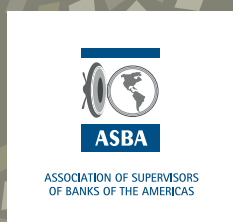


# Sound Regulatory and Supervisory Practices for Products, Services and Distribution Channels Contributing to Financial Inclusion

**2013**





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ASSOCIATION OF SUPERVISORS  
OF BANKS OF THE AMERICAS



Multilateral Investment Fund  
Member of the IDB Group

## **Sound Regulatory and Supervisory Practices for Products, Services and Distribution Channels Contributing to Financial Inclusion**

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# Abbreviations

<b>AFI</b>	Alliance for Financial Inclusion
<b>AML / CFT</b>	Anti-Money Laundering and Counter-Terrorist Financing
<b>ARCNB</b>	Administradora de Redes de Corresponsales No Bancarios (Non-Banking Correspondents Network Administrator)
<b>ASBA</b>	Association of Supervisors of Banks of the Americas
<b>ATM</b>	Automatic Teller Machine
<b>CGAP</b>	Consultative Group to Assist the Poor
<b>NBC</b>	Non-Banking Correspondent
<b>CDD</b>	Consumer Due Diligence
<b>EDE</b>	Entidad de Dinero Electrónico (Electronic Money Entity)
<b>FATF</b>	Financial Action Task Force
<b>GPFI</b>	Global Partnership for Financial Inclusion
<b>PSC</b>	Products, Services and Distribution Channels
<b>PSR</b>	Prestadores de Servicios de Remesas (Remittance Service Providers)
<b>SGR</b>	Sociedad de Garantía Recíproca (Reciprocal Guarantee Society)
<b>FIU</b>	Financial Information Unit



# Executive Summary

The international financial crisis has proven that financial innovation processes, which allow for greater inclusion, must be developed within an appropriate regulatory and supervisory framework. The latter shall be implemented with the purpose of preserving users' rights and reinforcing the stability of the financial system. Furthermore, technological innovations, supporting the provision of financial services, should operate within regulatory frameworks and appropriate supervision practices, which would support their development without affecting prudential and financial integrity principles.

Thus, this document proposes a minimum regulatory framework and supervisory practices for Products, Services and Distribution Channels (PSC by its Spanish acronym) which contribute to financial inclusion. Specifically, this document intends to become a minimum regulatory and supervisory tool to be considered by regulators and supervisors to foster a level playing field in which financial innovation processes are developed.

The document begins with a definition of financial inclusion, in which its different dimensions are presented. Subsequently, preconditions which would give way to the development of PSC are identified to later analyze the development of the best regulation and supervision practices for PSCs. It is important to highlight that the regulation proposal of products, services and channels was made based on the best practices found in the region. Due to the variety of inclusive PSCs, the regulation criteria are developed in two large groups: those of general nature (that is, they apply to all PSCs) and those of particular nature (which regulate each PSC).

A sound general regulatory framework must at least include the following: scope; licensing and authorized activities; corporate governance; risk management; protection from the improper or illegal use of PSCs; minimum information to be disclosed and consumer protection.

The subsequent section of this document focuses on the specific regulation of PSCs with similar characteristics to be considered by the general regulation and with specific considerations for each product, service or channel. For a better organization, PSCs were divided into the following categories: Asset products (microcredits); liability products (micro savings, simplified personal accounts, specific accounts for accrediting certain items; services (microinsurance; money remittances and electronic money transmission); distribution channels (mobile agencies, ATMs, non-banking correspondents and mobile telephone services).

Finally, the regulation must be complemented with an efficient supervision system that integrally assesses the quality and effectiveness of management, performs an effective monitoring of the different risks being taken by the system and adopts prompt corrective actions, whenever needed. In this regard, a section of minimum practices is included for an effective supervision, in which the supervisor is required to have an in-depth knowledge on the transactions of financial system institutions as a whole with the purpose of safeguarding the security, soundness and stability of the system. Among the supervision criteria are included: practices for an effective supervision; supervisory reports; supervision techniques and reports' delivery.



# Introduction

After the international financial crisis, regulators from the financial sector have paid greater attention to financial consumer protection and to the development of financial knowledge in most of the population. The international crisis has proven that financial innovation processes, which support people's inclusion into the financial sector, must be developed within appropriate regulatory frameworks and supervision practices preserving their users' rights and reinforcing the stability of the financial system.

The new political emphasis is focused on the strengthening of financial service consumers, for them to make more efficient use of the existing products, services and channels. This is reflected in the Group of 20 leaders' commitment to facilitate access to financial services to lower-income sectors<sup>1</sup>.

Challenges for more financial inclusion are particularly relevant in developing countries since most of their population is not served by the formal financial system. In these countries, 59 percent of adults do not have a bank account, whereas in developed countries this figure represents only 11 percent<sup>2</sup>. This situation requires the development of financial inclusion strategies, actively led by governments and financial institutions.

In Latin America and The Caribbean, a large proportion of the population does not have access to financial services, despite the

existence of an important potential demand. According to World Bank figures, more than 250 million adults in the region are not incorporated into the formal financial system<sup>3</sup>. This is the result of obstacles arising in the system: social and economic factors, transaction problems in the banking sector, institutional deficiencies and regulations that create distortions to the provision of financial services<sup>4</sup>.

Over the past years, the region has made significant progress in technology innovations, facilitating the provision of financial services. However, this progress must include a regulatory framework and appropriate supervision practices to facilitate their development, without violating prudential and financial integrity principles. In this regard, this document seeks to offer a minimum regulatory framework and supervision practices for the products, services and distribution channels (PSCs), which contribute to financial inclusion<sup>5</sup>, implemented in the region.

To facilitate the study and comprehension of this document, it first defines the concept of financial inclusion as well as its dimensions. Subsequently, preconditions which contribute to the sustainable development of inclusive PSCs are presented. Then minimum regulatory aspects that apply to PSCs are described, leading to the understanding of each PSC. Prior to the final comments, a section of minimum supervision criteria is presented for analysis.

- 1 <http://www.g20mexico.org/index.php/es/inclusion-financiera>
- 2 World Bank. "Measuring Financial Inclusion: The Global Findex Database," 2012.
- 3 World Bank. "Findex Notes: The Global Findex Database," 2012.
- 4 Rojas-Suárez, Liliana. "Access to Banking Services in Latin America: Identification of Obstacles and Recommendations," 2006.
- 5 The document "How to Contribute to Financial Inclusion: Inventory of Products and Services Available in the Region" is taken as a basis. ASBA, 2012, without prejudice to considering additional PSCs to those mentioned in such document.



# 1. Financial Inclusion Concept Characterization

The development of both products and services that support the financial inclusion and an appropriate regulation, requires of an operating definition of financial inclusion. The literature offers several definitions, though, for purposes of this document, financial inclusion is defined as:

"The **access** and **use** of financial services under a prudential regulation that promotes market **transparency**, contributes to the development of effective **consumer protection** systems and supports the provision of **financial education** programs to all population segments."

## 1.1. Access

Access refers to the provision of financial services and products to people who are not served by the formal services. A parameter to measure access potential is related to the coverage or the degree of geographic and demographic penetration of financial services, through the number of access points available for the population<sup>6</sup>.

## 1.2. Use

Use specifically refers to the utilization of financial products and services, according to the population needs<sup>7</sup>. Usage measurement may be made either from the supply or the demand side. However, it is primarily made through the supply side (e.g. number and type of deposit accounts and loans number and amount of loans in relation to the population and total assets managed) since it is difficult to have demand data.

## 1.3. Transparency

The contractual terms and conditions of PSCs must be easily understood by consumers of all social and economic conditions. Transparency conditions for use of PSCs are critical to avoid false expectations on their costs or services; allowing the consumer to compare similar products; thus, contributing to generate greater competition (better conditions for the consumer) and confidence in the markets.

## 1.4. Consumer Protection

The provision of an appropriate regulatory framework for consumer protection needs of both, the governments and financial institutions' commitment. Financial institutions will promote this framework, offering complete information, balanced contracts and security in transactions. These elements show the financial institutions' compromise with the consumer and the benefits they offer to them<sup>8</sup>. Moreover, governments must establish mechanisms to quickly solve differences between both parties, characterized by their analysis capacity, resolution celerity, and technical opinion independence.

## 1.5. Financial Education

Financial education is the process by which a potential consumer learns how to establish a productive and balanced relationship with the financial sector. Thus, the consumer requires having a minimum knowledge of the institutions integrating the financial sector, their benefits, products, services and distribution channels, as well as their related costs. Moreover, the consumer

6 World Bank – CGAP. "Financial Access 2009–Measuring Access to Financial Services Around the World," 2010.

7 Ibidem.

8 ASBA. "Best Practices and Recommendations for Financial Consumer Protection," 2012.

9 Ibidem.

shall have a working knowledge of personal finance and an understanding of the risks involved in the acquisition of services or products from the financial sector. To establish contact with a financial institution, the consumer must have access to sufficient information on the returns or costs involved as well as the contractual commitments to make decisions on depositing his or her savings, request a loan or acquire services<sup>9</sup>.

## 1.6. Regulation

A regulatory framework seeks to create a safe, complete and consistent environment, for the stable operation of the financial market, keeping it from regulatory arbitrage. Thus, regulated agents must comply with the established standards to effectively manage their risks and to contribute to both the market's transparency and public confidence.

## 2. Preconditions for the Sustainable Development of Products, Services and Channels

In May 2010, the G20 endorse the Principles for Innovative Financial Inclusion. These principles describe the propitious conditions to promote the innovation of financial products and services as well as to protect both the financial system's stability and users.

**Table No. 1. Principles for Innovative Financial Inclusion (G20)**

- 1. Leadership:** Cultivate a broad-based government commitment to financial inclusion to help alleviate poverty.
- 2. Diversity:** Implement policy approaches that promote competition and provide market based incentives for delivery of sustainable financial access and usage of a broad range of affordable services (savings, credit, payments and transfers, insurance) as well as a diversity of service providers.
- 3. Innovation:** Promote technological and institutional innovation as a means to expand financial system access and usage, including by addressing infrastructure weaknesses.
- 4. Protection:** Encourage a comprehensive approach to consumer protection that recognizes the roles of government, providers and consumers.
- 5. Empowerment:** Develop financial literacy and financial capability.
- 6. Cooperation:** Create an institutional environment with clear lines of accountability and coordination within government; and also encourage partnerships and direct consultation across government, business and other stakeholders.
- 7. Knowledge:** Utilize improved data to make evidence based policy, measure progress, and consider an incremental "test and learn" approach acceptable to both regulator and service provider.
- 8. Proportionality:** Build a policy and regulatory framework that is proportionate with the risks and benefits involved in such innovative products and services and is based on an understanding of the gaps and barriers in existing regulation.
- 9. Framework:** Consider the following in the regulatory framework, reflecting international standards, national circumstances and support for a competitive landscape: an appropriate, flexible, risk-based Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime; conditions for the use of agents as a customer interface; a clear regulatory regime for electronically stored value; and market-based incentives to achieve the long-term goal of broad interoperability and interconnection.

Source: Own preparation with G20 information.

Based on these principles, ASBA proposes the following preconditions for the development of inclusive PSCs.

## 2.1. Political will

Existence of a **comprehensive financial inclusion policy or strategy** supporting the development of inclusive financial products, services, and education programs as well as consumer protection systems. The policies and strategies for the development of greater financial inclusion must be comprehensive. Governments should charge an institution with the responsibility for leading, coordinating and monitoring the activities related to the financial inclusion process. Likewise, the aspects that will have to be modified or incorporated into the legislation, regulation, supervision methods, market practices and public policies to strengthen the financial system, must be identified. Moreover, it is advisable to have a public and private commitment that duly disseminates, to the population, the scope and the objectives of the different financial inclusion initiatives underway.

## 2.2. Infrastructure

Existence of a **citizens and legal residents' registry and a national identification document**. One of the main challenges to providing financial services is the difficulty to identify new potential consumers. The existence of an integrated national identification system is a fundamental contribution to the financial inclusion process.

**Pricing freedom.** The financial products and services focused on the segments of the population not served by the financial sector, have high origination, monitoring, and recovery costs, in relation with their limited amount. The eventual presence of legal or regulatory caps applied to interest rates or commissions might negatively impact the profitability and feasibility of these products and services. Therefore, instead of benefiting the sectors recipient of such products and services, they could be affected by a decrease in supply.

To reduce loan and services rates, without negatively impacting the provision of

financial services, it is necessary to foster competition among the financial sector participants. To this end, transparency and standardization in providing information on the conditions and costs of the financial products and services offered, contribute to the inclusion process.

**Existence and access to appropriate financing sources.** The provision of financial services to segments not served by the financial sector entails credit, liquidity, and operational risks. The coverage of these risks requires the development of auxiliary services that would allow the institutions committed to the financial inclusion process to account for these risks in a sustainable manner.

**Credit bureaus and information access.** The existence of Credit Information Centers<sup>10</sup> as well as Credit Bureaus<sup>11</sup>, allow for a better analysis of credit risk, through supporting the assessment of the capacity and willingness to pay of the financial sector consumer. The information provided will contain the current and historical situation of any person with respect to his or her obligations and degree of compliance.

Ideally, these Information Centers and Credit Bureaus should collect all the credit information related to individuals. The information shall be both negative (e.g. debtors who are or have been in default) and positive (e.g. debtors up to date in their obligations). The latter helps preventing over-indebtedness and promotes greater competition.

The legal framework shall include mechanisms that oblige Information Centers and Credit Bureaus to collect complete, accurate and reliable information. In addition, it shall provide procedures guaranteeing every person's right to learn and have access to her or his information and to require the revision of errors.

**Rules to protect information privacy.** New technologies and channels for the provision of financial services have higher risks associated with the protection of the financial information privacy of consumers. The main risk is the access that a significant number of agents would have to sensitive information.

<sup>10</sup> Most Credit

Information Centers are public and are credit report providers of the regulated financial sector. In some cases, they are managed by the supervisory body that uses this information for supervision purposes.

<sup>11</sup> Credit Bureaus are credit report service providers, generally private, that collect information from the regulated sector and, in certain cases, from the non-regulated sector.

Regulations will clearly establish the responsibility of those who manage databases and those who have access to them as a result of a business relationship. Institutions will take the necessary precautions to prevent unauthorized people from accessing the information, both at their offices (e.g. home, branches, and agencies) as well as at their different distribution channels (e.g. non-banking correspondents, mobile network).

**Proportionality of products, services and financial channels' regulation.** The regulatory framework will duly and proportionally address the risks faced by the institutions contributing to financial inclusion, the protection of consumer rights and the promotion of the financial system's stability, keeping a level playing field for financial products and services with similar characteristics. For example:

- Money laundering and terrorism financing prevention rules will have a risk-based approach with requirements that are proportional to the volume and risks of the financial products and services targeted to financial inclusion<sup>12</sup>.
- Simplified requirements for opening "basic" deposit accounts with limited movements, mainly related to the client identification, address certification and definition of the client's profile.
- Simplified authorization for Non-Banking Correspondent (NBC) and ATMs, which must be agile and even automatic for those financial institutions with a better internal control environment.
- Prudential specific treatment of micro-credits; admit methodologies for the origination, classification and provisioning of such loans, other than those set for traditional commercial credits.

**Effective legal framework for the enforcement of delinquent loans.** There are different methods to provide loans to lower-income individuals, who do not have adequate guarantees and therefore are not able to offer a collateral security. Thus, the need to have a legal framework and a judicial system that enables the protection of loan transactions backed by collateral securities. In the case of no repayment the

effectiveness of the enforcement process contributes to reducing the provision and the cost of such loans.

The existence of courts or other instances where disputes on lower-value credits may be resolved would effectively decrease the costs associated with credit recovery; thus, it would reduce transaction costs and interest rates. Alternatively, mechanisms agreed upon with the tax authority may be established to enable the write-off of past due and provisioned loans, without having to prove insolvency through judicial proceedings.

**Taxable structure levying financial transactions.** The existence of financial transactions and credit implementation taxes and levies can become decisive factors for the provision of financial services to the lower-income population.

Establishing a differential treatment and even exempting the payment of such obligations to reduced amount transactions, and involved stakeholders (e.g. CNBs) would enable financial inclusion. An alternative is the development of simplified tax regimes for small value transactions.

### 2.3. Transparency, Consumer Protection and Financial Education

**Transparency.** It is necessary that the State regulates the information that financial institutions disclose to the consumer so that they can make rational, timely and efficient decisions. Financial service providers will follow the rules of the State when they reveal associated costs, contractual conditions and appropriate practices for use of products, channels and financial services.

**Financial service consumer protection.** Low-income consumers are more vulnerable to financial excesses; thus, their protection is necessary. Low-income consumers tend to have insufficient financial education and limited access to financial products and services. Thus, the need for the application of transparency rules, the avoidance of the inclusion of abusive clauses in contracts, and the establishment of efficient mechanisms

<sup>12</sup> The Financial Action Task Force (FATF) has issued, in 2011, a specific guidance on the matter.

for conflict resolution. The existence of a financial consumer protection agency or a “financial Ombudsman” permits users to have a second instance where, in an affordable manner, they can resolve their disputes with any financial entity.

**Financial education.** The object of providing financial education is to improve the use of financial services as well as to create awareness on the risks and benefits of acquiring financial products. Financial capa-

bility is a critical barrier that prevents people from having access to financial services and, if they have access, to support them in making an effective and appropriate use of them.

Financial education programs (public or private) will focus on topics of responsible finance such as savings’ promotion, debt management, elementary financial mathematics, essential contractual terms and conditions, among others.

# 3. Sound Regulation Practices

## 3.1. General Regulation

Every aspect of the intermediation activity has common regulatory guidelines. This section develops the minimum regulation criteria, applicable to all PSCs, to subsequently present, product specific regulation aspects.

### 3.1.1. Scope of Regulation and Supervision

To establish the regulation of the financial sector is fundamental to determine its perimeter and scope; that is, its regulatory basis and supervision practices. To this end, it is essential to consider the risk and complexity level of each PSC, as well as that of its administrators and operators, to minimize the potential regulatory arbitrage between institutions offering the same type of PSC.

### 3.1.2. Licensing and Authorized Activities

According to the core principles for an effective supervision, the authority in charge has the power to approve or reject PSCs operators' applications.

The applications will include criteria on property structure and governance, a strategic and operating plan, internal control system, risk management structure and projected financial conditions<sup>13</sup>. The regulatory institution will reject requests from those entities that do not comply with the established rules. In addition, it will clearly define the activities that authorized entities may carry out. Deposit-taking is the primary activity reserved to authorized entities and it will be compulsorily subject to supervision.

### 3.1.3. Corporate Governance

This section establishes the minimum corporate governance standards that a financial institution must comply with to

manage any product or service, particularly those described in this document.

**Participants fitness.** The agency in charge of granting operation licenses will verify the moral, technical and financial suitability of their operators, shareholders and board members. This evaluation criterion will be applicable regardless of the extent of the operating license or the specificities of the business requesting licensing.

Likewise, when the financial institution outsources processes or enters into partnerships, it must have an opinion from the corporate governance of the company, establishing that it has appropriate policies and procedures for its risks management, conflicts of interest resolution and reputational risk mitigation.

**Appropriate decision-making levels.** Every product, service or distribution channel must be approved by the financial institution's Board of Directors before being offered or opened to the public. The Board will have information on the risks that PSCs represent to the institution's capital. Thus, it may approve operating plans based on appropriate risk information.

**Balanced organizational structure.** Financial institutions must have an organization that allows for a balanced decision-making process and equal influence on business and risk control areas. Thus, it is advisable to have an independent unit evaluating business risks and reporting to the Board.

**Internal review capacity and monitoring.** The Board must have updated policies to avoid conflicts of interest in the operation of PSCs, particularly in outsourcing cases. The institution's internal audit unit shall include the review of implementation processes in its annual plans.

**Appropriate report level of operating and control units.** Every decision-making instance shall have appropriate informa-

13. BIS. "Basic Principles for an Effective Banking Supervision," 2012.

tion and reporting obligations. Reports on both processes control and monitoring of outsourced services (e.g. Non-Banking Correspondents) shall be regularly prepared for the administration. Finally, the organization should inform its Board about the results obtained and will report the procedures approved by the administration, which could go beyond the policies authorized by the Board.

**Consumer interests' protection.** The corporate governance and risk management practices must promote security and soundness as well as it must contribute to consumer protection, in the operations of PSCs. Sound governance structures facilitate compliance with the fiduciary responsibilities of PSCs with their consumers. Finally, sound governance structures for a small service provider will be proportional to its PSCs offer risk exposure.

### 3.1.4. Risk Management

The main risk confronting PSCs is operational. Thus, PSCs will include in their risk matrix analysis, critical indicators, event registration and business continuity recovery and evaluation plans, especially caring for the scale and complexity of the different processes and types of institutions supporting them.

### 3.1.5. Prevention of Improper and Illegal use of Identified Products and Services

Potential consumers of inclusive PSCs regularly lack commercial or tax records, registrable collateral or accounting records. Thus, financial institutions must be allowed greater flexibility to define the universe of eligible consumers<sup>14</sup>.

The Financial Action Task Force's (FATF)<sup>15</sup> guidance for PSCs related to financial inclusion, admits a risk-based approach, which shall be part of the regulatory framework. The application of a risk-based approach will allow the financial institution to allocate more resources to higher risk areas.

Among others, financial institutions shall meet the following conditions to prevent money laundering and terrorism financing transactions:

- Have a money laundering and counter terrorism financing prevention rules<sup>16</sup> compliance area.
- Implement due diligence procedures for the identification of differentiated consumers according to their risk profile.
- Adopt procedures for the timely issuing of suspicious transactions reports.
- Have an adequate internal control structure, which shall monitor suspicious transactions, promote the adoption of a compliance culture, and make sure the personnel adheres to the institution's policies, procedures and processes focused on limiting and controlling AML/CFT risks.

Table No. 2 shows the FATF and the World Bank's guidance on how to implement measures on anti-money laundering and counter terrorism financing (AML/CFT), to prevent them from becoming a hindrance to financial inclusion processes.

PSCs include transactions traditionally made outside the ordinary circuit, increasing the supervision complexity level. Thus, the regulation may admit more flexible risk management methodologies. In this case, it is advisable that policy makers incorporate limitations into transactions, proportionally to the operations volume and their associated risks.

For example, liability inclusive products must have operational limits or a clear identification of the funding source (e.g. salary and transfer payments) to avoid their illegal or improper use. The financial entity shall have adequate information systems and programs to verify the compliance with the set limits and issue the corresponding alerts over deviations.

Another example includes personal identification and address verification requirements for opening deposit accounts. In this case, complying with requirements is almost impossible for individuals who are outside of the formal system. The FATF<sup>17</sup> offers a solution as it has incorporated reduced and simplified controls that avoid the abusive use of low-risk activities, applicable to low-value savings products (for example, microsavings and basic accounts).

14. ASBA. "Guidelines of Principles for Effective Regulation and Supervision of Microfinance Operations," 2010.  
 15. FATF. "Guidance: Anti-money Laundering and Terrorist Financing Measures and Financial Inclusion," 2011.  
 16. FATF. "International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation - The FATF Recommendations," 2012.  
 17. FATF. "Guidance on Anti-money laundering and terrorist financing measures and Financial Inclusion," 2011.

## Table No. 2. AML/CFT Guidance and Financial Inclusion

- This document focuses on ensuring that AML/CFT controls do not inhibit access of excluded people and unserved groups, including rural sectors, low-income people and undocumented people, to regulated financial services.
- The guidance is based on the assumption that financially-excluded subjects and underserved groups must not be automatically classified as lower risk in terms of AML / CFT, although they may be so, depending on several factors.
- This guidance revises the different steps in the AML / CFT processes (due diligence, documentation requirements, suspicious transactions reports, use of agents and internal controls) to interpret the standards and support financial inclusion.

For consumer due diligence (CDD), in terms of identification, the FATF establishes that financial institutions should adopt differentiated CDD measures based on the future consumer's profile. This implies that, initially, it can provide very limited financial services to undocumented people, increasing their range of services as the consumer provides more data. In relation with identity verification, a wide range of supporting identity documents and innovative technology solutions could be admitted.

Services will increase with the adoption of new identification criteria. Thus, stricter monitoring will be required to detect unusual or potentially suspicious transactions. Any activity that goes beyond the established thresholds must be reported. When servicing low-income consumers, institutions must balance their money laundering and terrorist financing risk assessment with their own technical capabilities and the available level of information on their consumers.

Financial institutions will develop an effective internal control structure which includes suspicious activities monitoring and creates a culture of compliance, ensuring that their employees adhere to the policies, procedures and processes designated to control their risks.

### 3.1.6. Minimum Information Disclosure

The regulation requires that institutions duly inform their consumers about PSCs

characteristics, their benefits and costs, the scope and limits of deposit insurance (when applicable) and precautions on their use.

The regulatory and supervisory agency will also use public dissemination mechanisms to inform current and potential consumers about available products, their costs and the financial institutions authorized to offer them.

The message must indicate that the financial institution is responsible for the relationship with the consumer, even when it has outsourced the distribution channel (e.g. non-banking correspondents).

### 3.1.7. Consumer Protection

According to the legal framework of the different jurisdictions, the existence of guarantees for free contracting does not exempt the State from protecting business relationships in which one of the parties has a disadvantage in the negotiation of contracts. Thus, increasingly regulations acknowledge the State's role in the review of adhesion contracts (a type of contract in which the consumer can only accept or reject the contractual relationship proposed by the supplier but cannot negotiate the clauses). For this purpose, the regulation seeks to balance this contractual relationship. The protecting role may in no case exempt the consumer from being diligent in the use and contracting of PSCs.

For the regulation to be effective, it will have mechanisms for receiving complaints with preset response deadlines. It will also

share information on the instance available to follow-up on the complaint, in case of not getting an answer from the institution, or the answer is considered to be unsatisfactory.

Nevertheless, these protection guarantees do not mean that the supervisor will become a jurisdictional authority to solve conflicts between individual clients and the institutions it supervises. This activity introduces conflicts of interest in the supervisor as it has to weigh the financial stability versus individuals' rights protection.

In addition, when there is a deposit insurance system - which offers the user the necessary security and confidence when using financial services - the regulation will demand every institution offering savings services to meet the necessary requirements so that their liabilities are covered by the deposit insurance scheme<sup>18</sup>. It will also establish the obligation of informing the user that these deposits are covered by such an insurance.

### 3.2. Asset Products

To the extent that ASBA published the Guidelines of Principles for Effective Regulation and Supervision of Microfinance Operations<sup>19</sup>, the recommendations therein contained are here complemented by including the recent progress in regional and global regulation and supervision standards.

#### 3.2.1. Risk Management

The regulation will establish the practices to be implemented to mitigate the specific risks of each product or service offered in the financial market. For this purpose, it will include corporate governance requirements, capital charges and provisions in accordance with the risk of the portfolios and market segments to which financial intermediaries may be exposed. From this perspective, when offering microcredits, credit, market, liquidity, operational, strategic and reputational risks are incurred. Therefore, the regulator will estimate the expected and unexpected losses associated with these risks.

### Credit Risk – Capital Provisioning and Charges

The regulation establishes a specific classification and provisioning system for the microcredit portfolio. The regulation will require the early recognition of credit delinquency (an appropriate classification) and its corresponding provisioning, meeting their high payment frequency characteristics.

Microcredit classification will respond to objective criteria (days in arrears, unpaid quotas and/or refinancing), without prejudice to additional general provisions. The suspension of interests due to quotas in arrears and readjustments will also be considered, as well as the number of days at which loans must be written off (usually 90 days). Generally speaking, classification impairment and the provision requirements for microcredits are more accelerated than traditional credits<sup>20</sup>.

Although the microcredit portfolio is highly diversified - made up of a large number of debtors- a high correlation between debtors is observed. Thus, an effect of potential contagion may take place, which could result in its simultaneous and accelerated deterioration. In addition, microcredits have shown lower sensitivity to macroeconomic disturbances; however, losses could be related to local events due to the high degree of interdependence between borrowers and both sectoral and geographical concentrations.

Table No. 3 shows the definition and classification of microcredits in Bolivia, one of the pioneer countries in microcredit operation, regulation and supervision.

It is common to think that exposures' non-concentration contributes to portfolios' diversification; therefore, to lower average losses. From this perspective, although the regulation recognizes acceleration in provision requirements, the usual practice has led to not generate greater differences between provisions and capital charges of these credits and their commercial or high-revenue consumption equivalents.

Nevertheless, the crisis made evident that diversification benefits are lost when markets are stressed out.

Credit fragmentation loses its effectiveness as a mitigant whereas the portfolio

18. Generally, the legislation and regulation of deposit insurance reach, generally and mandatorily, all deposits for up to a specific amount. Another way of creating confidence is by providing more legal privilege to small deposits in case of closure of the institution.

19. ASBA. "Guidelines of Principles for Effective Regulation and Supervision of Microfinance Operations," 2010.

20. Generally, microcredits have a weekly payment schedule, so the classification and provisioning system must include such frequency and the terms to interrupt (from a reasonable point of view) interest accrued and balance exclusion.

### Table No. 3. Microcredit Classification in Bolivia

Circular Letter 047/2010 of the Financial System Supervision Authority (ASFI by its Spanish acronym) defines microcredits as the credit granted to an individual or corporation, or to a group of borrowers with the purpose of financing productive, trading and service activities. The main source of repayment is the sale or revenues generated by such an activity.

It also establishes that microcredits can be classified according to the credit technology used: individual microcredit (granted to a borrower, with or without collateral); microcredit to solidarity groups (granted to a group of borrowers of individuals with joint collateral); and community banking microcredit (successive and scaled microcredit, granted to a group of people organized in at least two joint groups, with joint, solidarity and indivisible collaterals).

Microcredits are classified into six categories (from higher to lower quality), according to the specific provisioning by non-recovery risk:

A: no more than 5 days in arrears, 0% of specific provision.

B: from 6 to 31 days in arrears, 2.5% of specific provision.

C: from 31 to 55 days in arrears, 20% of specific provision.

D: from 56 to 75 days in arrears, 50% of specific provision.

E: from 76 to 90 days in arrears, 80% of specific provision.

F: more than 90 days in arrears, 100% of specific provision.

In addition to specific provisions, the regulation requires a cyclical provision. The latter may be used based on the parameters established in the regulation and the authorization provided by the ASFI.

Source: Own preparation with information obtained from Circular Letter 047/2010 of the ASFI.

behavior connects to the negative cycle movement, increasing the losses. Basel III standards urge to use additional capital and dynamic provisions. As a good practice, it is advisable to assess expected and unexpected losses at times of stress of the economic cycle. It is urged to do so by product portfolios to translate them into additional capital charges and provisions.

Table No. 4 shows Peru's progress in regulating macroprudential criteria, in which the mitigation of expected and unexpected losses by credit risk and cyclical risk is incorporated.

#### Liquidity and Market Risk

PSCs are applied the same prudential liquidity and market risk management criterion than that of other products, services or channels offered by a financial institu-

tion. In the regulation of asset products, it is important to include incentives for financial institutions to offer them in the same currency in which their claimants originate their revenues; thus, avoiding foreign exchange risk.

To this end, the regulation requires the explicit identification of these consumer currency mismatch risks, incorporating it as part of the credit evaluation methodology. As a consequence, financial institutions will have appropriate funding or hedging instruments to mitigate foreign exchange or interest rates risks in their balance sheets, respectively.

The existence of liquid and deep markets are factors that contribute to the development of PSCs. Despite of it, taking into consideration the absence of deep

**Table No. 4. Proccyclical Provisions and Additional Capital Requirements**

The Superintendence of Banking, Insurance and Pension Funds Administrators of Peru (SBS & AFP) introduced a regulation on procyclical provisions in 2008. The latter increases the provisioning rate in a differentiated manner for each credit portfolio's risks. It is activated in a countercyclical manner. Thus, in expansionary economic times an over-provision is required. When a contractionary period begins, the provision stock is allocated to specific provisions derived from the impairment of the credit portfolios.

Minimum provision level by type of credit portfolio (normal / standard debtors):

Type of Credit	Normal Provisions
Home Mortgage	0.7%
Non-Revolution Consumption	1.0%
Revolving Consumption	1.0%
Corporate	0.7%
Large-sized Companies	0.7%
Medium-sized Companies	1.0%
Small-sized Companies	1.0%
Microenterprises	1.0%

When the procyclical rule is activated at the previous rates, the cyclical component must be added:

Type of Credit	Cyclical Provisions
Home Mortgage	0.4%
Non-Revolution Consumption	1.0%
Revolving Consumption	1.5%
Corporate	0.4%
Large-sized Companies	0.45%
Medium-sized Companies	0.3%
Small-sized Companies	0.5%
Microenterprises	0.5%

When the economic cycle expands, the regulation requires greater provisions. Particularly, the provision for retail credits (consumption, credit cards and microenterprises), that is, to increase them significantly to anticipate the impairment of portfolios in the shrinking phase of the economic cycle.

In 2011, the SBS introduced additional capital requirements in the expansion phases (under the same activation and deactivation criterion stated under the provisions rule), establishing four risk categories not considered in pillar I of regulatory capital. These categories are: market concentration (individual, geographic and economic sector), interest rate risk in the banking book, tendency to risk taking and systemic risk. The additional capital charges established in pillar I can be observed in the following table:

Type of Credit	Cyclical Capital Component
Home Mortgage	15%
Non-Revolving Consumption	35%
Revolving Consumption	55%
Corporate	12%
Large-sized Companies	25%
Medium-sized Companies	30%
Small-sized Companies	35%
Microenterprises	40%

The percentages represent the additional capital charges to those established in Pillar I (which are, for all cases, 100%, except for mortgages that have a 50% charge). The table shows how the regulation captures the incremental risk of retail portfolios; particularly, that of emerging segments. The accumulation and use rule allows this capital to act as a buffer against the incremental losses arising during the contracting phases of the cycle.

Source: Own preparation with information obtained from Resolution 11356-2008 and Resolution 8425-2011 of the SBS-Peru.

markets in the region, it is recommended to promote effective treasury management practices in the institutions that offer PSCs with the purpose of avoiding liquidity or disintermediation risks.

### 3.3. Liability Products

Inclusive liability products comprise micro-savings, simplified (“basic”) accounts and specific accounts for the deposit of transfers.

- **Microsavings**

This product consists of the voluntary collection of small amount deposits from the public. It is targeted to micro-entrepreneurs and lower-income families. It is focused on planned savings or on temporary deposits made to prove the capacity to pay. These products can take a variety of forms, depending on the jurisdiction where they are authorized.

- **Simplified (“Basic”) Accounts**

These accounts establish fewer requirements for their opening, for example, the principles of “know your consumer” and address verification and/or places where they can be opened. Usually, their transactions are limited (maximum balances, transaction limits, number of accounts per user, eligible operations, channels of use) to simplify operating

control and limit the risks associated with the product.

- **Specific Accounts for the Deposit of Transfers**

These are bank accounts in which deposits are made, coming from a legal or regulatory requirement such as social plans, salaries’ deposits, transfer of pensions and retirement payments.

#### 3.3.1. Authorization and Minimum Operating Requirements

Deposit-taking from the public can only be done by authorized, regulated and supervised institutions.

Depending on the type of license (e.g. bank, credit union and others), the regulation determines if a previous authorization to offer certain products shall be required. Nevertheless, the rule will establish when an authorization will be necessary, so that an authorized deposit-taking entity could begin offering inclusive liability products in its several modalities (microsavings, basic accounts, fixed contribution accounts, ROSCAS<sup>21</sup> and/or specific deposit accounts). The entity will make sure that registration systems, operation limit controls, information security, business continuity plans and transaction monitoring, all work properly. The supervisor will monitor the adequacy of the standards of operational

risk. Moreover, the supervisor will have the power to require stopping the opening of new accounts, when it detects important weaknesses.

Inclusive accounts can have particular regulatory requirements which increase their operation complexity, such as a limited operability, transactional behavior monitoring requirements, gratuitousness conditions and account holding limitations. In this sense, the generation of a large number of accounts with small balances, limitations in amounts and concepts to be credited in them requires an appropriate technology risk management.

### 3.3.2. Minimum Information Disclosure

The regulation will require that institutions inform users, in a clear and understandable manner, about how to operate in-

clusive accounts. Operation limits of these accounts shall be explicit as well as the consequences of exceeding them. Furthermore, if these accounts have debit cards associated to them, password confidentiality, processes to denounce their loss or theft shall be clearly explained.

## 3.4. Services

The identified inclusive services are microinsurance, money remittances and electronic money. The minimum aspects to be regulated in each of these services are presented below:

### 3.4.1. Microinsurance

Microinsurances - offered by financial institutions - work just like any other insurance product. Financial institutions sell insurance products in exchange for a commission. They do not take on any risk

21. Revolving Funds or ROSCAS (Rotating Saving and Credit Associations) is a common fund consisting of a group of people who periodically deposit an amount and from which it can obtain, on a revolving basis, non-recoverable loans or contributions.

22. On the contrary, "standard" requirements for minimum consumer information comprises, among others, the name, type and number of document, place and date of birth, nationality, address, occupation and identification where the customer works. Companies must make visits to the addresses or offices of consumers, conduct personal interviews and carry out other procedures which allow them to make sure that their customers have been duly identified, being able to assign such task to third parties.

## Table No. 5. Inclusive Savings Accounts in Peru and Argentina

- **Peru:** (Superintendence of Banking, Insurance and Pension Funds Administrators Resolution No. 2108-2011). This resolution on the basic account establishes a set of requirements for its opening. It is opened by individuals who may obtain a basic account in the institution (and four in the financial system) in domestic currency and with limits in balances, daily deposits, and accumulated deposit and withdrawals during a month. It is required to envisage the contractual possibility that the financial institution unilaterally closes the basic account when the established maximum limits are complied with. Operating with these accounts is subject to a simplified money laundering and terrorist financing prevention regime. The paperwork requires that the consumer presents an identity document and that the record is corroborated (it can be corroborated after the account opening)<sup>22</sup>.
- **Argentina:** (Consolidated text on savings deposits, salary account, universal free account and specials). The regulation establishes that the institutions that have a given number of ATMs must offer a free account. In turn, it establishes the restriction of having only an account of this type in the financial system, the minimum identification requirements, average balance limits and monthly deposits and includes transactions without charge to the extent that they are made through ATMs belonging to the institution (or either through purchases with a debit card or adhesion to the automatic service debit). The regulation also includes the existence of a basic account. The main characteristic is the standardization in the services that is freely offered within the monthly maintenance cost (enabling the user's comparison between the different financial institutions). Finally, the regulation includes a payroll account that requires the deposit of income received from the employer, freely offering maintenance and transactions in cash or through ATMs of its holder for up to the amount of the verified salaries.

Source: Own preparation with information obtained from SBS of Peru and the Central Bank of the Argentine Republic.

related to the policies' coverages and their costs are covered by the company issuing the insurance policy.

The main difference between microinsurance and traditional insurance products is the market segment to which they are targeted (lower income and financial education). Financial institutions must be careful in making sure that the product offered by the insurance company are adequate to their consumers' needs.

#### Role And Scope of Regulatory and Supervisory Agencies

The agency responsible for supervising the insurance industry in each jurisdiction becomes the supervisor for microinsurance products. It is convenient to set clear coordination and information exchange mechanisms with other supervisors of institutions that usually act as distributors of this type of products (for example, banks and credit unions, health service providers, funeral houses).

Insurance supervisors, in coordination with bank supervisors, have a major role in the development of these products; through the removal of market inefficiencies and the simplification of formal requirements for the incorporation of people who do not have access to this type of insurance policies.

A favorable regulatory framework will allow the design of new products and appropriate mechanisms for the population not included in the formal financial system, without compromising technical or prudential regulatory aspects<sup>23</sup>.

#### Authorized Activities

The possibility of acting as an insurance distributor will be explicitly contained in the regulation aimed at financial intermediaries. By allowing institutions to sell microinsurance services, the credit risk related to the insurance coverage decreases. Furthermore, it allows the population segments to have access to insurance coverage that would normally not have access to. Microinsurance products are very relevant for population segments, with limited economic means, because they allow them to successfully deal with situations related to the coverages provided (typically, life and fire).

#### Authorization Processes and Minimum Operation Requirements

When the regulation explicitly allow financial institutions to act as insurance agents, the supervisor's authorization is not required. The operations' monitoring is part of the supervision process of financial institutions.

#### Risk Management

The risks related to the provision of microinsurance products are taken by the insurance company, which is regulated and supervised by the agency with specific responsibility for the monitoring and control of this industry (in many cases, they are part of the same regulatory and supervisory agency, which facilitates coordination).

Financial institutions may face different type of risks when trading microinsurance products. The main risk is reputational. When acting as a distribution agent, it will receive appropriate training to explain consumers on the insurance policies' characteristics, use, and coverage.

In addition, it is necessary that the trading institution evaluate the solvency of the insurance company, its policies, procedures, information transparency, contract clarity, among others. The financial institution shall assess the risks of trading insurance products since any breach of contract may negatively affect it.

Other risks financial institutions may face are related with operational aspects, such as the lack of collection (or lack of collection notice to the insurance company) of the insurance premium or its improper collection. In the first case, the insured may not be covered by the insurance policy and, consequently, would not collect the benefit in the event of a covered loss. In the second case, the institution would be misappropriating funds.

#### Relationships with Third Parties

In microinsurance trading, the financial institution acts as a distributor. In this regard, the scope of the institution's intervention and its responsibilities should be clear in the sales contract. However, prior to the beginning of the business relationship, the financial institution will conduct

23. IAIS & CGAP. "Issues in Regulation and Supervision of Microinsurance," 2007.

its own assessment on solvency, transparency practices and any other element that may affect compliance with the insurance contract, in the event of a loss.

#### Minimum Information Disclosure

The regulation requires disseminating information on the company providing coverage, the benefits contracted, and the responsibility that the financial institution assumes in its role as a trading agent.

The terms of the insurance policy will at least include the data which identifies the consumer and his designated beneficiaries, a detailed explanation of the insurance coverage and its exclusions, the insurance policy cost, the payment schedule, the procedures to request the benefit and how complaints will be solved.

#### Prevention of Improper and Illegal use of Products and Services

The regulatory insurance agency will take effective measures to detect and report money laundering and terrorist financing transactions, in accordance with FATF recommendations. However, the possibility that individuals incur in money laundering activities is quite remote, since reduced coverage amounts make mass fraud costly through this mechanism.

Albeit, every insurance company is susceptible to fraud (through fictitious contracts, phishing); although the unexpected losses for the insurer are very low because of the amounts of microinsurance.

Furthermore, if its commercialization is made through a financial institution and entails the opening of a bank account and/or is associated with obtaining a credit, the consumer identification is covered by the AML / CFT regulation, which enables the simplification of formal requirements for the issuance of insurance policies<sup>24</sup>.

#### Consumer Protection

Microinsurance is intended to provide protection to lower-income population against risk events to which it is exposed. Since the target segment may lack a higher education level, the insurance policy must be drawn up in an understandable language and must not include conditions that affect its characteristics of simplicity, clarity and

facility in contracting<sup>25</sup>. It is important that all insurance policy issuance expenses be reflected on the premium, avoiding to include concepts such as deductibles, copayments, and franchises.

Coverage will meet the needs for the target market segment. Exclusions will not be established and, in case of requiring them, they will be a minimum in accordance with the coverage granted by microinsurance.

The financial institution acting as an agent will verify that the insurance company complies with what is described above and, at the same time, has the appropriate mechanisms to solve complaints. In this sense, the regulation will consider that the complaint process has only one access channel, so the consumer files his or her complaints against the insurance company. Thus, the trading institution will be responsible for receiving complaints and processing them (own issues and issues with the insurance company).

#### 3.4.2. Money Remittances

It involves the delivery and receipt of money, both nationally and internationally between two natural persons (individuals) or one natural person and one legal person (corporation).

#### Role and Scope of Regulatory and Supervisory Agencies

The regulatory framework will be proportional to the risks that the activity involves and will include the characteristics of the sectors it serves (generally, of limited resources).

Different institutions can be in charge of remittances regulation, depending on the jurisdiction. In some cases, they are under the responsibility of the banking regulatory and supervisory agency. In other cases, different agencies have the authority to supervise, for example, the Financial Information Unit, the Central Bank, the Consumer Protection and Competition Defense Agency or the Banking Regulatory and Supervisory Agency. There may also be the case in which the Remittance Service Providers (PSR by its Spanish acronym) are considered merely as service companies, without being specifically regulated and supervised.

24. IAIS & CGAP. "Issues in Regulation and Supervision of Microinsurance," 2007.;

25. Microinsurance Regulation in Peru (SBS Resolution No. 14283 - 2009).

### Authorized Activities

The regulation will establish that a PSR must be limited to the receipt, transfer and payment of remittances, both locally and internationally. A PSR can carry out such activities through agencies / correspondents that operate as recipients and payers of funds. The regulation includes the possibility that such agencies / correspondents may carry out additional activities rather than only the provision of the remittance service. They must clearly identify the PSR with which it maintains the contractual relationship.

### Authorization Processes and Minimum Operation Requirements

The authorization process depends on whether or not the institution is under the regulation and supervision of the banking agency or the Central Bank.

If the institution is regulated, the authorization will include factors, such as moral suitability, economic and professional solvency of managers, shareholders, and the Board.

### Risk Management

PSRs are mainly affected by operational risk and cross-border risk (the latter being defined as the risk of not being able to transfer payments from one jurisdiction to another one).

When establishing risk control measures, a PSR assesses that the proposed measures are proportional to the risk level and business volume. In this regard, PSRs must adopt strategies to protect themselves and their consumers against possible risks derived from their cross-border transactions, especially in jurisdictions with deficient legal and regulatory frameworks.

According to the operational perspective, the legal risk (i.e. probability of being sued, primarily, by a remittance beneficiary,) compels the PSR to be transparent in its practices. That is, in case of an audit, it will prove the due diligence in the transaction. In the event of fraud risk, processes will be clear and responsible. An appropriate personnel selection and an insurance level in line with the business are recommended as well.

It is necessary to pay special attention to the foreign exchange risk. Usually, it is

understood that remittances are based on relationships of trust. If the consumer of a particular jurisdiction cannot receive his or her remittance in the currency of origin, value fluctuations with respect to the currency of receipt will be risks assumed by the consumer and not by the PSR.

### Relationships with Third Parties

Certain PSRs can have their own branches or agencies. The business model of money remittances involves the use of third party agencies / correspondents. In this regard, the regulation (in the case PSRs are regulated) will establish the responsibilities of both the PSR and the agencies / correspondents hired by the latter, including the need to notify about the list of agents to the regulator.

### Minimum Information Disclosure

Transparency in the prices and characteristics of the remittance service is fundamental so consumers can, in an informed manner, choose between different providers; this will create a competitive market. The regulation will require a PSR that such information is offered under accessible and understandable terms, including all the concepts comprising the total price of the transaction.

The application of fixed and variable commissions, their impact on the remittance amount, the applicable exchange rate (buyer and seller), among others, will be included in the disseminated information.

### Prevention of Improper and Illegal Use of Products and Services

PSRs are subject to money laundering and terrorist financing prevention rules and will keep a record to inform about suspicious transactions to the Financial Information Unit (FIU) when they exceed a given threshold. For that purpose, PSRs will have policies, procedures and responsible people to deal with such risk.

PSR policies establish differentiated limits for each money remittance transaction (taking into consideration, for that purpose, both the prompt transaction and the amount accumulated in a given time period). Based on this calculation, it will be determined

if the origin of funds and the channel for doing so may be justified, according to the applicable money laundering and terrorist financing prevention regulation.

#### Financial Education and Consumer Protection

In addition to the information offered by PSRs, public agencies related to the transaction must take measures that allow final users to understand the money remittances market easily. For example, authorities or other agencies can offer price comparisons or conduct educational or informational campaigns so consumers receive more information on these services.

The PSR will have complaint resolution

procedures with set terms for response, as well as information on the institution available to continue with the complaint in case of not receiving an answer from the PSR or in those cases in which such answer does not satisfy the consumer.

Table No. 6 describes the Money Remittance Regulation and Supervision Process in Honduras.

#### 3.4.3. Electronic Money

Electronic money (“e-Money”) is defined as a complaint on the receipt of funds to make payment transactions. Electronic money can only be exchanged electronically. It is not considered a traditional deposit. It will be redeemed at face value and

### Table No. 6. Fund Remittance Regulation: the Case of Honduras

The National Banking and Securities Commission (CNBS by its Spanish acronym) of Honduras regulates and supervises PSRs. The Letter regulating the organization, authorization, creation and operation of these entities (Circular Letter CNB 075/2009) shows an example in which the fund remittance activity is regulated and supervised by the same institution in charge of the regulation and supervision of financial institutions. In the referenced Circular Letter, it is established that the only people authorized to make fund remittances are the companies specifically created for such purposes. Supervised institutions may be agents of such PSRs.

For the authorization of its operation, the regulation requires complete information on the company, as well as on the shareholders and Governing Board. It will also present information on audited accounting statements, organizational structure, procedure manuals, copy of contracts with foreign PSR and domestic agents, compliance with the money laundering and terrorist financing prevention program, and evidence proving that it has technological communication conditions to carry out the activity.

The CNBS keeps a record of a PSR, which will in turn inform about the agents with which it operates. A fixed requirement of capital and liquid assets will be established, equivalent to the average remittances of the past six months. It is required to have anti-money laundering compliance program with procedures aimed to know the consumer, the designation of a compliance officer with specific duties, as well as powers and an audit plan.

The regulation establishes the minimum information on registration forms for transactions to be made by the PSR, the delivery of information to the FIU on transactions exceeding a given amount, and the suspicious transaction report. In addition, the duty of confidentiality, the conservation of documents, the obligations of agents (including the direct delivery of information to the CNB) and the publication and dissemination of the costs associated with the service it provides (commission and applicable exchange rates) are established, as well as the monthly delivery of information to the CNBS and the publication of financial statements.

Source: Own preparation with information obtained from the CNBS.

it is generally used for reduced amounts. It may have a bank account associated to it and its use can be limited to the acquisition of given products / services.

Electronic money is part of the payment system of a jurisdiction and its issuance may or may not be regulated (as long as it does not have a systemic dimension). The experience of countries where it was born as a non-regulated activity shows that the subsequent regulation process was complex and costly for industry, because the implementation involves setting high operational risk and financial integrity standards<sup>26</sup>.

Nevertheless, it is considered a good practice to issue a specific regulation on the issuance of electronic money. Depending upon each jurisdiction, it can be an activity reserved for authorized deposit-taking institutions. In any case, it is recommended that the electronic money issuer has an authorization from the monetary authority or from the prudential supervisor to guarantee that minimum risk management standards to raise money from the public are applied.

#### Role and Scope of Regulatory and Supervisory Agencies

Authorized Electronic Money Institutions (EDE by its Spanish acronym) will be subject to registration, regulation and supervision according to their characteristics of operation, irrespective of being financial institutions or any other. The institution responsible for this procedure is the banking regulatory and supervisory agency and / or the Central Bank. The regulation will be aligned with the risks faced by these institutions.

The legal debate regarding the nature of electronic money (if it is a deposit or not) includes the clarification on whether it must be covered or not by the deposit insurance. However, it is actually relevant to establish that liquid balances coming from the dematerialization<sup>27</sup> of money will not be subject to the equity risks of the electronic money issuer. In this sense, solutions involve splitting those liquid funds into an autonomous trust, or obtaining risk coverage on the balance of obligations with third parties.

Thus, electronic money is not necessarily covered by deposit insurance. For example,

if the money is under the custody of an institution and separated from its balance, the coverage would not be necessary. Furthermore, if the quota-parts of consumers represent only a small proportion of their wealth, it reduces social risk, in case problems may arise. When applicable, it should be duly informed that electronic money is not a traditional deposit and that it is excluded from the guarantee of the deposits.

#### Authorized Activities

Non-financial institutions engaged in the issuance and administration of electronic money will solely carry out such activity. They will not be authorized to intermediate based on the funds received, or pay an interest, or obtain benefits related to the time that such funds are kept under custody. The issuance of electronic money will only be allowed to people or businesses with an EDE license.

EDEs can distribute or redeem electronic money through third parties, individuals or corporations acting as agents. The agents hired by the institution for the distribution, cash-in and cash-out of electronic money can have another activity as its main one. However, they must clearly identify the EDE with which they operate.

#### Authorization Processes and Minimum Operation Requirements

EDE authorization requires fewer requirements than those established for a financial intermediation institution. However, requirements are related to operational risks, AML / CFT and to maintain the standard required from institutions authorized to intermediate. Particularly, those related to moral suitability, economic and professional solvency of managers, shareholders and the Board, corporate governance, business plan and internal procedures for risk control, particularly the continuity plan and the disaster recovery plan.

#### Risk Management

**The main risk faced by an EDE is operational risk.** The policies and procedures in terms of IT systems will emphasize IT security, the appropriate registration of transactions, business continuity, contingency plans, among others.

26. AFI. "Mobile Financial Services, Expand Access Through Regulation," Document on policies, 2010.

27. Process by which the consumer delivers cash to the issuer in exchange for evidencing virtual money (or electronic money) name to his or her name.

The liquidity risk decreases when there is a regulatory requirement by which all the electronic money issued is collateralized by available liquid assets. The regulation establishes what liquid assets qualify as such, where and how they must be recorded in the accounts<sup>28</sup>.

**Capital Adequacy.** The activity of EDEs is considered as trust (or fiduciary) commissions. From a regulatory perspective, it is only required that the capital covers operational risk requirements. Moreover, EDEs will have a working capital that ensures the operation level (appropriate human capital, systems, infrastructure and controls). As established under Basel's Pillar II, the competent authority can require that the institution maintains a higher capital level if it considers that it is not enough to cover the risks assumed by the institution.

**Risk exposure limits.** Transactions made through electronic money are of a low amount. In this regard, the regulation can alternatively establish a maximum amount of transaction and accrued balance, or require that EDEs establish maximum amounts in their plans, policies and procedures, which will be analyzed by the regulatory and supervisory agency to assess the authorization (and whenever there is a modification of them).

#### Relationships with Third Parties

The contract models established by EDEs with their correspondents cannot exempt them from the responsibility for the transactions made through them. EDEs enable the user the identification of the correspondents with which it operates, providing them with appropriate signage and leaflets.

#### Minimum Information Disclosure

EDEs should clearly and transparently inform the public about the costs associated with the services they provide. Communication channels will be used to commercialize the service it provides. It is the EDE's responsibility that the disseminated information is clear, so the user can understand the different commissions and charges - when they are applicable - and their final cost.

The contract between the consumer and the EDE establishes the conditions to

redeem the money and the commission. When changes are made, these are notified to the consumer.

#### Prevention of Improper and Illegal use of Identified Products and Services

The digital and traceable nature of electronic money, as well as limitations in balances and movements (deposits and payments / withdrawals) reduces the money laundering and terrorist financing risk in the transaction. The regulation includes such characteristics and establishes requirements on improper use prevention. EDEs keep a record of the transactions made and must verify that no transactions are made, which, in an accumulated manner, turn out significant and / or require a justification of the legal origin of funds.

#### Financial Education and Consumer Protection

EDEs should provide simple and quick consultation and complaint resolution mechanisms. Such mechanisms must be exhibited for knowledge by users, who may file their complaints through the different correspondents with which the EDE operates.

### 3.5. Distribution Channels

The distribution channels identified for financial inclusion are: mobile agencies (branches), ATMs, mobile telephone services, and non-banking correspondents (NBCs).

#### 3.5.1. Mobile Agencies (Branches)

These are consumer service access points that provide most of the financial services that a traditional financial branch (agency) offers, operate during some business days of the week or during a particular season of the year. In some cases, service is provided through an armored vehicle.

Mobile agencies are subject to the same obligations and permitted activities as traditional agencies. The main characteristic that distinguishes both of them is their restricted operation in terms of days and opening hours.

#### Authorization Processes and Minimum Operation Requirements

Financial institutions have a strategic plan related to branches, agencies, ATMs

28. The regulation includes assets which are protected as effective collateral of the electronic money issued. One alternative is the creation of a trust with a split equity of the EDE. It is administered by a third party (typically a financial institution) and has, as a mandate, the cash-out of electronic money.

**Table No. 7. Regulation on Electronic Money: the cases of Nicaragua and Philippines**

- **Nicaragua:** The Superintendency of Banks and Other Financial Institutions (SIBOIF by its Spanish acronym) prepared a specific regulation for the authorization and operation of institutions that operate with electronic money (Resolution No. 671, March 2011). This regulation is new (there are few countries that have a specific regulation on the matter) and includes a set of requirements for the authorization of EDEs, such as technological and operating requirements to reduce risks associated with the transaction.

The norm requires that funds supporting EDE transactions be deposited in a trust created only for that reason, in which the balances of each consumer are identified. It is also required that the EDE has a consumer service regulation approved by the Board, which regulates, among other aspects, the procedure and term that the EDE must meet to resolve the consultations and complaints of its users.

It is required that agencies and authorized transaction centers offer their clients clear and timely information regarding the products and services they provide, including the access conditions to them, rates, commissions and other applicable charges, as well as the risks associated with such products and services, particularly those related to the loss, theft or destruction of mobile devices.

- **Philippines:** In Circular Letter 649, published in 2009 by the Central Bank of Philippines (BSP by its acronym in Philippine), both issuance and operations of electronic money are regulated, as well as of the companies operating with it.

The objective is to promote the use of electronic money, establishing controls and safeguards to mitigate the risks associated with such transaction. It defines electronic money as that which is stored electronically (in an instrument or a device), issued against a monetary value that shall not be below the face value of the electronic money issued, accepted as a mean of payment, convertible into money, as well as issued according to the Circular Letter.

It classifies EDEs into banks, non-banking financial institutions and other non-banking institutions, which may be registered in the BCF. The electronic money issued by banks will not be considered as a deposit and, consequently, is not covered by the deposit guarantee.

The institutions that want to issue electronic money will require a license from the BSP and to comply with electronic banking service rules (in case of non-financial institutions, they must be registered as PSR). The regulation establishes: a maximum monthly recharge amount; a system which identifies the holder of the electronic money and the transactions that it might make. Electronic money can only be redeemed at face value. It is the responsibility of issuers the compliance with the regulation by the agents they hire; to establish mechanisms for complaint resolution; to provide clear information on how it can use electronic money and the costs they accrue.

The regulation establishes a set of requirements that the issuing company will meet, such as an appropriate administration, IT systems and information security policy, as well as to have contingency and audit plans.

Issuing companies will provide quarterly information to the supervisor (BSP). They must have a minimum nominal capital established in the regulation and must have the issuance of electronic money as their main activity. They must not extend credits and they must have liquid assets equivalent to the electronic money issued (in separate bank deposits for liquidity objectives, government bonds or other assets permitted by the BSP).

Source: Own preparation with information obtained from SIBOIF and BSP.

and NBCs. The use of mobile agencies will be part of this plan, which must be submitted for approval consideration to the regulatory and supervisory agency.

The authorization for opening mobile agencies can proceed for each particular case or admit the opening of a given number, with an operation during a given term, according to a development plan.

The expansion of mobile agencies will be made to the extent that institutions meet technical requirements and have an appropriate internal control environment.

#### Risk management

The main risks facing mobile agencies are operating. Depending on the mobile agency mode, the institution will adopt the necessary physical and communication security and operative stability, among others. These aspects can generate high costs to the operators.

Security requirements for mobile agencies will be proportional to the operations carried out (to the extent that they have greater restrictions than those established for other agencies in general).

#### Minimum information disclosure

Institutions must duly inform about mobile agencies' location and operating hours. Likewise, they will provide information on the alternatives consumer have to make transactions during the days and hours when mobile agencies do not operate.

Mechanisms must be established for consumer to make consultations and file complaints during the days when mobile agencies do not provide services. The financial institutions will establish procedures (telephone number, e-mail addresses and others) for consumer to make consultations and / or file complaints. Alternatives must be duly disseminated and adjusted according to the institutions' ongoing assessment. Table No. 8 describes the Bolivian regulation on mobile agencies.

### 3.5.2. Automatic Teller Machines (ATMs)

Automatic Teller Machines or ATMs allow consumers to perform financial transactions (withdrawal / deposit, transfers,

card recharges, service and tax payments, balance inquiries, among others) without the physical presence of bank personnel. Traditionally, ATMs used to serve as self-service points for inquiries and payments on the net or cash dispensers. However, current models also allow cash deposit transactions or credit transaction payments.

#### Role and scope of regulatory and supervisory agencies

Automatic Teller Machines are a channel by which financial institutions use automatic devices for the provision of services. Thus, the regulatory and supervisory agency has competence on the issue, as well as on establishing authorization and deactivation requirements, including minimum security measures.

#### Authorized activities

The transactions that can be made at an ATM are: balance and transaction inquiries, transfers, service and credit payment, deposit making, cell phone recharge, information transmission to the institution (e.g. request for checkbooks), among others. Depending on their particular characteristics, deposits and cash payments can also be made.

#### Authorization processes and minimum operation requirements

Institutions will prepare plans indicating their decision to use automatic teller machines in their expansion strategy. The regulation must define the minimum information that the supervisor will receive to authorize such plans. In any case, the regulation determines that the financial institution has an appropriate internal control environment, establishing it as a requirement for its expansion activities<sup>29</sup>.

#### Risk management

The main risk of an ATM is operational. It consists of system failures, power outages, theft, lack of supplies, or cash availability. It is important to highlight the need to mitigate credit or debit card cloning risks, which is the most common fraud. Another frequent risk is consumer card or password theft. The regulation shall set standards that limit these

29. In some cases, such requirements are related to the qualification given to the institution by the supervisor: e.g. to comply with technical relations, to have good IT systems and to be up to date with the information regimes established by the regulatory and supervisory agency.

**Table No. 8. Mobile Agencies in Bolivia**

- Opening, transfer and closing of branches, agencies, and other consumer service points. (Circular Letter ASFI 002/2009).
- In the referenced Circular Letter, Bolivia includes the treatment of the different consumer service points that financial institutions may have to provide services to their clients. It covers headquarters, branches, fixed agencies, mobile agencies, external cashiers, collection tellers, and fair and NCB offices. It is defined as consumer service point the facility or equipped establishment by a supervised institution to perform financial intermediation transactions.
- The reference circular letter specifically includes a mobile agency, defining it as a consumer service point authorized by the ASFI, which is inside an armored vehicle and which functionally depends on a branch or directly on the headquarters of the supervised institution.
- The regulation establishes the requirements mobile agencies must meet to open for operations. These requirements include information on the characteristics of the armored vehicle; registration; operation areas, days and hours; safety manuals and measures; technological means of information and communication. To close a mobile agency, the supervised institution shall submit a written request to the ASFI, publishing the closing of the mobile agency in the media.
- The Circular Letter also includes the fair office, defining it as a consumer service point installed at fairs with the purpose of providing services temporarily or permanently to consumers and users, during given days and business hours, according to their need and demand for financial services.
- The mobile agency and the fair office, as well as agents (CNB), can perform the same transactions as the financial institution.

Source: Own preparation with information obtained from ASFI.

risks through minimum security measures (CCTV, periodical password re-change, alert and educate the consumer). Rules will also be established to limit fraud risk, disruption events in service provision and to create the respective contingency plans.

About risk exposure limits, the regulation does not establish a specific limit for ATMs. It is a best practice that financial institution policies set limits in the amounts of transactions than can be made through an ATM to avoid fraud risk and to minimize the cases in which the ATM ends up without cash.

#### Relationships with Third Parties

Institutions may have third party services for the maintenance and provisioning of banknotes. Usually, these services are provided by cash transportation companies.

Likewise, they will have ATM repair services which are quick and efficient. Contracts must foresee the need for technical assistance. Financial institutions are responsible for evaluating the technical capability of supplying companies to provide the transaction.

Eventually, companies may outsource ATM network access (other financial institutions or specialized suppliers). In this case, there will be clarity in the services they are hiring, including business continuity standards. The supplier will be responsible before the hiring company. However, the latter cannot exempt its responsibility before the user.

#### Minimum Information Disclosure

Financial services consumers will have information on the location of ATMs, their

costs per transactions and the steps they must follow should failures occur. Such information shall be provided through traditional communication channels and should be available in the same housing of the ATM.

Users will be prevented from the main risks in the operation of an ATM, for example, the possible information theft (magnetic stripe copying and password theft).

#### Prevention of Improper and Illegal Use of Identified Products and Services

Transactions made in ATMs do not pose additional risks to those of operating physically in the branch or agency of the institution, since the consumer is identified through the magnetic (or chip) card and his or her password.

#### Financial Education and Consumer Protection

Financial institutions encourage new consumers to make use of lower cost distribution channels; such as ATMs. An appropriate user education is required to make a correct use of them. A useful initiative to get more access of this channel is the incorporation of options to operate in native dialects or the use of fingerprints, instead of cards for purposes of facilitating use.

Institutions must implement educational campaigns that involve different techniques, including supporting the consumer at the time of delivering his / her debit card in explaining the service operation.

The treatment of complaints related to ATMs must be agile and operative (it is important to provide a prompt solution). The possibility of providing a solution in the same place where the ATM is located shall be considered. For this purpose, a telephone number or a hotline provided by the same institution must be displayed at the ATM's location.

#### 3.5.3. Non-Banking Correspondents (NBCs):

Non-Banking Correspondents (NBCs) are consumer service points of financial institutions located at premises other than their agencies and operated by third parties. These non-traditional channels allow drugstores, supermarkets, post offices, lottery places, public companies for

social assistance to enter into an agreement with one or more financial institutions to operate given financial products and services on a limited basis. NBCs can also be Government Networks, which can provide coverage to a greater number of jurisdictions of a country.<sup>30</sup>

#### Role and Scope of Regulatory and Supervisory Agencies

The regulation sets forth that the contracting financial institution should be responsible for the financial activities carried out by the NBC for and on behalf of it. The latter will be made explicit in the contract between the NBC and the financial institution, as well as in the information that is provided to the public.

When engaging a non-financial institution in the supply of financial products and services on behalf of a financial institution, the involvement of regulatory and supervisory agencies is important. The transaction is made on behalf of a financial institution and entails risks for the contracting institution, the NBC and users. However, the scope of regulation and supervision applies to the financial institution as it is the unit responsible before the consumer for the services provided by a NBC. In this regard, the regulation will establish the minimum criteria so the financial institution ensures the service level that the NBC provides.

#### Authorized Activities

The activities that a NBC can unfold on behalf of a financial institution will arise, first of all, from the assessment and the analysis that the contracting institution would perform in connection with the business plan, the risks associated with the operation of the NBC and the strategy and tools to mitigate them, including the specific limits on it (for example, maximum amount of inflows and outflows of funds per consumer and aggregate for the NBC).

The regulation will contain a list of the activities that a NBC can carry out. In addition, the regulation includes the procedures to obtain an authorization from the regulatory and supervisory agency, so the NBC can operate within the regulatory framework. It establishes specific limits to

30. In different countries, the model of NBC has adopted different names, such as: Bank Agent (Guatemala, Kenya), Business Correspondent (India), Agents (Bolivia), Correspondents in the Country (Brazil), Correspondent (Colombia), Non-Banking Correspondents (Ecuador), Contracting with Third Parties (Mexico), Correspondent Teller (Peru) and Establishments (El Salvador).

**Table No. 9. Authorized Operations of NBCs**

	PE	EC	ME	BR	CO	ES*	BO**	GU	KE	IN
Money withdrawal	X	X	X	X	X		X	X	X	X
Money deposit	X	X	X	X	X		X	X	X	X
Credit collection	X	X	X	X	X	X	X	X	X	X
Money transfers between deposit accounts	X	X	X	X	X		X	X	X	X
Credit disbursement		X	X	X	X		X		X	X
Payment of services	X	X	X	X	X		X		X	X
Third party collection	X	X	X	X	X		X		X	X
Balance inquiry / bank statements	X	X	X	X	X		X		X	X
Remittance delivery and payment					X		X			X
Opening and closing of basic deposit accounts	X		X				X			
Delivery and collection of information on the opening of deposit accounts and credit requests	X	X	X	X	X		X		X	X
Includes additional operations (to be approved by the regulatory and supervisory Agency)	X			X			X	X	X	

PE: Peru; EC: Ecuador; ME: Mexico; BR: Brazil; CO: Colombia; ES: El Salvador; BO: Bolivia; GU: Guatemala; KE: Kenya; IN: India.

\* It corresponds to what an “affiliated trade” can make. “Establishments” are part of the agencies / branches that operate physically separated from it (for example, in trades) with equal security measures, transactions and services; no joint activity is admitted between the institution and the affiliated trade.

\*\* They can perform the same services and transactions as their contracting parties, which must be contained in the respective contracts signed between the parties.

Source: Own preparation with regulatory information obtained from the different countries.

given admitted transactions, which will be related to the risks identified.

Table No. 9 shows the authorized operations of NBCs in the regulation of different countries. There are similarities in the transactions among jurisdictions. The opening and closing of basic accounts constitutes an additional item recently introduced.

In some countries, the regulation explicitly establishes prohibited transactions, such as:

- Operating when communications fail-ures with the financial institution prevent online transactions, either through an internet connection or a telephone line.
- Establishing, as a requirement to perform a financial transaction the acquisition of goods and services offered by the NBC.
- Providing financial products and services independently, instead of granting them on behalf and by order of the contracting financial institution.

#### Authorization Processes and Minimum Operation Requirements

Whether the regulation may require previous authorization or not from the regulatory agency for financial institutions, to use these distribution channels, it must include the minimum requirements that a person (natural or legal) must meet to become a NBC. Furthermore, the regulation will be complemented with the requirements related to the assessment of the contracting financial institution, in relation to the business plan and the risks associated with the operation of the NBC. The main activity of the NBC may not be the services it provides on behalf of the financial institution.

In relation to the contracting financial institutions of NBCs, the regulation will establish the Board’s intervention in the decision to operate with NBCs, as well as in the design of the policies related to such operations.

The financial institution will prepare a strategic business plan related to the

operation of NBCs. The authorization process, for an institution to operate with a NBC is related to financial institutions' internal control environment, compliance with technical limits and an analysis of the national reality. In the region, authorizations to operate with NBCs can have several modes:

- General previous authorization
- Previous authorization to operate with each NBC.
- Previous notice to start operating with a NBC.
- Subsequent notice after having started operating with a NBC.

Nevertheless, just like with ATMs, an authorization process that compares cost and efficiency is recommended. The financial institution will previously assess the risks of expanding its consumer service channels through this model and the risk posed by businesses, which will act as its CNB.

#### Risk Management

The operation of NBCs includes operational risks related to the necessary technology for communication with the institution and, the performance of online transactions and cash management (eventual surplus or deficit), as well as the risks related to the preservation of the user financial information confidentiality and the exposure to reputational risk (e.g. deficient consumer care, performance of prohibited transactions or dissemination of confidential financial information).

The financial institution must focus on an appropriate and permanent assessment, management and mitigation of operational risk. There is also the possibility that the financial institution implements a risk management training program for its network of NBCs.

**Risk exposure limits.** The contracting financial institution will establish limits to reduce risks exposure; for example, the net funds held by the NBC accruable to the financial institution. For that purpose, the simplest and most practical mechanism is to require the NBC to open a bank account in the contracting financial institution, which is debited or credited simultaneous-

ly with the transactions that financial institution consumers make through the CNB<sup>31</sup>.

In addition, taking into consideration the operating characteristics of the NBC and the risks entailed by the excess of cash flow, financial institutions will limit the amount and number of transactions that an NBC can make. The advantage of this limitation is that it reduces the risks of the correspondent and its users to become victims of criminal acts. Finally, regarding the case of withdrawals and / or credit disbursement, the existence of limits allows that a larger number of transactions can be made satisfactorily by the NBC.

#### Relationships with Third Parties

The full responsibility of the financial institution for the transactions that a third party may make on behalf of it must be clear, taking into account:

- The operation to be implemented.
- The identification and mitigation of the risks associated with it.
- The commissions it will receive from the financial institution.
- The provision of procedure manuals.
- Training by the financial institution to such suppliers.
- The mechanisms to modify / adapt what is established in the contract.
- The possibility that the regulatory and supervisory agency can access information and conduct examination visits at the premises and facilities of such supplier, if necessary.

In the case that the financial institution relationship is with a NBC Network Administrator (ARCNB by its Spanish acronym), the contract will also contain the scope of services to be provided, the relationship that the ARCNB will have with CNBs and the degree of responsibility and cost assumption that the ARCNB will face in case of loss events originated by CNBs administered by it.

#### Minimum Information Disclosure

The regulation must establish that institutions clearly disseminate that the transactions and services provided by NBCs are of their full responsibility. The information will indicate the CNBs that are part of the

31. Eventually, the account of the NBC might have a debit balance, which must not exceed the credit margin assigned to the NBC by the contracting financial institution.

financial institution, their location, types of transactions and the limits they make and operate, respectively.

The NBC provides information in the format and under the mode that the contracting financial institution sets. As a minimum, it will clearly identify for what institutions it is operating as a NBC, what type of transactions it can make and the mechanisms to file complaints.

The regulatory and supervisory agency will require information from financial institutions about the CNBs with which it operates and will proceed to disseminate it through public communication channels. In addition, the agency will publish the current scope of the regulation related to the operation of NBCs.

#### Financial Education and Consumer Protection

The financial institution trains the NBC to appropriately transmit the rights and obligations to the consumer, as well as the corresponding transaction costs. Aside from it, it directly disseminates and educates its consumers about transacting through its NBCs.

As far as the use of technology for remote transactions is concerned, both financial institutions and NBCs will warn financial users about the modes for their use and the precautions they must take to avoid being victims of fraud. Aspects, such as the confidentiality of the identification code provided to the user (necessary for performing remote transactions) and the need for not disclosing it to third parties, shall be duly informed to financial users, especially those who have lower financial education.

With regard to consumer protection, the regulation must include mechanisms so users can file their complaints. The NBC is in condition to receive the complaints or claims from users with respect to the services offered on behalf of the financial institution, send them for their respective processing and keep the user informed about the progress made. This obligation should be clearly established in the contract between the NBC and the financial institution and, be exhibited to users appropriately. Thus, it is ensured that claim resolution systems established in law ex-

tend to the market segment served by this distribution channel.

#### Prevention of Improper and Illegal Use of Products and Services

The ML/FT risk in this type of transactions is lower because of the reduced amounts of transactions. This applies for transactions made through NBCs, as well as mobile telephones. To avoid this risk, it is necessary and convenient to establish limits in the operation and gauge the requirements in terms of consumer knowledge policies.

The use of technology as a means to improve access to financial services for lower income and geographically spread users, raises specific risks of their abuse. However, an appropriate limitation of the products offered and the use of an appropriate information system for monitoring consumers and transactions will ensure maintaining a reduced risk.

When designing regulation, the benefits for using NBCs to achieve financial inclusion objectives will be weighted because, when reducing informality and expanding the formal financial sector, a positive impact is generated on reducing the ML and FT risk.

#### 3.5.4. Mobile Phone Services

In the provision of services through mobile phones, two types of financial services can be defined:

- Mobile Banking (“m-Banking”). The objective of this service is to increase the distribution network of financial institutions, associated with the use of bank accounts; of basic type for person-to-person service modalities or a combination of other traditional accounts when businesses or small businesses are involved. The mobile channel allows access to established accounts to make inquiries and transactions.
- Mobile Payments (“m-payments”). These are person-to-person, person-to-business or government-to-person services. Usually, they are targeted to people without access to formal financial services but with transactional needs. Mobile payments replace the use of cash, thus formalizing economic relations. These accounts do not need to have a bank account.

It is important to make it clear that mobile services are a data transmission channel with different contents, such as financial services. However, in order for mobile financial services to transform the system, it is necessary that they allow for the incorporation of new users to the formal financial system.

To dematerialize the physical money and convert it into an electronic record is required to operate electronic services. Usually, this electronic record is made by banks as commercial allies of all electronic trade processes.

For such a purpose, the regulation that was traditionally applied to electronic commerce was of financial character, in which it was compensated and liquidated by banking institutions. Until the emergence of mobile payment services, this dissociates from the bank electronic record. From this perspective, the need for filling the legal gap with a regulation for the issuance of electronic money as a pre-condition to making mobile payments in a safe environment emerges<sup>32</sup>.

Both channels can coexist in the same system, provided that the regulation does not generate arbitrage incentives. Nevertheless, the inclusion level obtained between both models is not equivalent. Although m-payments formalize cash transactions and improve living conditions, they also offer limited access to other financial services. In conclusion, a model that only involves mobile payments does not generate behavior

information that allows the financial system to move forward in the incorporation of new users. It is understood that this is a financial inclusion progress that does not increase the penetration of formal savings or formal credit in relation to the levels prior to the emergence of mobile systems.

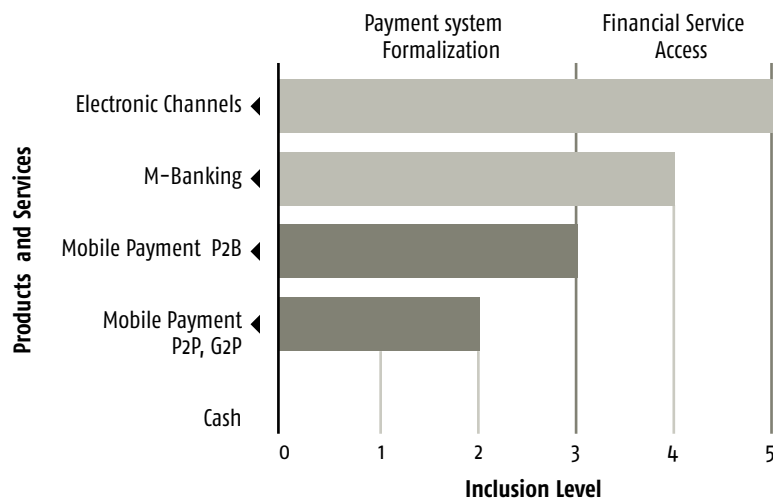
#### Regulatory and Supervisory Agencies Role and Scope

The regulation and supervision of this channel are shared between the telecommunications regulator and the prudential regulator. In most regulations, value added portability services are the responsibility of the telecommunications' supervisor. However, the contents of such services are not. In the case of value added financial services, they will be regulated and supervised by the financial sector supervisors or central banks, as appropriate.

#### Authorized Activities

It is important to distinguish between mobile banking and mobile payments. As for the latter, since there is no relationship with bank deposit accounts, the channel is limited to be a vehicle for the issuance of electronic money. In this case, authorized activities are restricted to payment services: P2P (e.g. transfers), P2B (e.g. purchases) or G2P (e.g. subsidies). Electronic money issuers may not intermediate liquid balances or offer savings products.

**Figure 1. Financial Inclusion Stages**



Source: Own preparation.

32. AFI. "Mobile financial services, expand access through regulation," 2010.

On the contrary, when the business model of the financial institution is mobile banking, that is, it enters into an agreement with a cellular telephone company to be used as a channel for the provision of financial services; services that can be provided must be limited to those activities authorized by the financial institution license.

The regulation may limit the activities that will make use of the channel, such as financial products of basic characteristics and in which regulatory requirements to operate such products (basic accounts) have been simplified.

#### Authorization Processes and Minimum Operation Requirements

Depending on the jurisdiction, the use of any particular channel can require that the supervisor previously authorizes the development of the channel. This authorization can be implicit at the start of operations, for the type of license or specifically if these capabilities were not verified in the beginning.

Every financial institution that wants to operate through a new channel will have to have, as a minimum, the approval of its Board. For such internal approval, the corresponding instance must assess: a) that the business plan is consistent with the approved strategies; b) that it has the description of the processes and systems to be implemented and the electronic means to guarantee the correct performance of transactions; c) the measures that the institution will adopt in terms of internal control and risk management; d) the characteristics and estimated volumes of the transactions that will be performed through the channel; e) the operation implementation program; f) the criteria of the institution to set maximum transaction amounts to mitigate losses.

In addition, if the service has been outsourced, it could require a previous authorization from the supervisor. Independently, the financial institution will evaluate the inherent risks to the process, service contracts and will clearly establish the responsibilities with the service provider, without exempting the financial institution from responsibility in the provision of the service.

Finally, each jurisdiction will define if it requires a new distribution channel or not; but it must request previous authorization for its implementation. However, it does not inhibit the supervisor's capacity to review the minimum elements during the previous authorization or as part of the supervision process.

#### Risk Management

Mobile phone services have similar risks to those faced by NBCs and ATMs. The most significant risks include operational, technological, reputational and improper use (ML / FT). In this sense, the regulation has no grounds to differ from the demands because it mainly affects operational risk.

**Risk exposure limits.** The provision of financial products and services, through mobile phones with an inclusive objective, will have limited amounts associated. It is advisable that the bank account associated with conducting transactions via mobile phone is a basic account because of its operation limitations. Likewise, mobile payments will have operating limits according to the nature of the payments made to minimize money laundering risks.

The risk of a financial institution, due to its exposure with the mobile phone company, will be limited by compensating online transactions. Thus, the transactions amounts made will be debited or credited from and to the mobile telephone company account opened at the financial institution.

#### Relationships with Third Parties

Just like with NBCs, financial institutions will contractually specify the rights and obligations of mobile telephone companies when providing financial services on their behalf. The latter must be complemented by a contract compliance verification through the internal control and audit processes, carried out by the contracting institution.

In all cases, the financial institution may not discharge its responsibility with the consumer on the mobile company.

### Prevention of Improper and Illegal Use of Identified Products and Services

If the transaction made through a mobile phone has an associated record or bank account and transactions are of reduced amounts, the risk of improper use decreases.

Hopefully, the low amount of transactions will reduce the possibility of illegal activities. However, regardless of whether it is a mobile payment or mobile banking, the institution that affiliates consumers is responsible for the transactions' behavior analysis to prevent criminal patterns.

The use of the mobile phone does not imply a greater risk than the current risk at the time of operating with basic accounts, so there will be the same considerations as what is established in such product.

The regulation requires minimum security standards in case of theft or loss of the phone. This standard is intended to avoid access to the consumer's bank account; for example, require that each user has a Personal Identification Number (PIN) to make transactions, including balance inquiries, through his or her mobile phone. The regulation urges to take the necessary measures, so the consumer accesses such PIN in a confidential manner and that con-

sumer understand the scope and responsibility of its use.

### Minimum Information Disclosure

Users will be informed about the mobile telephone company that provides the services of a financial institution. The financial institution is responsible for disseminating the information on the transactions offered by agents or correspondents with whom transactions may be made.

Similarly, it will disclose the costs for using these means, the necessary measures to avoid frauds, as well as the consultation and complaint mechanisms.

The main reason for offering bank services through mobile phones is to reach new market segments which are both normally away from urban areas and do not have these services. This characteristic reinforces the need for accompanying the offer of services with training programs to develop consumer financial skills and promote security habits to operate financial products.

Finally, the mechanisms for filing complaints must be consistent with those used for marketing. Table No. 10 explains how mobile banking works in Mexico.

## Table No. 10. Mobile Banking in Mexico.

### **Mobile Account Transactions through Mobile Phone Commission Administrators (Administrator). Unique Circular Letter of Banks, Art. 325.**

Bank institutions, through their mobile phone commission administrator, can perform the following transactions:

- Open, place, assign and distribute low transaction/risk mobile accounts.
- Manage mobile account numbers.
- Make cash withdrawals, deposits and, checking balance and movements of mobile accounts.
- The operation requires authorization from the National Banking and Securities Commission (CNBV by its Spanish acronym), for which institutions must submit, among others: a strategic plan; contract models with administrators and commission agents; description of the processes and systems to be implemented, as well as the electronic means to guarantee the correct performance of transactions; policies and procedures to select administrators; the measures that the institution will adopt in terms of internal control and risk management; characteristics and estimated volumes of the transactions that will be performed through Administrators; operation implementation program; and criteria of the institution to set maximum transaction amounts.
- Once the operation has been approved, any modification will be informed to the CNBV, in addition to an annual report which describes the evolution of the operation with respect to the strategic plan, as well as the contingencies that would have arisen in it.
- Administrators will open a deposit account with the institution (eventually with an approved credit margin), which will show –online– the transactions that consumers make through mobile telephones, and that withdrawal and deposit transactions matches. The administrator must be jointly responsible for the transactions made by the commission agent. Bank consumers will be informed, on behalf of and by order of, about what institution the commission agent operates, the transactions admitted, and the mechanisms for filing and resolving complaints. Institutions will deliver the material that must be provided by administrators and commission agents to bank consumers.
- Furthermore, the content and characteristics of the contract that administrators will sign with commission agents are established.

Source: Own preparation with information obtained from the CNBV.



## 4. Supervision Criteria

The regulatory framework is the foundation to generate incentives and rules of the game for an appropriate development of inclusive PSCs, which must be supplemented with an efficient supervision system. This system ensures the appropriate adoption of rules, a comprehensive assessment evaluation and management of different risks and, the adoption of the necessary corrective measures.

It is important to notice that the supervision of PSCs will be part of the ordinary supervision process. Those minimum aspects which must be identified for an appropriate supervision of PSC are included in this section.

### 4.1. Minimum Practices for an Effective Supervision

An effective bank supervision system requires that the supervisor develop and maintains an in-depth knowledge on the transactions of financial system institutions as a whole, in order to safeguard the security, soundness and stability of the system.

The supervisor will have the knowledge to apply specific supervision methodologies for different PSCs. In some cases, the existence of an area specifically assigned to the supervision of certain PSC will be advisable if the transaction volume and associated risks are justifiable<sup>33</sup>. Methodologies must be kept up to date and be proportional to the risks and volumes involved.

A good supervision practice is to develop standardized and auditable procedures for each risk to be monitored. Thus, the supervision will be homogeneous for each product, service or channel, regardless of the institution that may provide it. An additional advantage is that it will standardize the financial industry level in the jurisdiction where it operates, avoiding loosening

pressures in the standards established for inclusive products.

Attention must be paid to the costs of supervising a large number of small institutions and the specific possibility of overseeing them. In practice, the supervisor takes the risk of not being able to comply with its obligations, which would negatively impact its reputation. Therefore, the supervisor must serve the market segments that may generate risks to the financial system or its reputation. Likewise, it must avoid regulating products or services that may not be duly supervised.

In certain cases, agreements with regulators could be established or coordination mechanisms agreed upon with other institutions that may carry out supervision activities. It must be clear that the final responsibility falls upon the supervising authority and that the latter is responsible for evaluating the reports, results, processes and procedures used by the institution hired for such purpose.

Those countries empowered to perform a delegated supervision will consider mechanisms to resolve the conflicts of interest that may arise.

A fundamental aspect of supervision is the application of corrective measures when detecting a non-compliance with the respective regulations and / or sound risk management practices. This can result in modifications to the risk administration and management processes applied to the PSC performed by the regulatory and supervisory agency. Likewise, it may establish limitations (and even suspensions) in the provision and use of the PSC where it has been detected and where deviations and weaknesses have not been corrected.

Three key aspects must be included in the supervision approach: the information to be disclosed to the consumer, user

33. This is already observed in Peru, where there is an area specifically assigned to the supervision of micro-financial transactions.

protection and, AML / CFT and associated crimes.

The public to which these products are targeted has lesser experience in the use of the financial system. For that purpose, it is important that the information disclosed on conditions, prices, and obligations be clear and enough. Supervision protocols will include the review of the information being disclosed, and that complaint processes meet the due process criteria.

Likewise, ordinary supervision will verify the existence and efficiency of prevention systems. In particular, concern must be focused on the integrity of transaction behavior monitoring systems of those products with simplified access requirements (electronic money and basic accounts, for example).

#### 4.2. Supervision Reports

Supervision processes must include a receipt, preparation and delivery of reports. The reports that supervisors must receive include those reports prepared by the areas specialized in the supervision of specific aspects of PSC, such as topics related to operational risk, use of technology and IT security.

Finally, supervision will prepare, as a minimum, the report addressed to those supervised institutions associated with the closing of the on-site supervision process. The report contains the strengths and weaknesses of the institution, including aspects related to financial products and services and the marketing channels used for financial inclusion.

The aforementioned report is generally accompanied by a qualification of the institution, which breaks down into quantitative (lack of provisions, capital, liquidity) and qualitative (process quality, control environment, corporate governance) aspects.

To guarantee an appropriate supervision of institutions that carry out microfinance activities, a team of well-trained supervisors with a sound knowledge on this type of business and its associated risks is required. Supervisors must be capable of assessing microcredit risks, both in specialized institutions and in diversified commercial banks that originate and administer microcredits.

With regard to the supervision of services channeled through the NBC and mobile phone companies, the supervisor will have access to general information (including the application of established practices and procedures) on such transaction through the contracting financial institution and, if necessary, will make visits to the contracted companies<sup>34</sup>.

The intensive use of technology for the provision of financial services through different channels, such as NBC, mobile phone and ATM, requires that the supervision agency creates a specialized group in the matter, with technical capacity to supervise regulation compliance, as well as to assess risk management related to each of the operating modes.

With respect to the operation of financial institutions with NBCs and / or mobile phone companies, supervisors are empowered to demand corrective measures, including contract rescission, when they detect diversions in relation to the policies and procedures established by the financial institution or the applicable regulation.

#### 4.3. Supervision Techniques

The supervisor will have sufficient training and knowledge regarding the operation of the different PSC and the risk profile of each of them. Supervision must include the PSC developed by the financial institution as part of the comprehensive supervision process. Moreover, within the early warning systems that supervision may have developed, those related to the PSC, which pose a greater risk to financial institutions will be included.

The supervisor is authorized to perform on-site inspections and these has to be effectively integrated with the off-site monitoring. For that purpose, it is necessary to have a training program, so supervisors can be more familiar with local experiences and experiences of other countries, as well as with the best practices on the matter. Such program comprises “in-house” and external trainers of the regulatory and supervisory agency.

The peculiarities of inclusive PSC require adopting supervision techniques that differ

34. To enable them, the contract between the financial institution and the NBC (or the mobile telephone company) will establish a clause that empowers the regulatory and supervisory agency to be able to make such visits.

from those traditionally applied to financial institutions. Such techniques are usually intensive in terms of data analysis tools and of sound knowledge of the business models applied by financial institutions.

Microcredit supervision requires understanding the methodology applied to origination and administration, as well as adopting specific criteria when analyzing the portfolio (sampling techniques, eventual visits to debtors). Just like in the case of microcredits, supervision of low amount consumption credits requires a high level of knowledge and understanding of “scoring” and “screening” techniques based on mathematical models and the behavioral analyses used.

Supervising the operation of NBC, mobile phone and ATMs requires a specialized technological team which detects those weaknesses and / or improvements referred to the different risks associated with such operation (identity theft, fraudulent transactions, and financial information theft, among others).

#### **4.4. Delivery of Reports for Supervision**

Supervisors will have the necessary means to obtain, review and analyze prudential and statistical reports of banking institutions, both individually and

on a consolidated basis in order to verify them independently, either through on-site inspections or with the support of external experts (auditors).

The supervisor will receive information in time and form on the main variables and indicators of the PSC to be supervised. Implemented standard information mechanisms impact efficiency and costs of off-site supervision.

It is recommended to adopt consistency control devices which allow verifying the quality of the information received and supplement it with information verification procedures during on-site inspections. The contents and frequency of reports strictly adjust to the specialized analyzes which require the effective supervision of the different PSC.

When, from a supervisory perspective, it is deemed convenient to monitor microcredit portfolio delinquency, with a frequency lower than the usual report, reports will be provided by financial institutions for their evaluation with such frequency. The supervisor will require institutions to report microcredits to centralized credit information systems.

The responsibility for the delivery and quality of the information related to transactions made through NBCs and mobile phones is exclusive of the financial institution contracting the services.



## 5. Final Comments

- This report includes a proposal on Minimum Regulatory Framework for Regulation and Supervision of PSC that contribute to financial inclusion.
- It contains the definition and background in terms of financial inclusion, preconditions for its development, and the minimum aspects that will be included for its appropriate regulation and supervision. They will take into consideration the characteristics and peculiarities of each jurisdiction.
- From the prudential supervisor perspective, the regulation and supervision of PSC represent an additional challenge because it has to apply its knowledge and techniques in proportion to the type of risks being incurred by intermediary institutions that manage them. PSCs allow financial system access to individuals that have traditionally been excluded. However, this standard must not mean a loosening of prudential supervision / regulation objectives.
- From this perspective, the regulation mitigates associated risks by deleveraging individual exposures, the intensive use of data analysis to detect undesired behavior patterns, warning systems and simplicity of internal and external processes to reduce the possibility of failures. Moreover, PSC generate a greater operational risk exposure than their traditional equivalencies. From this perspective, the industry and supervisors will have highly trained teams in risk management.



# Annex

## Regional Regulation and Supervision Practices (Survey Assessment)

This survey has been designed with the main objective of obtaining an assessment on PSC supervision practices and processes that contribute to financial inclusion in Latin America and the Caribbean. This survey is supplementary to the survey for the “Identification of inclusive Products and Services in the Region of Latin America and the Caribbean,” conducted by ASBA in 2010, which included information on the financial products and services provided by the institutions of each country and information on existing regulation and standards in relation to those products.

Survey results are considered in the development of PSC regulation and supervision proposals, supplementing them with standards and practices observed in other countries and that have succeeded in the development of these products and services. It is important to mention that results have not been used for comparison purposes between countries or to assign a qualification to the Supervising Agency.

The survey was sent by ASBA to the supervising agencies of member countries and an answer was obtained from the following 15 countries: Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Panama, Paraguay, Peru, Dominican Republic, and Uruguay.

Based on survey results, it is concluded that the PSC mostly developed in the region are individual microcredits and low amount consumer credits, which are supervised, in most countries, by the same team in charge of supervising the financial institution. Both an on-site and an off-site supervision approach is applied to both products.

Furthermore, microcredits with joint guarantee and “micro leasing / microwarrant” are the least used products in the region, while electronic money is a PSC which is being developed in several ASBA’s member countries, but which, in many cases, is not being supervised.

About NBC, 11 out of the 15 surveyed countries uses this marketing channel of financial products and services. In most of them, supervision is undertaken by the same team of the institution while only in one country NBCs are not being supervised.

In relation to mobile banking, 12 out of the 15 surveyed countries have developed this marketing channel; 50 percent of countries perform supervision through a specialized group, while the remaining 50 percent perform supervision through the same team in charge of the institution.

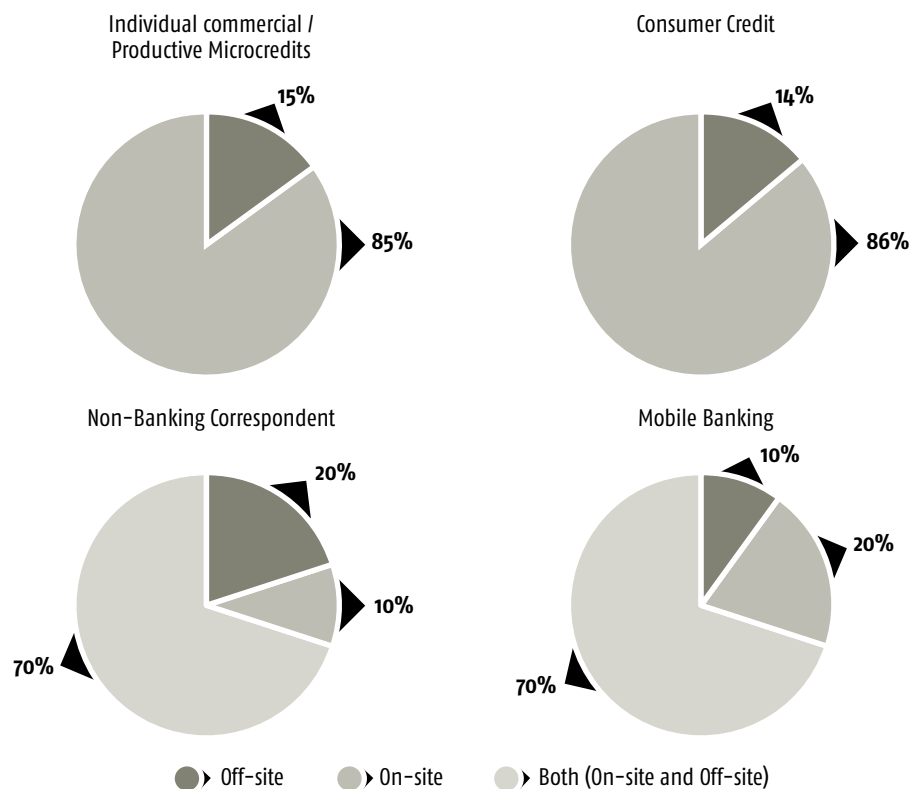
Figures 1 and 2 summarize the initial survey results about those commissioned and to the approach applied to the supervision of PSC, which contribute to financial inclusion.

**Figure 1: Supervision of Inclusive PSC**

	Individual Commercial / Productive Microcredits	Microcredits with Joint Guarantee	Micro-lending / Micro-warrant	Consumer Credit	Basic Account / Specific Account the Deposit of transfers	Micro-savings	Fund Remittance	Electronic Money (E-Money)	NBC	Mobile Banking (M-Banking)
It is supervised	13	8	5	14	10	12	12	6	10	10
Through a specialized group	3	2	1	3	0	1	2	2	3	4
Through one same group in charge of the institution	10	6	4	11	10	11	10	4	7	6
Through a delegated supervisor										
It is not supervised	1	1	2	0	2	1	1	5	1	2
It does not exist	1	6	8	1	3	2	2	4	4	3

Source: Own preparation based on results obtained from the survey.

**Figure 2: Approach Applied to Supervision of Inclusive PSC – Percentage of Countries\***



\* Based on the total countries where each PSC is developed.

Source: Own preparation based on results obtainable from the survey.

From the specific information related to the supervision of NBC requested in the survey, it is concluded that few countries (4) require the authorization of the NBC prior to start operations.

Other conclusions arising from the survey in relation to NBC are that most countries perform supervision at the time of supervising the financial institution (without a detailed schedule) and that supervisors mainly receive specific training sporadically (in some cases being part of the Supervision Training Plan).

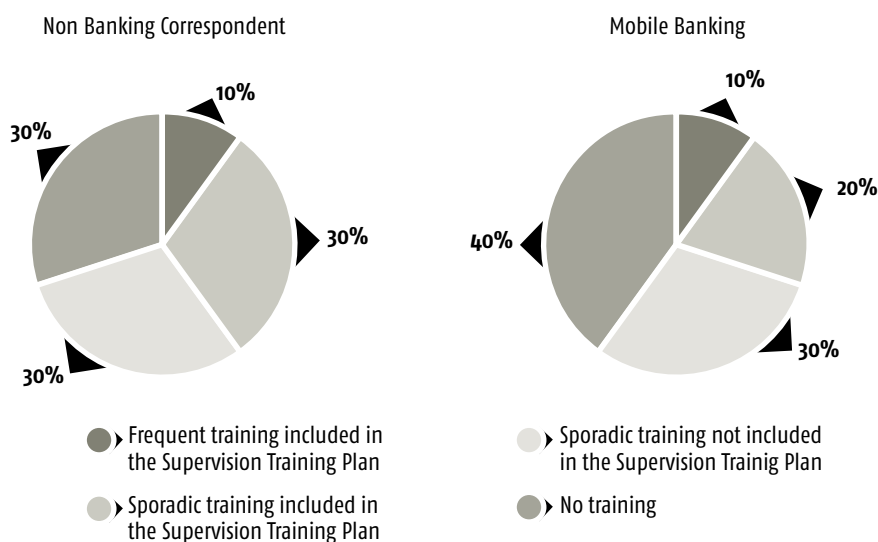
The main weaknesses and risks detected by those responsible for the supervision of NBC were the following:

- Inappropriate operational risk management.
- Failures in AML processes.
- Improper charging of rates / commissions.

- Use of non-allowed transactions.
- Lack of monitoring and control by the financial institution on its NBC.
- Lack of training in aspects related to NBC.
- Security failures.

Furthermore, from the specific information on mobile banking supervision, it can be concluded that only in three of the countries where mobile banking is developed, authorization is required, so a financial institution operates through this channel. Likewise, in most countries, mobile banking supervision is performed at the time of supervising the financial institution and not based on a detailed schedule; and only in 10 percent of countries, mobile banking supervisors receive specific training frequently (See Figure 3).

**Figure 3: Specific Training of Supervisors\***



\* Based on the total countries where the PSC is developed.  
Source: Own preparation based on results obtainable from the survey.

Another data obtained from the survey is that the regulatory and supervisory agency has access, in all countries where mobile banking is developed, to the contract of the financial institution with the mobile company and, practically in all countries, it manages information on the

volume, number and type of transactions made through mobile phones and on the number of operating failures occurred. Nevertheless, only in 36% of countries, the supervision agency visits the telephone company to supervise control processes and environment (See Figure 4).

**Figure 4: Access to Information of the Mobile banking Regulatory and Supervisory Agency**

The regulatory and supervisory agency has access to:	% of countries (*)
Contract of the financial institution with the mobile phone company that channels financial services	100 %
Inspection visits to the mobile phone company to supervise control processes and environment	36 %
Number of operating failure events for transactions made through cellular telephony	82 %
Number of transactions made through mobile phones	82 %
Volume of transactions made through mobile phones	91 %
Type of transactions made through mobile phones	82 %
Number of financial service user complaints through mobile phones	64 %
Times and type of resolution of financial service user complaints through mobile phones	73 %

(\*) Based on a total of 11 countries (that accounts for the number of countries where mobile banking is developed).

Source: Own preparation based on results obtainable from the survey.

Finally, the information referred to the supervision of the different types of microcredits and low amount consumer credit allows concluding that, in general, the models applied to the granting of consumer credits (“scoring” and “screening”) do not require previous authorization from the Regulatory and Supervisory Agency. In addition, only seven countries have defined and apply early warning indicators in the off-site supervision process. The indicators mostly used are the following:

- Strong delinquency growth.
- Rescheduling / restructuring recurrence.
- Strong short-term assistance growth.
- Loans to debtors with defaults in other institutions.
- Delinquency levels well below the segment average in the system.
- Delinquency levels well above the segment average.

Figure 5 summarizes some of the survey results referred to the off-site supervision of microcredits and lower-amount consumer credits.

**Figure 5: Procedures for Off-site Supervision of Microcredits and Consumer Credit**

Tasks for Off-site Supervision	Number of Countries	
	Microcredits (1)	Low Amount Consumer Credit (2)
1. It has defined and applies early warning indicators	7	7
2. It monitors credit portfolio management	11	11
3. It monitors individual and aggregate delinquency of the system	11	12
4. It monitors supervision observations	11	12
5. It analyzes the aggregate indebtedness of debtors	8	10
6. It analyzes the geographic and sector concentration	7	7

(1) Based on a total of 11 countries because, in two of the countries where this PSC is supervised, the analysis is performed at the aggregate level, so they do not have procedures for individual transactions.

(2) Based on a total of 12 countries because, in two of the countries where this PSC is supervised, the analysis is performed at the aggregate level, so they do not have procedures for individual transactions.

Source: Own preparation based on results obtainable from the survey.

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## **MISSION**

Contribute to the strengthening of bank regulation and supervision and financial system stability in the Region by actively sharing information and disseminating knowledge; providing support and services that lead to increased technical capacity and leadership; supporting the adoption and implementation of sound supervisory practices; and promoting timely and relevant international dialogue.

## **OBJECTIVES**

- a. Promote and maintain close communication among the Association's Members, in order to facilitate co-operation among them, and to promote the improvement of their respective capabilities;
- b. Provide its members with a high-level discussion forum for the exchange of information, ideas, techniques, experiences and knowledge over their scope of competence;
- c. Promote and carry out research and analysis on financial regulation and supervision as well as financial stability;
- d. Organize and conduct systematic and permanent training programs as well as technical cooperation amongst its Members;
- e. Promote cooperation and exchange relationships with non-member bank supervisors, with financial standard setting institutions, with international and multilateral technical cooperation institutions, with other organizations with similar objectives and with organizations representative of the supervised entities; and
- f. In general, to carry out every activity related to its purposes.