

# Risks Redefined

## The AFI Member Proposal for Peer Learning with SSBs on Extended Risk Frameworks

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# Preface

During their November 2010 Summit in Seoul, Republic of Korea, G-20 Leaders called on “*international relevant Standard-Setting Bodies to consider how they can further contribute to encouraging financial inclusion, consistent with their mandates.*”

Since then, concrete steps have been taken to propel focused engagement with the Standard-Setting Bodies (SSBs) on financial inclusion (FI). The United Nations Secretary-General’s Special Advocate for Inclusive Finance for Development (UNSGSA), Her Majesty Queen Máxima of the Netherlands, convened gatherings of SSBs to catalyze dialogue on issues specific to the mandates of each SSB and engagement with emerging and developing countries. The Global Partnership for Financial Inclusion (GPFI) has led further engagement with the SSBs on financial inclusion to harness the influence of the G-20 to help ensure the global regulatory environment supports national policymakers to promote innovative financial inclusion. All SSBs have launched specific initiatives to review the role of financial inclusion within their respective mandates.

There is common recognition of the diversity of FI services, products and their providers, as well as the possible adverse impact on FI if detailed standards are prescribed. SSBs have advocated a risk-based approach, or proportionality, in applying international standards to FI commensurate to their risks. Despite this sensible approach, there is the continuing challenge for developing and emerging economies to achieve a pragmatic balance between traditional safety soundness and financial integrity mandates, and making the financial system more relevant and responsive to the needs of ordinary citizens through greater financial inclusion.

To meet this challenge, a G-24–AFI High-Level Roundtable was held to promote dialogue among policymakers and to consider the role of AFI members and the SSBs in meeting financial inclusion objectives. This publication details the highlights and conclusions of the Roundtable discussion.

## Discussion and Way Forward

### 5th Annual G-24/AFI Policymakers' Roundtable: Standard-Setting Bodies (SSBs) and the Alliance for Financial Inclusion (AFI) as Platforms for Peer Learning on Financial Inclusion

The 5th Annual G-24/AFI Policymakers' Roundtable was held in conjunction with the International Monetary Fund and World Bank Spring Meetings in Washington D.C. on Wednesday April 17, 2013. The meeting featured high-level participation from more than 30 member institutions of the G-24 and AFI, and was co-chaired by Amando Tetangco Jr., Governor of the Central Bank of the Philippines and Chair of the AFI Steering Committee, and Luis Madrazo, Head of the Development Banking Unit in Mexico's Ministry of Finance and Public Credit.

Since its inception in 2009, the annual G-24/AFI Roundtable has played an important role in taking stock of financial inclusion trends and ensuring that global initiatives take full account of developing and emerging country perspectives. Against this backdrop, the theme of this year's Roundtable was "Standard-Setting Bodies and the Alliance for Financial Inclusion as Platforms for Peer Learning on Financial Inclusion," which was supported by a discussion paper prepared by Dr. Tarisa Watanagase, former Governor of the Bank of Thailand and AFI Associate.<sup>1</sup>



Governor Zeti Akhtar Aziz, Bank Negara Malaysia

## The Importance of Global Standards

The strengthening and implementation of global standards has been a cornerstone of the financial reforms launched in the aftermath of the 2008 global financial crisis. The aim of these global standards is to enhance the resilience and integrity of financial markets, but how they are applied can have important consequences on the push for greater financial inclusion. These standards determine how much room policymakers have to maneuver when they seek to facilitate innovative policy solutions that extend the reach of formal financial services to poor households and businesses. The emergence of a wide and fast-evolving range of financial service provider ecosystems and the proliferation of groundbreaking financial products and services have changed the financial landscape and the nature of risks. As Governor Tetangco Jr. pointed out in his opening remarks:

**“While global standards are sufficient to allow proportionate application, they were originally not established with financial inclusion as a consideration; which can lead countries to adopt conservative approaches that limit innovation. The SSBs themselves need to learn, in parallel with us, how to manage emerging and evolving risks that financial inclusion brings.”**

In his opening remarks, Luis Madrazo concurred that there is an unprecedented opportunity to realize financial inclusion goals through new technology and business models, but only if regulation is enabling and does not act as a barrier. It is important for policymakers to adopt risk-based approaches that do not unduly constrain innovation in order to avoid “unintended consequences of excluding businesses and consumers from the financial system.”

<sup>1</sup> <http://www.afi-global.org/news/2013/4/24/g24-afi-will-seek-strengthen-engagement-ssbs-through-peer-peer-approach>

## Progress and Challenges

Following the opening remarks of the co-chairs, Dr. Watanagase presented an overview of the progress that the SSBs have made in recognizing financial inclusion and the challenges that remain. Participants concurred that, since the call from the G-20 at the 2010 Seoul Leaders' Summit, the SSBs have made significant progress in considering how they can contribute to financial inclusion in ways consistent with their mandates, and have provided broad support for risk-based approaches.

For example:

- > The Financial Action Task Force (FATF) has issued, and recently revised, a guidance paper to help developing countries craft new policies for financial inclusion that are in line with its financial integrity mandate;<sup>2</sup>
- > The Basel Committee for Banking Supervision (BCBS) has issued guidance for the supervision of microfinance activities;<sup>3</sup> and
- > The Basel Consultative Group (BCG) of the BCBS launched a work stream on financial inclusion in February 2013.

Nevertheless, Dr. Watanagase argued that there are risks to calling on SSBs to issue further guidance. Traditionally, global standards have been applied to the formal financial sector to address systemic risk implications. Applying the same standards to small, diverse providers with low systemic risk may be counterproductive if the costs, benefits and country-specific contexts are not taken into account. Therefore, a cautious approach to further SSB guidance is critical.



Governor Sanusi Lamido Aminu Sanusi, Central Bank of Nigeria

## A Different Role for SSBs - Toward Peer Learning

Dr. Watanagase proposed an alternative approach to the traditional SSB focus on issuing guidance. In order for SSBs to encourage financial inclusion in a way that is consistent with their mandates (as required by the G-20), support for peer learning platforms could be a useful and constructive approach. Such platforms enable authorities to learn from each other's diverse experiences in promoting financial inclusion, while at the same time preventing or mitigating the threat to financial stability and integrity. SSBs are well placed for such a role given their access to information gathered through surveys and dialogue with members. As an example, the BCG plans to conduct a range of practice surveys on inclusive finance this year; this could be a valuable opportunity to use survey information to advance peer learning rather than formulating a new set of guidance.

Dr. Watanagase argued that supporting and participating in peer learning would be fully compatible with AFI's activities. As a peer-learning network, AFI provides access to practical lessons from emerging markets and developing countries using financial innovations to promote financial inclusion in an appropriate and effective manner. Given that many developing countries are not members of SSBs, AFI can assist in providing a collective voice in information sharing with SSBs. At the same time, AFI can support peer learning on issues that may not fall within the direct mandate of the SSBs, such as financial consumer protection.

2 FATF Guidance: Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion (2011, Revised 2013)  
<http://www.fatfgafi.org/topics/financialinclusion/documents/revisedguidanceonamlcftandfinancialinclusion.html>

3 BCBS Guidance: Microfinance Activities and the Core Principles for Effective Banking Supervision (2010)  
<http://www.bis.org/publ/bcbs175.htm>

## An Extended Risk Framework

Following Dr. Watanagase's presentation, a rich discussion was moderated by Governor Sanusi Lamido Sanusi of the Central Bank of Nigeria. Lead contributions were provided by Dr. Daniel Schydrowsky, Superintendent of Banking, Insurance and Private Pension Fund of Peru, and Dr. Zeti Akhtar Aziz, Governor of Bank Negara Malaysia.

In recent years, the importance of financial inclusion has become increasingly recognized in mainstream economic development thinking. In light of this evolution, both speakers agreed that there is growing momentum for countries to actively pursue actions and policies that facilitate greater financial inclusion and protect the vulnerable from exploitation in the informal sector.

At the same time, concerns have been raised about the potential adverse consequences of more inclusive financial regulatory approaches. However, Superintendent Schydrowsky pointed out that the relatively small scale of financial inclusion initiatives mitigates the risk to financial system stability and integrity:

**“An infection of the financial system will not happen from financial inclusion,”**

as he put it. Governor Zeti Akhtar Aziz emphasized the need for regulators to take into account the risks posed by financial exclusion, arguing that the potential problems associated with inclusive policies may not be significant compared to the negative socioeconomic impact of exclusion. Similarly, she noted that financial stability is more likely to be jeopardized by over-indebtedness and the rise of 'shadow banking' as a result of the withdrawal of consumers from regulated banking, than from inclusion efforts.

Participants unanimously acknowledged the continuing challenge of providing access to the 60% of the world's adult population (2.5bn adults) who are still unbanked<sup>4</sup>. In striving to meet this challenge it is important to be aware of the unintended consequences that can arise as countries seek to comply with global standards. Special Envoy to the President of the World Bank, Mahmoud Mohieldin, emphasized that it is interpretation and application, rather than the standards themselves, which are important. Governor Tetangco Jr. agreed that differentiated application of standards by regulators is necessary to account for country contexts and to enable innovation.

Many participants shared the view that new technology and business models are making great progress possible, with mobile financial services having particular potential. One billion people who have phones do not have a bank account, and examples such as Kenya and Tanzania illustrate the opportunities that exist in the presence of leadership and collaboration between the public and private sectors. However, participants noted that regulators, in facilitating these much-needed innovations, should avoid overly conservative approaches out of fear they might fall foul of global standards.

In light of these challenges in balancing the legitimate concerns about stability and integrity with the imperative to address financial exclusion, participants suggested the development of an extended risk framework that would:

- > Recognize the comparatively low systemic risk of basic banking products targeted at the poorest consumers;
- > Acknowledge the risk to socioeconomic stability that can be caused by financial exclusion;
- > Take full account of the negative consequences of over-indebtedness and the importance of appropriate consumer protection measures; and
- > Acknowledge the risks of migration to less integrated sectors of the banking system.

Governor Sanusi suggested that this extended risk framework could serve as the conceptual basis for the development of broader standards for financial inclusion, which would assist AFI members in setting priorities. Such standards could be formulated around the policy areas defined within the Maya Declaration: namely, the creation of an enabling environment for new technology, implementation of a proportional regulatory framework, integration of consumer protection and empowerment, and utilization of data for informed policymaking.



Amar Bhattacharya, Director, G-24 Secretariat

## Engaging with the SSBs

The Roundtable participants strongly agreed that engagement of the SSBs in peer learning, as proposed by Dr. Watanagase, is preferable to their issuance of further guidance. Those countries that have made strong progress, such as Mexico, Nigeria, Philippines and Tanzania, stressed the critical role that peer learning has played in helping them to develop appropriate strategies. In light of the scale and relative significance of financial inclusion in developing and emerging economies, as well as the adverse socioeconomic consequences of financial exclusion, participants agreed on the value of a peer learning platform for engagement with the SSBs and development of a consensus on risks. Governor Sanusi summed up the discussion by emphasizing that engagement of the SSBs is the first step towards a meaningful global partnership on financial inclusion.

There was also agreement among participants regarding the need to formalize the terms of engagement with the SSBs in order to have greater impact. Some G-24 and AFI members are already members of SSBs and were encouraged to use their position to put forth developing and emerging country perspectives. Further, as Governor Benno Ndulu of the Bank of Tanzania remarked, AFI has a crucial representative role to play on behalf of those members who do not also hold membership in SSBs. Many participants agreed with Governor Zeti Akhtar Aziz's statement that it is necessary for this engagement to be pursued in a structured manner and to establish a taskforce or working group to ensure that this engagement with the SSBs will be effective. In this regard, participants agreed with G-24 Secretariat Director Amar Bhattacharya's suggestion that the most productive peer learning would not be with individual SSBs but collectively across the SSBs. A standard approach is thus needed to underpin the deepening of the engagement.

## Proposed Topics for Discussion with the SSBs

Participants discussed in detail the topics around which a dialogue with SSBs should revolve. **Financial consumer protection** was seen as a particular priority, since this is a cross-cutting issue of relevance to the mandates of many SSBs, a focus of many Maya Declaration commitments, and an area in which AFI members have particular experience. Similarly, many participants identified the development of **payments systems** as an important foundation for financial inclusion efforts where the right balance is needed to facilitate innovation. Members furthermore supported a proposal for the **development of a risk framework** that appropriately takes account of the financial exclusion risks that may arise from the adoption of inflexible regulatory approaches.

Again, this is an area in which the Maya Declaration, considered by many participants to have an important role in driving progress toward greater financial inclusion, provides a useful framework from which to begin.



Daniel Schydrowsky, Superintendent, SBS Peru

## Next steps

In a discussion of next steps, participants agreed on the value of both deepening engagement with the SSBs and developing a more systematic structure for this engagement to take place. As emphasized by Governor Tetangco Jr. in his summary remarks:

**“There is a compelling case for peer learning between AFI and SSBs. At the onset, the end-product can be information sharing and advisory support, instead of actual issuance of more guidance papers.”**

In a discussion of further action to be taken in the year ahead, participants proposed several platforms for more systematic engagement with SSBs, including:

- > An annual meeting between the AFI Steering Committee and the SSBs to strengthen working relationships and to update each other on future direction and plans;
- > Regular contact with the SSBs at the secretariat level; and
- > Meetings or joint working groups on specific topics, such as the BCBS’ and CPSS’ work on new payment products and supervision.

Sharing information through AFI and SSB websites could also help to enhance effective peer learning. To facilitate peer learning on how different countries are managing the stability and integrity risks associated with various financial inclusion products and services, the following should be taken into account:

- > Information and data should be organized in a user-friendly way, rather than being uploaded as raw inputs from surveys, and information could perhaps be categorized by the principle or recommendation of each standard.
- > Since a country’s practices are determined by its specific context, related contextual information will be very useful.
- > Website visitors should be encouraged to post their opinions, questions and comments, in order to facilitate effective learning.
- > Given that developing and emerging countries have significantly more experience than developed countries in financial inclusion issues, they should be sufficiently represented in SSBs’ surveys, and their opinions should be adequately reflected in SSBs’ work and databases to ensure the pools of information are relevant.

G-24 and AFI members also expressed support for moving forward with the development of a comprehensive risk framework. Such a framework should include the risks of basic banking products, risks to socioeconomic stability that can be caused by financial exclusion, risks of over-indebtedness and recognition of consumer protection, and risks of migration to less integrated sections of the banking system. As Governor Sanusi pointed out, the Maya Declaration provides a basic framework to guide these efforts.

Participants agreed that AFI’s forthcoming events in 2013 – the “Developing and Developed Country Perspectives on Financial Inclusion” high-level seminar in Frankfurt (28 June), and the Global Policy Forum in Kuala Lumpur (10-12 September) – provide ideal opportunities to invite the SSBs to participate and discuss how to deepen engagement on peer learning and a broader risk framework. As AFI Executive Director Alfred Hannig noted in conclusion,

**“We have a mandate from this group to move this topic forward together with the Standard-Setting Bodies and I am confident we will do this in collaboration with the G-24 in the coming months. Today’s fascinating and rich discussion has already shown the huge potential for peer learning in this area.”**



Governor Amando Tetangco Jr., Bangko Sentral ng Pilipinas and Luis Madrazo, Head of the Development Banking Unit, Ministry of Finance and Public Credit of Mexico



## Annex: Participants of the 5th Annual G-24/AFI Policymakers' Roundtable International Monetary Fund, Washington, D.C., April 17, 2013

No	Institution	First name	Last name	Title
1	Alliance for Financial Inclusion (AFI)	Alfred	Hannig	Executive Director
2	Alliance for Financial Inclusion (AFI)	Anziz	Attoumane	Director, Financial Inclusion Policy
3	Alliance for Financial Inclusion (AFI)	Efoe	Koudadjey	Advisor to Executive Director
4	Alliance for Financial Inclusion (AFI)	Peter	Foster	Senior Communication Manager
5	Alliance for Financial Inclusion (AFI)	Robin	Newnham	AFI Coordinator for the G20 GPF
6	Alliance for Financial Inclusion (AFI)	Sung-Ah	Lee	Director, Strategy, Evaluation and Partnerships
7	Alliance for Financial Inclusion (AFI)	Tarisa	Watanagase	Former Governor of the Bank of Thailand/ AFI Associate
8	Bangko Sentral ng Pilipinas	Amando M.	Tetangco, Jr.	Governor and Chairman of the Monetary Board
9	Bangko Sentral ng Pilipinas	Diwa C.	Guinigundo	Deputy Governor, Monetary Stability Sector
10	Bangko Sentral ng Pilipinas	Edna	Villa	Managing Director, Office of the Governor
11	Bangko Sentral ng Pilipinas	Rochelle	Tomas	Bank Officer, Inclusive Finance Advocacy
12	Bangko Sentral ng Pilipinas	Thomas Benjamin B.	Marcelo	Director, International Relations Department
13	Bank Indonesia	Agusman		Director of Banking Research and Regulation
14	Bank Negara Malaysia	Allen	Ng	Deputy Director
15	Bank Negara Malaysia	Tan Sri Dato' Zeti	Akhtar Aziz	Governor
16	Bank Negara Malaysia	Zarina Zainal	Abidin	Senior Advisor to the Executive Director
17	Bank of Sierra Leone	Eugene Emile Thomas	Caulker	Manager, Research Department
18	Bank of Sierra Leone	Ibrahim Khalil	Lamin	Director, Financial Markets Development
19	Bank of Sierra Leone	Sheku	Sesay	Governor & Chairman Board of Directors
20	Bank of Tanzania	Benno	Ndulu	Governor
21	Bank of Tanzania	Kennedy	Komba	Advisor, National Payment Systems
22	Bank of Tanzania	Msfari David	Nampesya	Private Assistant to the Governor
23	Bank of the Republic of Burundi	Melchior	Wagara	First Deputy Governor
24	Bank of Zambia	Michael	Gondwe	Governor
25	Bill & Melinda Gates Foundation	Sacha	Polverini	Senior Program Officer
26	Central Bank of Brazil	Wagner	Guerra	Advisor for International Affairs and Risk Management office
27	Ministry of Finance and Public Credit of Mexico	Luis	Madrazo	Head of Development Banking Unit
28	Central Bank of Nigeria	Sadiq	Usman	Special Assistant, Economic Development
29	Central Bank of Nigeria	Sanusi Lamido Aminu	Sanusi	Governor
30	Central Bank of Sri Lanka	Puwakdandawe Nandalal	Weerasinghe	Deputy Governor
31	Central Bank of Trinidad & Tobago	Reshma	Mahabir	Senior Economist
32	Central Bank of Trinidad & Tobago	Alvin David	Hilaire	Chief Economist and Director of Research
33	Central Bank of West African States	Bwaki	Kwassi	Director, Payment Systems



## Annex continued

No	Institution	First name	Last name	Title
34	Central Bank of West African States (BCEAO)	Oumar Tatam	Ly	Special Advisor to the Governor
35	Central Bank of West African States (BCEAO)	Jean-Baptiste	Aman	National Director for Cote d'Ivoire
36	Embassy of Australia in Washington D.C.	Frederic	Jeanjean	Policy Officer
37	Embassy of Sri Lanka in Washington D.C.	Bandula	Somasiri	Minister (Commercial)
38	Embassy of Sri Lanka in Washington D.C.	Esala	Weerakoon	Deputy Chief of Mission
39	G24	Amar	Bhattacharya	Director
40	International Monetary Fund (IMF)	Xiaoping	LI	Advisor to Executive Director
41	International Monetary Fund (IMF)	K.D.	Ranasinghe	Alternate Executive Director
42	International Monetary Fund (IMF)	Maya	Choueiri	Senior Advisor
43	International Monetary Fund (IMF)	Beamarso	Lischesky	Ad. OED
44	International Monetary Fund (IMF)	Alphen	Chang	Advisor, OEDSI
45	Ministry of Industry of Cote d'Ivoire	Jean Claude	Brou	Minister
46	Ministry of Economy of Gabon	Justino Juclika	Lekogo	Manager of Economic Department
47	Ministry of Economy of Gabon	Mombo	C.	In charge of Studies
48	Ministry of Finance and Planning, Sierra Leone	Mabinty	Daramy	Deputy Minister of Finance & Economic Dev.
49	Ministry of Finance and Planning, Sri Lanka	B.M.S.	Batagoda	Deputy Secretary to the Treasury
50	Ministry of Finance and the Economy, Trinidad & Tobago	Tashay	Francis	Economist
51	Ministry of International Cooperation, Egypt	Eng. Mohamed	Hammam	Assistant to Minister in charge of International Organizations
52	National Assembly, Nigeria	Haruna	Many	Legislator, National Assembly
53	National Revenue Authority, Sierra Leone	Philip M.	Kargbo	Head, Monitoring, Research & Planning
54	Palestine Monetary Authority	Jihad	Al-Wazir	Governor
55	Philippines Embassy	Lilibeth	Almonte-Arbez	Second Secretary, Consul Economic
56	Reserve Bank of Malawi	Naomi	Ngwira	Deputy Governor
57	Reserve Bank of Malawi	Esther	Machado	Acting Manager, Middle Office
58	South Africa Reserve Bank	Daniel	Bradlow	Head, International Economic Relations & Policy Department (IERP)
59	Superintendencia de Banca, Seguros y AFP de Peru	Daniel	Schydrowsky	Superintendent
60	Superintendencia de Banca, Seguros y AFP de Peru	Narda	Sotomayor Valenzuela	Head, Microfinance Analysis Department
61	West African Economic and Monetary Union (WAEMU), Banking Commission	Bolo	Sanou	Secretary General
62	World Bank	Nada	Mufarrij	Senior Advisor
63	World Bank	Mahmoud	Mohieldin	Special Envoy for the President of the World Bank
64	World Bank	Marilou	Uy	Senior Advisor



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