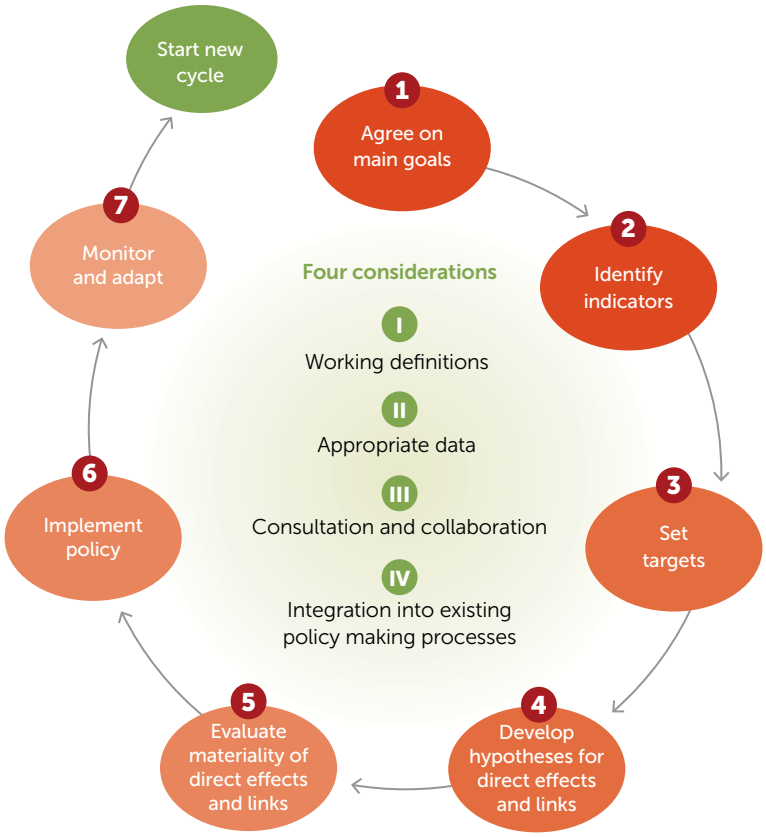
Financial sectors are constantly evolving, and so should regulatory policy—to reflect changes in circumstances, respond to emerging issues or risks, and fine-tune policies to better work toward achieving the I-SIP objectives and manage the linkages among them.

By this step, you've gone through the policy-making cycle and are assessing the observed effects of your policy intervention. What needs to change to reach the original goals? You may also want to change or adjust your goals for the policy intervention. Even if the goals remain unchanged, at a minimum, you need to revisit the indicators and targets. Thus, you are starting a new cycle.

- **Testing your linkage hypotheses, determining materiality and adjusting as needed.** Until now, you have been relying only on hypotheses about linkages and their materiality. Some of these hypotheses will prove correct (according to the observed effects), some will not, and most will need to be adjusted. Meanwhile, you may have missed some material linkages that surface only upon implementation. Without review and adjustment, even the most carefully designed policy may, over time, result in unnecessary trade-offs or the underachievement of the I-SIP objectives.
- **Question changes in the indicators—appearances can be deceptive.** For example, a change might have occurred regardless of the policy intervention. This can be assessed by comparing changes in indicators to a hypothetical situation without any changes (the counterfactual), which might still have led to a positive effect.

  Similarly, an improvement in one indicator by itself may not necessarily be a positive effect. Take, for example, an indicator for increased access to certain financial services. Check whether the increases you are seeing are for financial services that are benefitting consumers and that they are not making consumers worse off. Overall, an increase in inclusion numbers without adequate attention to consumer protection would be considered a negative I-SIP outcome.

  Finally, an observed positive effect might not be considered satisfactory if it remains far behind targets.
- **Monitor your indicators and progress against targets at key points.** The frequency of the policy review will depend on your country context and the nature of your policy intervention.



STEP 7 CHECKLIST

- Go back to the goals of your policy intervention to determine whether they've been met.
- Consider what needs to change to meet these goals—or set other goals.
- Revise targets, revisit linkage hypotheses, and materiality of linkages, as appropriate.
- Continue the cycle and adapt your policy intervention.

As a rule of thumb, most policy makers review policies periodically, as the new data on financial sector come in. This allows you to assess progress toward achieving policy objectives.

Reviews can also be scheduled around specific milestones (e.g., those set in your country's National Financial Inclusion Strategies).

A change in the financial sector environment can also be a prompt to review a policy or regulation to account for any new issues or risks arising (or existing ones aggravating) or any changes in your priorities for I-SIP objectives.

- **Analyze, collaborate, and consult before making any adjustments as you did at the start of this process—the I-SIP Approach is an iterative, cyclical process.** Some adjustments might be harder to make than others, depending on the nature of the policy intervention. For example, policies with primary goals beyond the I-SIP objectives might have a significant impact on the I-SIP objectives, but could be more difficult to adapt because they may fall outside the responsibility of financial sector policy makers. In these cases, broader interagency collaboration may be required to mitigate negative effects of such policies on the I-SIP objectives.

EXAMPLES

COUNTRY L's regulations on nonbank financial institutions (NBFIs) were adopted several decades ago. Since then, they have been subject to continuous and purposeful monitoring and adjustment. The regulations opened a regulatory window for NBFIs to be established with relatively low requirements for entry. The regulator has been constantly reviewing and adjusting the regulations—to gradually introduce a tiered system of NBFIs (with each tier allowed to provide a respective range of services) and to ensure that NBFIs are strong and stable institutions that are meeting modern requirements for financial consumer protection and anti-money laundering/combatting financing of terrorism rules.

For several decades, **COUNTRY M** has been concerned about expanding access to credit for businesses in a priority economic sector. A special law established mandatory requirements for banks to lend to this sector. Banks not meeting these requirements had to meet alternative compliance requirements or pay penalties. Throughout the years when the policy had been in effect, most banks consistently found it hard to meet the requirements and instead preferred to pay the penalties for noncompliance. They considered the penalties to be a form of tax and passed this expense onto their clients. Although the policy has not been working, it has remained largely unchanged.

Endnotes

1. Originally, the focus was on five SSBs: Basel Committee on Banking Supervision; Committee on Payment and Settlement Systems, now the Committee on Payments and Market Infrastructure; Financial Action Task Force; International Association of Deposit Insurers; and International Association of Insurance Supervisors. These five SSBs were later joined by the Financial Stability Board and the International Organization for Securities Commissions.
2. The Alliance for Financial Inclusion brings together central bank regulators and other financial policy makers to work together to develop regulatory frameworks that enable financial inclusion. AFI members come from more than 90 developing countries, where the majority of the world's unbanked reside. See, https://www.afi-global.org/members/
3. In this toolkit, we use the term "regulator" to generically refer to both financial regulators and supervisors.
4. In 2012, as co-chair of the GPFI Subgroup focused on the G20 Principles on Innovative Financial Inclusion and Engagement with the SSB, the UK Department for International Development funded GPFI Implementing Partner CGAP to conduct a rapid research exercise in South Africa, to inform the work of the subgroup. The goal of the research was to begin building better understanding and evidence of the interrelations among the I-SIP objectives that can be used by regulators, Supervisors, and SSBs. The findings demonstrated that trade-offs among the I-SIP objectives are not inevitable and that synergies are achievable. The outcome of the study suggested the need to consider the four I-SIP objectives collectively rather than independently for more effective policy outcomes.
5. "What Is Financial Inclusion and Why Is It Important?" Frequently Asked Questions about Financial Inclusion, CGAP, http://www.cgap.org/about/faq/what-financial-inclusion-and-why-it-important.
6. See "What Is Financial Stability and Why Is It Important?" Bank of Namibia, https://www.bon.com.na/Bank/Financial-Stability/What-is-financial-stability-and-why-is-it-importan.aspx.
7. "IMF and the Fight Against Money Laundering and the Financing of Terrorism," International Monetary Fund, 8 March 2018, http://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/31/Fight-Against-Money-Laundering-the-Financing-of-Terrorism.
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Annexes

ANNEX A

Policy interventions: Examples

The following is a select list of actual policy interventions with a primary focus on financial inclusion. These examples are taken from the four country research exercises conducted by CGAP. For more details, please refer to the individual country reports:

Observations and Lessons for the I-SIP Methodology from Pakistan (June 2014)
Financial Inclusion, Stability, Integrity, and Protection: Philippines (July 2017)
Financial Inclusion and the Linkages to Financial Stability, Integrity, and Consumer Protection: Insights from the Russia Experience (September 2014)
Financial Inclusion and the Linkages to Stability, Integrity and Protection: Insights from the South African Experience (November 2012)

PAKISTAN[a]

1. **Regulatory framework for microfinance banks (MFBs):** The State Bank of Pakistan (SBP) created a regulatory framework for MFBs in 2001, which allowed for a new type of financial institution and products mostly catering to the unbanked. The trade-off SBP was most concerned about was stability as it could suffer by allowing a new type of bank with relaxed regulatory requirements. To mitigate this risk, SBP allowed smaller entities to start operations with a narrower regional focus by introducing tiered minimum capital requirements depending on the geographic scale of operations.

2. **Microfinance Credit Guarantee Facility (MCGF):** SBP launched the MCGF in 2008 to offer commercial banks incentives to lend to microfinance providers (MFPs). The primary objectives were inclusion (to alleviate funding constraints for MFPs) and stability (by providing MFPs with a new and sustainable source of funding). The trade-off SBP was most concerned about was stability of the lending banks, but the guarantee itself was seen as sufficiently mitigating the risk of over-exposure to a new, mostly unknown, type of borrowers.

3. **Branchless Banking Regulations:** SBP issued BB regulations in 2008, with an explicit inclusion objective to allow mobile technology as a new delivery channel for financial services. The trade-off SBP was most concerned about was stability—to mitigate risks, only a bank-led model for branchless banking was allowed because nonbanks were subject to less stringent regulatory oversight. At the same time, SBP accepted a certain trade-off for integrity by introducing a tiered Know Your Customer (KYC) system with generally lower KYC requirements for lower-level accounts to promote higher inclusion.

PHILIPPINES[b]

1. **Mandated agricultural credit:** In 1975, Presidential Decree No. 717 mandated agricultural credit with the primary objective to promote access to credit for agrarian reform beneficiaries, such as tenant-farmers, agricultural lessees, owner-cultivators, and farmers' cooperatives. Policy makers were concerned about stability, because agrarian reform beneficiaries are all highly exposed to the risks associated with a single economic sector. The government later established two mechanisms to mitigate credit risk: the Philippine Crop Insurance Corporation and the Agricultural Guarantee Fund Pool.

2. **National Strategy for Microfinance:** The National Strategy for Microfinance was developed in 1997, accompanied by a suite of related laws and regulations. Its primary objectives were inclusion and stability: to increase the role of the private sector, promote market-oriented financial and credit policies, and eliminate ineffective government programs. The main linkages policy makers focused on was that of inclusion and stability, in terms of improving the sustainability and efficiency of the banking sector. The associated Microfinance Regulatory Framework and Bangko Sentral ng Pilipinas (BSP, the Philippine central bank) microfinance regulations encouraged banks to start engaging in the microfinance sector and enabled the creation of microfinance banks and transformation of nongovernmental organizations into banks.

3. **E-money guidance:** In 2009, BSP set forth a circular governing the issuance of electronic money and the operations of e-money issuers (EMIs). The primary objective of the regulation was financial inclusion, part of BSP's goal of promoting the availability and acceptance of e-money as a retail payment medium. BSP considered all I-SIP objectives in this regulation: stability, by requiring a quasi-banking license for EMIs; integrity, in allowing relaxed KYC requirements; and protection, by explicitly defining e-money as a nondeposit that is consequently not covered by the deposit protection scheme.

4. **Regulation on microbanking offices (MBOs):** BSP issued regulations in 2010 allowing the establishment of MBOs, which enabled banks to have a presence in areas where it may not be immediately economically feasible to set up a full-fledged bank branch. The intervention's primary focus was on financial inclusion, promoting the delivery of banking services to underserved customers. The trade-off BSP was most concerned about was stability, which it mitigated with prudential and internal control requirements and maximum onsite cash limits.

RUSSIA[c]

1. **Law on Credit Cooperation:** The Law on Credit Cooperation was introduced in 2009 to streamline the previously fragmented regulatory framework, bringing all existing cooperatives engaged in lending as a primary activity under a variety of laws, under one single law. The main objective of the law was to provide the legal certainty and set standards for the growth and development of a stable credit cooperative sector to further financial inclusion. Policy makers identified both positive and negative linkages between stability and financial inclusion and were careful to try to strike a balance.

2. **Law on Microfinance:** The Law on Microfinance Activity and Microfinance Organizations (MFOs) was adopted in 2010 to create a legal basis for activities of MFOs and thus enable increased financial inclusion (primarily for MSMEs), as well as better monitoring and understanding of the sector. Policy makers limited MFO opportunities for raising funds from natural persons because they were concerned about stability. Consumer protection concerns appeared later, with the growth of the high-cost, short-term consumer lending and payday lending market players who registered under the law.

SOUTH AFRICA[d]

1. **Mzansi basic bank accounts:** In 2004, the Ministry of Finance changed KYC regulations to allow the exemption of address verification on low-risk accounts with balance and transaction limits that were linked to debit cards with the primary objective to increase inclusion. Usage limitations were imposed on these basic bank accounts to address financial integrity concerns.

2. **Cooperative Banks Act:** The Cooperative Banks Act of 2007 created a legal and regulatory framework to formalize existing member-owned financial institutions operating pursuant to various exemptions to the Banking Act and to encourage the formation of new cooperative banks. These included financial services cooperatives, saving and credit cooperatives, community banks, credit unions, and village banks. The policy intervention identified the soundness of financial sector cooperatives and protection of their members as objectives concurrent with financial inclusion. Stability risks to the wider financial sector were considered unlikely, although on a few occasions, the rapid growth and sudden collapse of pyramid lending schemes masquerading as cooperative financial institutions had brought local unrest and social instability.

3. **Affordable housing lending:** Under threat of imposition of directed lending for housing, South African banks set substantial targets in the 2003 Financial Sector Charter for new affordable housing lending. Stability was not identified as a significant concern mainly because banks themselves had proposed the target, which allowed the banks to align the target with their perception of the risk involved. Furthermore, this volume of lending was very small relative to total bank assets or to residential real estate loans, hence it was not considered systemically significant at the time. Even though there were limited stability concerns at the time, banks expressed concerns about the potential higher risk profile of loans to this new market.

4. **Payment methods for small value loans:** The South African government as an employer decided to allow the deduction of unsecured small-value loan repayments directly from civil servant salaries, and then withdrew the deduction facilities in 2000 following evidence of widespread over-indebtedness of borrowers. Specialized forms of electronic debit orders that provided more security to creditors than conventional direct debits evolved subsequently as an alternative collection mechanism for credit and other financial services such as insurance. Thus policy makers did not originally anticipate any increased stability or consumer protection risk but subsequebtly adjusted the policy to account for them.

ANNEX B

I-SIP objectives: Linkages

Since the high-level recognition by G20 in 2010, validations of the linkages among the I-SIP objectives have found their way into the thinking and guidance of global organizations and SSBs, as illustrated by examples below.

G20 Finance Ministers/Central Bank Governors:

"We welcome the . . . growing commitment among... standard-setting bodies to provide guidance and to engage with the GPFI [Global Partnership for Financial Inclusion] to explore the linkages among financial inclusion, financial stability, financial integrity and financial consumer protection."[e]

Christine Lagarde, Managing Director, International Monetary Fund:

"Despite clear evidence of its benefits to individuals and society as a whole, financial inclusion is often proceeding on an isolated track—more social policy than macro policy. It is critical that we avoid such a 'silo mentality.' Financial inclusion is an integral part of inclusive growth strategies and should be closely integrated into macroeconomic and financial policies."[f]

Basel Committee on Banking Supervision:

". . . The global financial crisis of 2007–09 prompted new thinking about the relationship between the core safety and soundness objective of banking supervision and financial consumer protection [. . .]. More recently, there has also been an exploration of the relationship of the safety and soundness objective with the objectives of financial inclusion and financial integrity [. . .]. Awareness of the risks of financial exclusion has also increased among some global standard-setting bodies."[g]

Financial Action Task Force:

"The FATF is committed to financial inclusion. [. . .] Unserved and underserved people have to be financially active and may be forced to conduct their transactions through unregulated channels when they lack access to formal financial services. Enabling these groups of people to use regulated and supervised channels supports improved consumer protection against fraud, financial abuse and exploitation. It also expands the scope of traceable transactions, facilitating the detection, reporting and investigation of suspicious transactions, thereby reducing overall money laundering (ML) and terrorist financing (TF) risks. Financial inclusion and financial integrity are thus mutually reinforcing."[h]

Organisation for Economic Co-operation and Development:

"Consumer confidence and trust in a well-functioning market for financial services promotes financial stability, growth, efficiency and innovation over the long term. Traditional regulatory and supervisory frameworks adopted by oversight bodies contribute to the protection of consumers—which is often and increasingly recognised as a major objective of these bodies together with financial stability."[i]

Possible synergies among financial inclusion, stability, integrity, and consumer protection

INCLUSION ⟷ STABILITY

DIVERSIFICATION: An inclusive financial sector will have a more diversified, stable retail deposit base that should increase financial stability. Similarly, financial inclusion may help lenders diversify their loan portfolio and mitigate credit risk, as well as reduce dependence on large borrowers, thus reducing potential systemic risk.

SOCIAL STABILITY: An inclusive financial sector with a broad base of clients across a society is more likely to have greater political legitimacy and thereby decrease the risk of political and social instability (which in turn could lead to financial instability).

ECONOMIC STABILITY: An inclusive financial sector is associated with a more inclusive society in which individuals have more ways to generate income and manage risks, thereby potentially enhancing economic stability, which contributes to financial stability.

TRUST BUILDING: Stability builds consumer trust in the financial sector as a whole, making it more likely that individuals will want to be included.

AFFORDABILITY: Stability can positively impact factors (such as inflation and patterns of interest rates) that can reduce key prices, potentially making financial services more affordable to poor people.

INCLUSION ⟷ INTEGRITY

TRUST BUILDING: Over time, a market that prevents money laundering/terrorist financing is likely to be better regarded by consumers and encourage greater consumer trust and use of financial services and institutions.

GREATER TRACEABILITY OF TRANSACTIONS: As more people enter into the formal financial sector and leave the untraceable cash economy, more transactions will be carried out in traceable electronic means, which can be monitored and reported by formal financial institutions.

INCLUSION ⟷ PROTECTION

IMPROVED PROTECTION AND REDUCED RISKS TO CONSUMERS OF UNREGULATED PROVIDERS: Increased inclusion can often mean increased consumer protection given that formal providers are more likely to be subject to effective consumer protection regulation than informal providers. Effective access to regulated financial services allows households to avoid potential abuse and fraud by unscrupulous providers in the informal sector.
TRUST BUILDING: A well-protected and educated consumer base leads to greater trust in the formal financial sector and increased use of formal financial services.

STABILITY ⟷ INTEGRITY

INCREASED TRUST BUILDING AND FINANCIAL SYSTEM STRENGTHENING: Reduction in and prevention of financial crime builds public confidence in the financial system and helps to make the system stronger and more secure.

INTEGRITY ⟷ PROTECTION

IMPROVED PROTECTION THROUGH FORMALIZATION: Use of formal regulated and supervised channels supports improved consumer protection against fraud, financial abuse, and exploitation.

PROTECTION ⟷ STABILITY

SOUND INSTITUTIONS BETTER PROTECT CLIENTS: Institutions that are prudentially regulated can better protect their clients' savings and are more likely to be subject to consumer protection regulation.

Possible trade-offs and negative linkages among financial inclusion, stability, integrity, and consumer protection

INCLUSION ⟷ STABILITY

PRESSURES ON SUPERVISORY CAPACITY: Allowing new categories of providers (e.g., deposit-taking microfinance institutions) to increase financial inclusion may put pressure on the supervisory authority due to additional responsibilities. Relaxing prudential or consumer protection requirements for a new class of providers may introduce ways to arbitrage the existing tiers of regulatory requirements and may even threaten stability as a result of large exposure between existing and new tiers that is not well understood or managed. Since the risks of the new class of entities may not be well understood by supervisors, it may be harder to oversee.

LIMITED SUPERVISORY CAPACITY REGARDING DIGITAL FINANCIAL SERVICES (DFS): Digital technologies aimed at expanding inclusion (such as artificial intelligence, big data analytics, distributed ledger technology, cloud computing, cryptocurrencies, etc.) continue to evolve rapidly, leaving the supervisory authority at risk of not fully understanding the risks posed by DFS and thereby unable to regulate/supervise them effectively. Supervisory frameworks developed for different circumstances may leave important actors and activities outside the supervisory perimeter and may open new opportunities for regulatory arbitrage.

SOCIAL LENDING: Since this lending is typically required under direct mandate and may also be subject to pricing controls, it may adversely affect the solvency of affected financial institutions.

INCLUSION ⟷ INTEGRITY

AML/CFT COMPLIANCE ENTAILS COSTS: Compliance with AML/CFT requirements may be burdensome and costly for financial services providers, particularly in countries without ID systems that cover the poor, leading to a decrease in customers' access.

TIERING KYC REQUIREMENTS TO ALLOW NEW TYPES OF FINANCIAL PRODUCTS: Tiering KYC requirements to allow for low-value accounts may bring risk of "smurfing", using these accounts for purposes that compromise financial integrity. (A smurf is a colloquial term for a money launderer, or one who seeks to evade scrutiny from government agencies by breaking up a transaction involving a large amount of money into smaller transactions below the reporting threshold).

INCLUSION ⟷ PROTECTION

CONSUMER PROTECTION ENTAILS COSTS: Consumer protection requirements drive up costs for financial services providers, curtailing consumers' financial access.

NEW TECHNOLOGY MAY POSE RISKS TO CONSUMERS: The use of new technology may raise consumer protection challenges such as compromised personal identity numbers or fund transfer errors, and technology challenges may be heightened for first-time users. If use of the new technology scales fast, existing measures for protection may be inadequate.

DATA PRIVACY/CYBER-CRIME RISKS FOR CONSUMERS: Data generated by low-income consumers' use of digital financial services can result in loss of data privacy, which can have unforeseen consequences. For example, stolen data (e.g., identity theft) can be used for fraud or other criminal purposes and may result in a number of adverse effects, including material loss or blacklisting records in a credit bureau. Lack of data privacy can pose nonfinancial risks as well, such as access by government entities to sensitive personal data or use of data for political purposes. If customers fear their privacy is being violated, then they may be less likely to use formal financial services.

STABILITY ⟷ INTEGRITY
DE-RISKING: Larger global banks may terminate or severely restrict their relationships (e.g., curtail products or services) with certain categories of clients or certain countries because of perceived AML/CFT risks and compliance costs. Among other adverse consequences, this may affect the ability to send and receive international payments, or drive some payment flows underground, with potential negative consequences on growth, financial inclusion, stability, and integrity of the financial system. **FORMALIZING ENTITIES ENTAIL HIGHER COSTS FOR PROVIDERS:** Smaller nonbank institutions that become formalized as part of the regulated financial sector must comply with AML/CFT regulations, which can introduce high costs to the providers.
INTEGRITY ⟷ PROTECTION
CUSTOMER DUE DILIGENCE REQUIREMENTS UNADJUSTED FOR CONTEXT CAN UNDERMINE CONSUMER PROTECTION: Overly strict customer due diligence requirements set forth for lower-income consumers or those lacking formal ID documents may drive these consumers out of the formal regulated and supervised financial services and channels and into the informal market where consumers are not protected against fraud, financial abuse, and exploitation.
PROTECTION ⟷ STABILITY
CONSUMER PROTECTION ISSUES IN LENDING CAN NEGATIVELY IMPACT STABILITY: Consumer over-indebtedness can have implications for the financial solvency of providers if it leads to a deterioration in the quality of their loan portfolios. This could potentially also cause a systemic risk if it leads to a general slump in repayment discipline and thus negatively affects the stability of the banking sector. **CONSUMER PROTECTION ISSUES COULD NEGATIVELY IMPACT CONSUMER TRUST, WHICH COULD IN TURN HARM STABILITY:** Fraudulent schemes such as pyramid schemes posing as credit cooperatives with high returns could erode consumer trust in the financial sector. These spillover effects could have negative repercussions for stability in the rest of the financial sector.

ANNEX C

I-SIP objectives: Definitions and elements

Definitions

EXAMPLES OF HOW THE I-SIP OBJECTIVES ARE DEFINED

*The concept of financial **inclusion** enjoys broad global consensus and is described by several international organizations.*

CGAP: "Financial inclusion efforts seek to ensure that all households and businesses, regardless of income level, have access to and can effectively use the appropriate financial services they need to improve their lives."[j]

GPFI: " 'Financial inclusion' [...] refers to a state in which all working age adults, including those currently excluded by the financial system, have effective access to the following financial services provided by formal institutions: credit, savings (defined broadly to include current accounts), payments, and insurance. 'Effective access' involves convenient and responsible service delivery, at a cost affordable to the customer and sustainable for the provider, with the result that financially excluded customers use formal financial services rather than existing informal options."[k]

The World Bank: "Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs—transactions, payments, savings, credit and insurance—delivered in a responsible and sustainable way."[l]

Country example: "Financial inclusion or an inclusive financial system is defined as a state wherein there is effective access to a wide range of financial products and services by all. Financial inclusion is important for every household and business as access to basic financial services such as savings, payments, credit and investments makes a substantially positive difference in people's lives. It is likewise considered as an important element that can contribute to broad-based development and inclusive growth."

*The concept of financial **stability** has been among those discussed the most, without yet reaching a global consensus (notably, there isn't yet a definition of stability from the Financial Stability Board).*

Expert opinion 1: "Broadly, financial stability can be thought of in terms of the financial system's ability: (a) to facilitate both an efficient allocation of economic resources—both spatially and especially intertemporally—and the effectiveness of other economic processes (such as wealth accumulation, economic growth, and ultimately social prosperity); (b) to assess, price, allocate, and manage financial risks; and (c) to maintain its ability to perform these key functions—even when affected by external shocks or by a build-up of imbalances—primarily through self-corrective mechanisms."[m]

Expert opinion 2: "The term 'financial stability' shall mean a state of affairs wherein (i) financial institutions and markets are able to facilitate capital intermediation, risk management, and payment services in a way that enables sustainable economic growth; (ii) there is no disruption to the ability of financial institutions or markets to carry out such functions that might cause harm to persons (wherever they may be resident) who are not customers or counterparties of those financial institutions, nor participants in those financial markets; and (iii) financial institutions and markets are able to withstand economic shocks (such as the failure of other markets and institutions, or a chain of significant loses at financial institutions) so that (x) there will be no disruption to the performance of the functions set forth in (i) and (y) no harm will be caused to the persons set forth in (ii)."[n]

Country example 1: "The term financial stability broadly describes a steady state in which the financial system efficiently performs its key economic functions, such as allocating resources and spreading risk as well as settling payments, and is able to do so even in the event of shocks, stress situations and periods of profound structural change."

Country example 2: "Financial stability is a state in which the financial system, i.e. the key financial markets and the financial institutional system is resistant to economic shocks and is fit to smoothly fulfil its basic functions: the intermediation of financial funds, management of risks and the arrangement of payments."

Country example 3: "Financial stability means smooth and continuous functioning of financial institutions, financial markets and payment systems enabling to perform functions of the financial intermediation even in conditions of financial imbalances and shocks."

*The concept of **integrity** is explained by FATF, the global body in charge of standards and guidance on financial integrity, as well as by other organizations.*

Financial Action Task Force: "The mandate of the FATF is to set standards and to promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and the financing of proliferation, and other related threats to the integrity of the international financial system. In collaboration with other international stakeholders, the FATF also works to identify national-level vulnerabilities with the aim of protecting the international financial system from misuse."[o]

The World Bank: "Financial integrity is essential for economic and social development. Countries' financial systems must be transparent, must be inclusive and must function with integrity to ensure economic development and to promote good governance. Transnational organized criminal activity, corruption, the illegal trade in natural resources and the laundering of the proceeds of crime generate illicit flows that undermine good governance, financial sector stability, and economic development."[p]

*The concept of financial consumer **protection** is closely linked with inclusion:*

Alliance for Financial Inclusion: "Consumer protection regulations tend to pursue the following broad objectives: i) to ensure that consumers have enough information to make informed financial decisions; ii) to prevent unfair practices by service providers; and iii) to ensure that consumers have access to recourse mechanisms to resolve disputes."[q]

Basel Committee on Banking Supervision: "Consumer protection aims to ensure that all financial institutions offering similar products follow minimum rules of engagement with consumers and do not engage in business practices that may cause harm to consumers, ultimately introducing risks to the long-term health of the financial sector, including through deteriorated public confidence."[r]

Global Partnership for Financial Inclusion: "Effective financial consumer protection is an essential element of 'financial inclusion' [. . .] as the concept of 'responsible delivery' presupposes both responsible market conduct by providers and effective financial consumer protection oversight."[s]

The World Bank: "Financial consumer protection encompasses the laws, regulations, and institutional arrangements that safeguard consumers in the financial marketplace."[t]

Elements

Each of the I-SIP objectives is multidimensional. Breaking the I-SIP objectives down into the key elements that they are made of will help sharpen the objectives of your policy intervention.

INCLUSION[U]	STABILITY[V]	INTEGRITY[W]	PROTECTION[X]
• Access to financial services • Use of financial services • Quality of the products and service delivery • Impact of financial inclusion on households' and firms' outcomes	Stability (absence of disturbances) in: • Financial infrastructure • Financial institutions • Financial markets	• Assessment, understanding, management and mitigation of money laundering/ financing of terrorism risks • Customer acceptance policy • Customer and beneficial owner identification, verification, and risk profiling • Ongoing monitoring • Management of information • Reporting of suspicious transactions and asset freezing	• Disclosure and transparency • Fair treatment and business conduct • Data protection and privacy • Dispute resolution mechanisms • Guarantee schemes and insolvency • Financial capability

Other resources

Inclusion

- CGAP http://www.cgap.org/about/faq/what-financial-inclusion-and-why-it-important
- G20 Global Partnership for Financial Inclusion (GPFI). Global Standard-Setting Bodies and Financial Inclusion for the Poor. Toward Proportionate Standards and Guidance. A White Paper Prepared by CGAP on Behalf of the G-20's Global Partnership for Financial Inclusion. 2011. http://www.gpfi.org/sites/default/files/documents/CGAP.pdf
- The World Bank http://www.worldbank.org/en/topic/financialinclusion/overview

Stability

- Financial Stability Board (FSB) http://www.fsb.org/what-we-do/about-the-compendium-of-standards/key_standards/
- International Monetary Fund (IMF). IMF Working Paper. International Capital Markets Department. "Defining Financial Stability." Prepared by Garry J. Schinasi. October 2004. https://www.imf.org/external/pubs/ft/wp/2004/wp04187.pdf, IMF Working Paper No. 04/101. "Toward a Framework for Safeguarding Financial Stability". June 2004. https://www.imf.org/en/Publications/WP/Issues/2016/12/30/Toward-a-Framework-for-Safeguarding-Financial-Stability-17446
- World Bank http://www.worldbank.org/en/topic/financialstability

Integrity

- Basel Committee on Banking Supervision (BCBS). Guidelines. "Sound management of risks related to money laundering and financing of terrorism." Bank for International Settlements: 2017. https://www.bis.org/bcbs/publ/d405.pdf
- Financial Action Task Force (FATF): http://www.fatf-gafi.org/about/whatwedo/#d.en.3146
- FATF (2012-2018), International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation, FATF, Paris, France. http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-recommendations.html

- FATF (2013-2018), Methodology for Assessing Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems, updated February 2018, FATF, Paris, France. www.fatfgafi.org/publications/fatfrecommendations/documents/fat-fissuesnewmechanismtostrengthenmoneylaunder-ingandterroristfinan cingcompliance.html
- World Bank http://www.worldbank.org/en/topic/financialmarketintegrity

Protection

- G20 High-Level Principles on Financial Consumer Protection. OECD. October 2011. http://www.oecd.org/daf/fin/financial-markets/48892010.pdf
- Smart Campaign https://www.smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles
- OECD http://www.oecd.org/regreform/sectors/financialconsumerprotection.htm
- World Bank http://responsiblefinance.worldbank.org/publications/financial-consumer-protection

ANNEX D

Data: Resources

The first place to start looking for data is your own agency. Supervisory authorities already gather a lot of data on regulated financial institutions, for example, through regulatory returns. Reporting among different departments within a regulator is often fragmented, with each department focusing on issues specific to its mandate. It is, therefore, important to collaborate with other departments to get the data you need. In addition, other public agencies may also be collecting pertinent data (depending on the policy intervention in question), hence the importance of intra-agency collaboration.

You may also want to look for information available in the public domain, depending on the intervention in question. For example, financial services providers' annual reports, company websites, marketing materials, and public media reports may be helpful sources of information for a policy intervention related to financial consumer protection.

Supply-side data surveys provide information about regulated financial institutions, including geographical access (branch location), pricing of products and services, and penetration or use of products and services. Supply-side data can be gathered frequently as a set of rather broad indicators of formal and regulated providers. It is a low-cost alternative to demand-side data surveys, which are costly and less frequent. Supply-side data should be complementary to the reporting that supervisory agencies collect, to avoid unnecessary burdening of financial services providers. These data can be about outreach, and new products, and they can be less frequent than reporting.

Demand-side data surveys provide information about customers of financial services (individuals, households, and firms) gathered through household and enterprise surveys. These data can help your understand consumers' financial needs, barriers encountered when seeking formal financial services and products, and customers' socioeconomic and demographic characteristics (e.g., degree of financial inclusion by income, occupation, age, or gender).

Global resources for financial inclusion-related data and diagnostics

	Demand-side data analysis	Supply-side data analysis	Diagnostics against global standards or good practices
World Bank Global Findex	X		
World Bank Enterprise Surveys	X		
World Bank Financial Capability Surveys	X		
World Bank Living Standard Measurement Surveys	X		
FinScope Surveys	X		
Financial Inclusion Insights)	X		
IMF Financial Access Survey		X	
MIX FinClusion Lab (Geospatial Maps)		X	
FSP Maps (Geospatial)		X	
GSMA Mobile Money Adoption Survey		X	
World Bank Global Payment Systems Survey		X	X
World Bank Global Financial Consumer Protection and Literacy Survey		X	X
The Economist Intelligence Unit Global Microscope			X
World Bank Good Practices for Financial Consumer Protection			X
OECD Set of Criteria, Principles, Guidelines and Policy Guidance to Improve Financial Education			X
CPMI-World Bank General Principles for International Remittances		X	
CPSS-IOSCO Principles for Financial Market Infrastructures		X	
World Bank Guidelines for Developing a Comprehensive National Retail Payments Strategy		X	
A Practical Guide for Retail Payments Stocktaking (World Bank, Banco Central do Brasil, European Central Bank)		X	
CPMI-World Bank Payment Aspects of Financial Inclusion—Consultative Report			X

Source: World Bank Group. Template for the Design of a Financial Inclusion Strategy. http://www.meridian.org/wp-content/uploads/2016/12/Template-for-the-Design-of-a-National-Financial-Inclusion-Strategy_by-the-World-Bank-Group.pdf

ANNEX E

Consultation and collaboration: Tools to design the processes

Stakeholder mapping tool

Mapping stakeholders can help you understand the support and opposition you will face for a planned change.

Building the map

First review the stakeholders and then plotting them in the influence map below, writing their names in the relevant box. A way of doing this in a team is to write the names down of the stakeholders on Post-It Notes and stick them on a big wall chart.

What it is

It is a map that plots stakeholders by their level of influence and by their active or passive support or neutrality.

When to use it

It should be conducted and used during the planning stage of the I-SIP Approach.

How to use it

Analyze your stakeholders according to the following categories:

Stakeholder power/influence

Stakeholders all have power, whether it is the formal power invested in a position of authority or the social power of being able to persuade others to support or oppose the I-SIP Approach. Those with higher power are likely to be your most useful supporters or most dangerous opponents; thus, a power analysis helps you prioritize your focus on stakeholders.

Active and passive support and resistance

Some people will actively support the change, working long hours to help it succeed, while others will work the other way, seeking to derail your efforts. These active people are where much focus often happens.

INFLUENCE

KEEP SATISFIED

High influence, Low interest

These stakeholders are highly influential, but they don't have a lot of interest, nor are they actively engaged in your intervention. Consider their objectives and keep them satisfied to ensure they remain strong advocates.

ACTIVELY ENGAGE

High influence, High interest

These are your key stakeholders. They have a lot of influence and a strong interest in the outcomes. Manage these stakeholders well to build strong relationships and ensure you retain their support. Involve them in decisions and engage regularly.

MONITOR

Low influence, Low interest

These stakeholders sit on the periphery of the intervention. They are neither interested nor do they have much influence. Monitor their activity from time to time to stay on top of their involvement. Their relevance may change over time. Communicate to keep them informed and encourage their interest.

KEEP INFORMED

Low influence, High interest

These stakeholders have a strong interest in your intervention but very little power to influence it. Anticipate their needs and keep these stakeholders informed to ensure their continued support. Consult on their area of interest and use their input to improve your chances of success.

Source: https://www.groupmap.com/map-templates/stakeholder-analysis/#1495520565504-1eea2e40-1ef6

Stakeholder Analysis Matrix

Stakeholder Name	**Contact Person** *Phone, Email, Website, Address*	**Impact** How much does the policy impact them? (Low, Medium, High)	**Influence** How much influence do they have over the policy? (Low, Medium, High)	**What is important to the stakeholder?**	**How could the stakeholder contribute to the policy?**	**How could the stakeholder block the policy?**	**Strategy for engaging the stakeholder**
EXAMPLE Bank Association	*Carlos Davida cdavida@ba.org 998 765 287*	*High*	*High*	*Assist member banks to adapt their practices while minimizing costs of compliance*	*Provide guidance to member banks*	*No assistance to members, no communication*	*Bi-monthly roundtable discussions*
Consumer Protection Authority	*Viki Chan vchan@cpa.gov 888 587 101*	*High*	*High*	*Ensure compliance with new disclosure and transparency requirements*	*Provide sample templates*	*Lack of communication to relevant stakeholders*	*Quarterly information and feedback meetings*
Sunday Times Newspaper	*Jane Smith jsmith@stn.com 888 587 101*	*Low*	*High*	*Get a good story*	*Print stories that support the new reforms*	*Printing of stories that oppose the new reforms*	*Quarterly press meetings*

Source: Stakeholder Analysis Matrix—www.tools4dev.org. This template by tools4dev is licensed under a Creative Commons Attribution-ShareAlike 3.0 Unported License

ANNEX F

Indicators: Examples

Inclusion

Resources

G20 Financial Inclusion Indicators

Glossary of indicator definitions for the G20 Financial Inclusion Indicators

AFI's Core Set of Financial Inclusion Indicators

Examples of indicators

G20 Financial Inclusion Indicators

Category	Indicator	Source and coverage	Dimension	Aspect
1 Formally banked adults financial institution	% of adults with an account at a formal financial institution (current, 148 countries) Number of depositors per 1,000 adults OR number of deposit accounts per 1,000 adults	WB Global Findex IMF Financial Access Surveys (current, 187 countries)	Usage	Individuals
2 Adults with credit at regulated institutions	% of adults with at least one loan outstanding from a regulated financial institution Number of borrowers per 1,000 adults OR number of outstanding loans per 1,000 adults	WB Global Findex (current, 148 countries) IMF Financial Access Surveys (current, 187 countries)	Usage	Individuals
3 Adults with insurance	Number of insurance policy holders per 1,000 adults. Segregated by life and nonlife insurance	IMF Financial Access Surveys (current, 187 countries)	Usage	Individuals
4 Cashless transactions	Number of retail cashless transactions per capita. *Cashless transactions are defined as the number of payments by check, credit transfers, direct debits, and payment with credit and debit cards.*	WB Global Payments Systems Survey (forthcoming, 139 countries)	Usage	Individuals
5 Mobile transactional use	% of adults that use their mobile device to make a payment	WB Global Findex (current, 148 countries)	Usage	Individuals
6 High frequency of account use	% of adults with high frequency use of formal account. *High frequency is defined as having taken money out of a personal account(s) 3 or more times in a typical month. This includes cash withdrawals, electronic payments or purchases, checks, or any other type of payment debit, either by account owner or third parties.*	WB Global Findex (current, 148 countries)	Usage	Individuals
7 Saving propensity	Saved at a financial institution in the past year. *Institutions include banks, credit unions, cooperatives and microfinance institutions.*	WB Global Findex (current, 148 countries)	Usage	Individuals
8 Remittances	% of adults receiving domestic and international remittances	Gallup World Poll	Usage	Individuals
9 Formally banked enterprises	% of SMEs with an account at a formal financial institution Number of SMEs with deposit accounts/ number of deposit accounts OR number of SME depositors/number of depositors	WB Enterprise Surveys (current, 119 countries) IMF Financial Access Surveys (current, 187 countries)	Usage Usage	Enterprises Enterprises

NOTE: Indicators previously included in the G20 Basic Set are indicated by shading

The G20 Financial Inclusion Indicators, *continued*

Category	Indicator	Source and coverage	Dimension	Aspect
10 Enterprises with outstanding loan or line of credit at regulated institutions	% of SMEs with outstanding loan or line of credit Number of SMEs with outstanding loans/ number of outstanding loans OR number of outstanding loans to SMEs/number of outstanding loans	WB Enterprise Surveys (current, 119 countries) IMF Financial Access Surveys (current, 187 countries)	Usage	Enterprises
11 12 Points of service 13	Number of branches per 100,000 adults	IMF Financial Access Surveys (current, 187 countries)	Access	Physical points of service
	Number of ATMs per 100,000 adults OR number of ATMs per 1,000 sq. km	IMF Financial Access Surveys (current, 187 countries)	Access	Physical points of service
	Number of POS terminals per 100,000 inhabitants	WB Global Payments Systems Survey (current, 139 countries)	Access	Physical points of service
14 E-money accounts	Number of e-money accounts for mobile payments	WB Global Payments Systems Survey (forthcoming, 139 countries)	Access	Mobile points of service
15 Interoperability of points of service	Combined index of: Interoperability of ATMs *Takes the value 1 if MOST or ALL ATM networks are interconnected and 0 if they are NOT interconnected.* And Interoperability of POS terminals *Takes the value 1 if MOST or ALL POS terminals are interconnected and 0 if they are NOT interconnected.*	WB Global Payments Systems Survey (current, 139 countries)	Access	Interoperability of points of services
16 Financial knowledge	Financial knowledge score *Arithmetic score that sums up correct responses to questions about basic financial concepts, such as: (A) inflation, (B) interest rate, (C) compound interest, (D) money illusion, (E) risk diversification, (F) main purpose of insurance.*	WB Financial Capability Surveys & OECD National Financial Literacy and Inclusion Surveys (current, 34 countries combined, estimated 70 countries in two years)	Quality	Financial literacy & capability
17 Financial behavior	Source of emergency funding *Response to: If you had an emergency that required [$10 or 1/25 of GDPPC] urgently, where would you get the money? a) borrow from friends/relative; b) work more; c) sell assets; d) use only savings; e) loan from savings club; f) loan from bank; g) would not be able to find it*	WB Global Findex (current, 148 countries)	Quality	Financial Literacy & Capability
18 Disclosure requirements	Disclosure index combining existence of a variety of disclosure requirements *(1) Plain language requirement (e.g., understandable, prohibition of hidden clauses) (2) local language requirement, (3) prescribed standardized disclosure format, (4) recourse rights and processes (5) total rate to be paid for a credit (basic costs plus commission rates, fees, insurance, taxes)*	WB Global Financial Consumer Protection Survey (current, 102 countries)	Quality	Market conduct & consumer protection

The G20 Financial Inclusion Indicators, *continued*

Category	Indicator	Source and coverage	Dimension	Aspect
19 Dispute resolution	Index reflecting the existence of formal internal and external dispute resolution mechanisms (1) Internal dispute resolution mechanism indicator: law or regulation setting standards for complaints resolution and handling by financial institutions (including timeliness, accessibility, requirements to implement complaints handling procedures) (2) External dispute resolution mechanism indicator: System in place that allows a customer to seek affordable and efficient recourse with a third party (supervisory agency, a financial ombudsman or equivalent institution).	WB Global Financial Consumer Protection Survey (current, 102 countries)	Quality	Market conduct & consumer protection
20 Cost of usage	Average cost of opening a basic current account	WB Global Payments Systems Survey (forthcoming, 139 countries)	Quality	Market conduct & consumer protection
21	Average cost of maintaining a basic bank current account (annual fees)	WB Global Payments Systems Survey (forthcoming, 139 countries)	Quality	Barriers to usage
22	Average cost of credit transfers	WB Global Payments Systems Survey (forthcoming, 139 countries)	Quality	Barriers to usage
23 Credit barriers	% of SMEs required to provide collateral on their last bank loan (reflects the tightness of credit conditions)	WB Enterprise Surveys and OECD SME Scoreboard (current, 149 countries combined)	Quality	Barriers to usage
24	Getting credit: Distance to frontier *Measures the extent of informational barriers in credit markets.*	WBG Doing Business (current, 185 countries)	Quality	Barriers to usage

Source: G20 Financial Inclusion Indicators

Stability

Resources

IMF's Financial Soundness Indicators
BIS's Measures of Financial Stability—A Review

Examples of indicators:

Financial Soundness Indicators: The Core and Encouraged Sets[1]

	Core Set
Deposit takers	
Capital adequacy	Regulatory capital to risk-weighted assets Regulatory Tier 1 capital to risk-weighted assets Nonperforming loans net of provisions to capital
Asset quality	Nonperforming loans to total gross loans Sectoral distribution of loans to total loans
Earnings and profitability	Return on assets Return on equity Interest margin to gross income Noninterest expenses to gross income
Liquidity	Liquid assets to total assets (liquid asset ratio) Liquid assets to short-term liabilities
Sensitivity to market risk	Net open position in foreign exchange to capital
	Encouraged Set
Deposit takers	Capital to assets Large exposures to capital Geographical distribution of loans to total loans Gross asset position in financial derivatives to capital Gross liability position in financial derivatives to capital Trading income to total income Personnel expenses to noninterest expenses Spread between reference lending and deposit rates Spread between highest and lowest interbank rate Customer deposits to total (noninterbank) loans Foreign-currency-denominated loans to total loans Foreign-currency-denominated liabilities to total liabilities Net open position in equities to capital
Other financial corporations	Assets to total financial system assets Assets to gross domestic product (GDP)
Nonfinancial corporations sector	Total debt to equity Return on equity Earnings to interest and principal expenses Net foreign exchange exposure to equity Number of applications for protection from creditors
Households	Household debt to GDP Household debt service and principal payments to income
Market liquidity	Average bid-ask spread in the securities market[2] Average daily turnover ratio in the securities market[2]
Real estate markets	Real estate prices Residential real estate loans to total loans Commercial real estate loans to total loans

[1] A summary of the guidance outlined in the Guide for each financial stability indicator is provided in Appendix II.
[2] Or in other markets that are most relevant to bank liquidity, such as foreign exchange markets.
Source: IMF's Financial Soundness Indicators

Integrity

Resources

FATF Guidance: AML/CFT-Related Data and Statistics

Examples of indicators

Examples of particularly useful data

Theme	Data item
International co-operation[1]	Number of AML/CFT-related mutual legal assistance requests made, received, processed, granted, and refused
	Number of AML/CFT-related extradition requests made, received, processed, granted, and refused
	Average time taken to provide a response on the merits of legal assistance requests received
	Average time taken to process extradition requests received
AML/CFT Supervision[2]	Number of registered or licensed financial institutions (including MVTS) and DNFBPs
	Value of assets of financial institutions (including MVTS) and size of DNFBPs[3]
	Number of offsite (i.e., desk-based) monitoring or analysis
	Number of onsite monitoring and analysis
	Number of regulatory breaches identified
	Total number of sanctions and other remedial actions applied
	Value of financial penalties
Legal persons and arrangements	Number of legal persons and arrangements (i) created and (ii) operating in the jurisdiction by type of entity
	Number of legal persons created in the jurisdiction that have issued bearer shares or bearer share warrants
	Number of legal persons created in the jurisdiction that have issued nominee shares or have nominee directors
	Average time to provide requesting country with basic or beneficial ownership information
Financial intelligence	Number of STRs received (including specifically for funding terrorism and also by reporting entity type)
	Value of transactions in STRs received (including by reporting entity type)
	Number of Border Cash Reports (relating to currency and bearer negotiable instruments) received
	Number of financial intelligence products disseminated or exchanged
AML legal system and operational issues[4]	Number of criminal investigations for ML activity Number of prosecutions for ML activity
	Number of ML convictions (number of cases and individuals convicted)
	Average length of custodial sentences imposed for ML convictions
	Average value of fine imposed for ML convictions
	Number of sanctions imposed for ML offences
	Value of proceeds of crime, instrumentalities, or property of equivalent value confiscated
	Value of criminal assets seized or frozen

Examples of particularly useful data, *continued*

Theme	Data item
TF and financing of proliferation	Number of TF investigations
	Number of TF prosecutions
	Number of TF convictions
	Average length of custodial sentences imposed for TF convictions
	Average value of fines imposed for TF convictions
	Number of persons or accounts subject to targeted financial sanctions under UNSC or other designations
	Value of assets frozen pursuant to targeted financial sanctions under UNSC or other designations
	Number of cases where terrorists, terrorist organisations or terrorist financiers have their assets seized or confiscated
	Value of assets seized or confiscated from terrorists, terrorist organizations or terrorist financiers
	Number of criminal investigations into terrorists misusing NPOs
	Value of assets or property frozen pursuant to targeted financial sanctions related to persons and entities designated by UNSCRs on proliferation of weapons of mass destruction

Notes:

1. These likely need to be broken down to show ML and TF related statistics separately. In addition, it may be beneficial to indicate the number of countries that requests were received from or made to.
2. These likely need to be broken down to show the data for each type of financial institution and DNFBP.
3. Other relevant indicators for DNFBPs might include total revenues (or sales)/profits and transaction volumes.
4. If possible, these statistics should be broken down to show the main crimes involved relative to the country's risks. In addition, statistics should distinguish third-party ML, stand-alone ML, and ML related to foreign predicate offenses.

Source: FATF Guidance: AML/CFT-related data and statistics

Protection

Resources

AFI's Indicators of the Quality Dimension of Financial Inclusion

World Bank's Financial Capability and Consumer Protection Surveys: Indicators Overview

Examples of indicators

AFI's Indicators of the Quality Dimension of Financial Inclusion

Theme	Data item
1. Affordability	1.1 Average monthly cost to have a basic account, based on the official minimum wage 1.2 Percentage of clients who stated that the fees and charges for financial transactions are expensive
2. Transparency	2.1 Percentage of clients who believe they have received clear and sufficient information about financial services at the start of the loan contract
3. Convenience	3.1 Percentage of people who are not comfortable with the average time spent waiting in a queue at financial institution branches (and/or bank and nonbank agent) 3.2 Average time spent queuing at a branch of a financial institution and/or bank and nonbank agent
4. Fair Treatment	4.1 Percentage of users who have felt mistreated by the staff of a financial institution
5. Consumer protection	5.1 Percentage of consumers who have contacted a consumer protection authority to solve a problem regarding financial services within the past three to six months and had their problem resolved within two months 5.2 Percentage of clients whose deposits are covered by a deposit insurance fund
6. Financial education	6.1 Percentage of adults who know the definitions of these basic financial terms: rate, risk, inflation, and diversification 6.2 Percentage of adults who prepare a budget each month
7. Indebtedness	7.1 Percentage of borrowers who are more than 30 days late with a loan payment
8. Choice	8.1. Percentage of administrative units in urban areas with at least three different branches of formal financial institutions. 8.2 Percentage of administrative units with at least three different branches of formal financial institutions

Source: https://www.afi-global.org/sites/default/files/publications/2016-08/Guideline%20Note-22%20FID-Quality.pdf

ANNEX G

Proportionality: Resources

How do you manage linkages between the I-SIP objectives? Here is what some SSBs say on the subject

Theme	Data item
Balancing inclusion and stability	Relevant standard-setting bodies advise that regulations should account for the size, structure, and complexity of financial institutions, their systemic importance, and risks of failure. When proportionate to the risk of market failure, regulation should not be a constraint on the sector but support confidence, growth and innovation.
Balancing inclusion and integrity	"Proportionate, risk-based AML/CFT controls may be applied to products or services intended to support financial inclusion, based on the nature and on the level of assessed ML/TF risks associated to these products or services."[y] "AML/CFT regulation should follow a proportionate or "risk-based approach"—consistent with the FATF standards—requiring financial institutions to adopt enhanced CDD measures for transactions or products that present higher AML/CFT risks and permitting them to use simplified CDD measures where risks are lower."[z]
Balancing inclusion and protection	Removing unnecessary barriers by disproportionate regulation and supervision, while at the same time ensuring appropriate policyholder protection."[aa] "Proportionate regulations can encourage the industry to offer inclusive insurance in two main ways. The first is by lowering the barriers to entry. The second is by reducing the ongoing cost of doing business. In respect of disclosure, this can be done by allowing simplified, customised, or electronic disclosure of information, or tailoring requirements for agents to provide verbal product advice, for example. These measures enable insurers to reduce transaction and operational cost, as the traditional practice of printing and delivering extensive documents is costly."[bb] "The product and any processes related to the product should be assessed in proportion to the risk to the customer and reputation of the insurance market arising out of the product and/or reliance on the product."[cc]

Resources

1. Access to Insurance Initiative. Proportionate Regulatory Frameworks in Inclusive Insurance: Lessons from a Decade of Microinsurance Regulation
2. Access to Insurance Initiative. Proportionality in practice: Distribution
3. Access to Insurance Initiative: Proportionality in practice: Disclosure of information
4. BCBS Guidance on the application of the Core principles for effective banking supervision to the regulation and supervision of institutions relevant to financial inclusion
5. BCBS Sound practices: Implications of fintech developments for banks and bank supervisors
6. BCBS Guidelines: revised annex on correspondent banking
7. BCBS Sound management of risks related to money laundering and financing of terrorism
8. CPMI and World Bank: Payment aspects of financial inclusion
9. FATF: Guidance for a Risk-Based Approach: Money or Value Transfer Services
10. FATF Guidance: Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion, With a Supplement on Customer Due Diligence
11. IAIS: Application Paper on Mutuals, Cooperatives and Community Based Organisations
12. IAIS: Application Paper on Product Oversight in Inclusive Insurance—Consultation Draft June 2017
13. FSB: Key Attributes Assessment Methodology for the Banking Sector
14. FSI: Proportionality in banking regulation: a cross-country comparison

Acronyms

AFI	Alliance for Financial Inclusion
AML/CFT	Anti-money laundering/combating the financing of terrorism
ATM	Automated teller machine
BIS	Bank for International Settlements
BCBS	Basel Committee on Banking Supervision
BSP	Bangko Sentral ng Pilipinas, Philippines
CDD	Customer due diligence
CFPB	Consumer Financial Protection Bureau (United States)
CGAP	Consultative Group to Assist the Poor
CNBV	National Banking and Securities Commission (Mexico)
CPMI	Committee on Payments and Market Infrastructure
CPSS	Committee on Payment and Settlement Systems (now CPMI)
DFS	Digital financial services
DNFBP	Designated non-financial businesses and professions
EMI	E-money issuer
FATF	Financial Action Task Force
FSB	Financial Stability Board
FSI	Financial Stability Institute
FSP	Financial services provider
GDP	Gross domestic product
GPFI	Global Partnership for Financial Inclusion
IAIS	International Association of Insurance Supervisors
IADI	International Association of Deposit Insurers
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
I-SIP	Financial inclusion, stability, integrity, and consumer protection
KYC	Know your customer
MBO	Microbanking office
MFI	Microfinance institution
MFB	Microfinance bank
MCGF	Microfinance Credit Guarantee Facility
MFO	Microfinance organization
MFP	Microfinance provider
ML	Money Laundering
MOU	Memorandum of understanding
MSME	Micro, small, and medium-sized enterprises

MVTS	Money or value transfer service(s)
NBFI	Nonbank financial institution
NPO	Non-profit organization
OECD	Organisation for Economic Co-operation and Development
SSBs	Standard-setting bodies
SBP	State Bank of Pakistan
STR	Suspicious transactions report
TF	Terrorist financing
UNSC	United Nations Security Council
UNSCR	United Nations Security Council's Resolution
WB	World Bank

Annex Endnotes

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c. Bankable Frontier Associates and the Russian Microfinance Center, "Financial Inclusion and the Linkages to Financial Stability, Integrity, and Consumer Protection: Insights from the Russia Experience" (Boston, Mass.: Bankable Frontier Associates, September 2014), https://www.microfinancegateway.org/sites/default/files/publication_files/financial_inclusion_and_the_linkages_to_financial_stability_integrity_and_consumer_protection_insights_from_the_russia_experience.pdf.

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Implementing the I-SIP Approach

WORKBOOK

Four things to consider as you start: Checklist

Use this checklist to ensure you have considered key elements to implementing the I-SIP Approach. Fill in any gaps.

Elements	Responses (yes/no)	Comments (explain)	What needs to be done to have it in place
I: Working definitions of the I-SIP objectives			
1. Do we have a working definition of the I-SIP objectives (whether available in our country or developed for the policy intervention), specifically:			
Inclusion			
Stability			
Integrity			
Protection			
2. Are these working definitions sufficiently detailed and comprehensive?			
3. Are these working definitions in line with international guidance and evolving standards/practices?			
4. If not, how can we adjust them to ensure alignment?			
5. Is there common understanding of the elements/dimensions that make up the I-SIP objectives?			
II: Appropriate data			
6. Can we gather data before the onset of our policy intervention?			
7. Do we have quantitative (hard) data that are relevant to the intervention?			
8. Do we have other data and evidence? What kind of data? Specify.			
9. Are the data we have sufficient?			
10. If not, how do we get relevant data?			
III: Consultation and collaboration			
11. Have we identified stakeholders to consult with? Specify who are relevant:			
Within our agency			
Other agencies			
Financial services providers			
Industry associations			
Consumers and consumer organizations			
International organizations			
Industry experts			
Funders			
Others			

Checklist, *continued*

Elements	Responses (yes/no)	Comments (explain)	What needs to be done to have it in place
III: Consultation and collaboration, *continued*			
12. Have we agreed on a way to coordinate? Specify.			
13. Have we checked within our agency and with other agencies if they have policy interventions that might be contradictory to ours?			
14. Is the planned degree of consultation proportionate to the likely scale and effect of the policy intervention?			
15. Are we prepared to compile the major comments and views expressed at these consultations, to use them to refine the policy intervention and share back with stakeholders how we addressed their comments?			
IV: Integration into existing policy-making processes			
16. Is there high-level support to the implementation of the I-SIP Approach? If you feel the support is not sufficient, how can you strengthen it?			
17. Do we have people formally tasked with the identification and management of linkages among the I-SIP objectives during the design and review of policies?			
18. Do these people have understanding of the linkages among the I-SIP objectives?			
19. Does their responsibility include authority to:			
Develop policies			
Collaborate with other government agencies			
Consult with private sector stakeholders			
Collect the necessary data			
Make decisions on changing the policies			
20. Are the resources invested into the I-SIP team proportionate to the policy intervention in question?			

Steps to implement the I-SIP Approach: To Dos and worksheets

STEP 1: Agree on the main goals of the policy intervention

Checklist

Checklist	Comments
❑ Agree on the working definitions for the four I-SIP objectives to ensure clarity and common understanding during discussions.	
❑ Agree on the intervention's scope and goals. Does the main goal you've initially identified in the proposed policy intervention resonate with your colleagues from other departments or agencies? Is there a potential conflict? How can you help to ensure alignment? Since you all have a stake in the intervention, you need to have a common understanding.	
❑ Identify the primary I-SIP objectives of the intervention. Among financial inclusion, financial stability, financial integrity, and financial consumer protection, which elements are the most important for this particular policy?	
❑ Identify secondary I-SIP goals (if any) in the intervention. Does the intervention have goals related to the other I-SIP objectives?	

Worksheet

Policy intervention:
E.g. Adjusting consumer protection regulations to include e-money providers

Working definitions of I-SIP objectives:

Financial Inclusion

Financial stability

Financial integrity

Financial consumer protection

Main policy goal
E.g. Protect financial consumers of e-money in the same way that other financial consumers are protected

Start here

Primary I-SIP objective(s) identified
E.g. Protection

Secondary I-SIP objective(s) identified
E.g. Inclusion

STEP 2: Identify measurable indicators for the I-SIP objectives

Checklist

Checklist	Comments
❏ Refer to the working definitions of the I-SIP objectives and check which elements of the objectives will be addressed by the policy intervention.	
❏ Consult with stakeholders to:	
– Develop relevant indicators that allow progress to be tracked.	
– Get baseline data for the indicators.	
❏ Set up a system for collecting data and monitoring indicators.	

Worksheet

Policy intervention	*E.g. Adjusting consumer protection regulations to include e-money providers*
Primary policy goal	*E.g. Protection: Protect financial consumers of e-money providers in the same way that other financial consumers are protected*
Secondary policy goal(s)	*E.g. Inclusion: Increase the number of customers using e-money*
Indicator(s)	*E.g. 1) Number of complaints about e-money issuers relative to the number of e-money accounts issued; 2) Amount of transaction fees for services charged by e-money providers (same, decreasing or increasing thus harming inclusion); 3) Number of e-money consumers (same, increasing or decreasing)*
Data points	*E.g. (i) total number of e-money accounts, by e-money issuer; (ii) total number of complaints, by e-money issuer*
Periodicity	*E.g. Quarterly*
Sources for data collection *(clarify differences, where relevant, for baseline, interim, and end-line)*	*E.g. Complaints lodged with supervisor of e-money issuers or complaints statistics submitted by* e-money issuers to supervisor
Format	*E.g. Aggregated data in an Excel file*

STEP 3: Set targets

Checklist

	Comments
❏ Revisit the main goals of your policy intervention.	
❏ Refer to the indicators you have developed and determine which of them will help you track progress toward achieving your main goals.	
❏ Consult with stakeholders to agree on targets.	
❏ Establish a timetable for reviewing progress of the policy intervention against the targets set.	

Worksheet

Policy intervention	*E.g. Adjusting consumer protection regulations to include e-money providers*
Primary policy goal	*E.g. Protection: Protect financial consumers of e-money providers in the same way that other financial consumers are protected*
Indicator(s) allowing to track progress of the primary policy goal	*E.g. 1) Number of complaints about e-money issuers relative to the number of e-money accounts issued*
Target(s) with dates	*E.g. 1) In year 1, increase the number of complaints to ensure awareness and that the protection is working; 2) In year 3, decrease consumer complaints about e-money by 30 percent as compared to years 1–2*
Timeline for reviewing progress	*E.g. Annually*

STEP 4: Develop hypotheses for direct effects and linkages

Checklist

Checklist	Comments
❏ Refer to the working definitions of the I-SIP objectives and identify which elements of the objectives will be addressed by the policy intervention..	
❏ Consult with stakeholders to:	
– Discuss possible direct effects of the policy intervention.	
– Brainstorm possible linkages between the pairs of objectives—linkage hypotheses.	
– Assess potential synergies and trade-offs.	

Worksheet

Policy intervention	*E.g. Adjusting consumer protection regulations to include e-money providers*
Primary policy goal	*E.g. Protection: Protect financial consumers of e-money providers in the same way that other financial consumers are protected*
Working definitions of I-SIP objectives specific to policy	*1. E.g. Inclusion: customers use e-money* *2. E.g. Protection: e-money consumers are protected in the same way as other financial consumers* *3. . . .*
Direct effect: describe and indicate whether (+) or (–)	*1. Protection: E.g. E-money consumers are better protected (+)* *2. . . .* *3. . . .*
1. Inclusion—Stability linkages: describe and indicate whether (+) or (–)	*1. . . .* *2. . . .* *3. . . .*
2. Inclusion—Integrity linkages: describe and indicate whether (+) or (–)	*1. . . .* *2. . . .* *3. . . .*
3. Inclusion—Protection linkages: describe and indicate whether (+) or (–)	*1. E.g. Better protection will bring in more consumers of e-money (+)* *2. E.g. Higher consumer protection requirements will make it more expensive for e-money providers to serve customers, so they may want to slow down consumer onboarding and increase fees for services making them less attractive to consumers (-)* *3. . . .*

Worksheet, *continued*

4. Stability—Integrity linkages: describe and indicate whether (+) or (–)	*1. . . .* *2. . . .* *3. . . .*
5. Integrity—Protection linkages: describe and indicate whether (+) or (–)	*1. . . .* *2. . . .* *3. . . .*
6. Protection—Stability linkages: describe and indicate whether (+) or (–)	*1. E.g. Better protected consumers will have higher trust in the financial services (+)* *2. . . .* *3. . . .*

STEP 5: Evaluate the materiality of direct effects and linkages

Checklist

Checklist	Comments
❑ List the goals of your policy intervention and direct effects and linkages you've identified.	
❑ Develop criteria for estimating the materiality of the effects triggered by the linkages.	
❑ Analyze potential synergies and trade-offs and prioritize those that are most important.	
❑ Consult with stakeholders to:	
– Confirm your analysis and agree on priorities.	
– Agree whether certain trade-offs are acceptable.	
– Make sure overall costs do not outweigh benefits.	
– Discuss possible adjustments to the policy intervention in question.	
❑ Adjust the policy intervention before launching.	
❑ Inform respective stakeholders on the decision.	

Worksheet

Policy intervention	*E.g. Adjusting consumer protection regulations to include e-money providers*
Primary policy goal	*Refer to Worksheet in Step 4*

What are the criteria for the materiality of the direct effects and the linkages?

Direct effects: list criteria	*1. Protection: e.g. Number of customers using e-wallets, activity rates of customers* *2. . . .* *3. . . .*
1. Inclusion—Stability linkages: list criteria	*1. E.g. Size of balances in e-money wallets, number of customers using e-wallets as a means of savings* *2. . . .* *3. . . .*
2. Inclusion—Integrity linkages: list criteria	*1. E.g. Number of transactions, volume of transactions that are now traceable* *2. . . .* *3. . . .*
3. Inclusion—Protection linkages: list criteria	*1. E.g. Number of e-money customers, number of transactions, volume of transactions; number of customer complaints; amount of fees for e-money transactions* *2. . . .* *3. . . .*
4. Stability—Integrity linkages: list criteria	*1. . . .* *2. . . .* *3. . . .*

Worksheet: *continued*

5. Integrity—Protection linkages: list criteria	*1. . . .* *2. . . .* *3. . . .*
6. Protection—Stability linkages: list criteria	*1. . . .* *2. . . .* *3. . . .*
What linkages are the most material, based on these criteria?	*1. E.g. Protection—Inclusion* *2. . . .* *3. . . .*
What trade-off may be acceptable, based on these criteria?	*E.g. Slight decrease in inclusion as a result of increased provider fees in the short term; expecting that fees would go down in longer-term when providers onboard more customers*
Who do I need to consult with to confirm the analysis and agree on the priorities and whether trade-offs are acceptable?	*E.g. Telecom regulator, consumer protection authority, mobile network operators*
What adjustments to the policy intervention are necessary?	*E.g. Provide for a transitional period for e-money providers to comply with consumer protection regulations*

STEP 6: Implement the policy intervention

Checklist

Checklist	Comments
❑ Decide on the timetable for the implementation (consider grace periods or transitional periods, as necessary).	
❑ Implement the policy intervention according to your country's procedures.	

STEP 7: Implement the policy intervention

Checklist

Checklist	Comments
❑ Go back to the goals of your policy intervention to determine whether they've been met.	
❑ Consider what needs to change to meet these goals—or set other goals.	
❑ Revise targets, revisit linkage hypotheses and materiality of linkages, as appropriate.	
❑ Continue the cycle and adapt your policy intervention.	

Worksheet

Question	Response	Comments
1. What was the key goal of this policy? Has it been achieved?		
2. If yes, what else do we want to achieve with this policy?		
3. If not, what has prevented it?		
4. What have been the observed direct effects of the policy on the I-SIP objectives?		
5. What are the synergies that should be reinforced? How?		
6. What are the trade-offs that should be minimized? How?		
7. What change in the policy can resolve the issue?		
8. Have there been any unintended consequences? What are they, and are they positive or negative?		
9. Will proposed change fall outside of my authority?		
10. Who should I collaborate with to achieve the necessary change—both internally and externally?		
11. What data do I have? What other data are necessary? Where can I get these data?		
12. Which providers are affected by this policy? What is their opinion about the outcomes?		
13. How can the change be effected?		
14. Other observations		

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