The Regulatory Sandbox for Financial Inclusion

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FI refers to the delivery of financial services and products in a way that is available, accessible and affordable to all segments of society and plays a pivotal role in combatting poverty and contributing to inclusive economic growth.

SADC Financial Inclusion Strategy (2016 - 2021)
Financial Inclusion

- Access
- Usage
- Quality
- Education
- Social
- Infrastructure
Figure 2: Financial Access by country (in percent with upper middle income countries highlighted)\textsuperscript{16}

<table>
<thead>
<tr>
<th>Country</th>
<th>Banked</th>
<th>Other formal (non-banked)</th>
<th>Informal only</th>
<th>Excluded</th>
</tr>
</thead>
<tbody>
<tr>
<td>SADC</td>
<td>36%</td>
<td>18%</td>
<td>12%</td>
<td>34%</td>
</tr>
<tr>
<td>Mauritius</td>
<td>85%</td>
<td></td>
<td>3%</td>
<td>10%</td>
</tr>
<tr>
<td>South Africa</td>
<td>75%</td>
<td></td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>Namibia</td>
<td>62%</td>
<td></td>
<td>8%</td>
<td>3%</td>
</tr>
<tr>
<td>Swaziland</td>
<td>54%</td>
<td></td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>Botswana</td>
<td>50%</td>
<td></td>
<td>18%</td>
<td>8%</td>
</tr>
<tr>
<td>Lesotho</td>
<td>38%</td>
<td></td>
<td>20%</td>
<td>23%</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>30%</td>
<td></td>
<td>39%</td>
<td>8%</td>
</tr>
<tr>
<td>Malawi</td>
<td>27%</td>
<td></td>
<td>7%</td>
<td>15%</td>
</tr>
<tr>
<td>Zambia</td>
<td>25%</td>
<td></td>
<td>13%</td>
<td>21%</td>
</tr>
<tr>
<td>Mozambique</td>
<td>20%</td>
<td></td>
<td>16%</td>
<td>60%</td>
</tr>
<tr>
<td>Tanzania</td>
<td>14%</td>
<td></td>
<td>43%</td>
<td>16%</td>
</tr>
<tr>
<td>DRC</td>
<td>12%</td>
<td></td>
<td>24%</td>
<td>12%</td>
</tr>
</tbody>
</table>

SOURCE: FinMark Trust. “Financial Inclusion in the SADC Region”, 2015; World Bank country classification\textsuperscript{17}

Malawi – 51% Excluded
Only 3rd to DRC at 52% and Mozambique at 60%
• FI has been identified as an enabler for 7 of the 17 Sustainable Development Goals.
• The G20 committed to advance FI worldwide and reaffirmed its commitment to implement the G20 High-Level Principles for Digital FI.
• The World Bank Group considers FI a key enabler to reduce extreme poverty and boost shared prosperity.
A regulatory sandbox is a framework set up by a regulator that allows FinTech startups and other innovators to conduct live experiments in a controlled environment under a regulator's supervision.

- CGAP (Consultative Group to Assist the Poor)
The Regulatory Sandbox allows firms to test innovative propositions in the market with real consumers.
One Thing Regulators Should Do Before Launching a Sandbox

Consult the industry stakeholders first
Industry stakeholders for Financial inclusion

Financial inclusion stakeholder coordination involves appropriate mapping of the players and identifying/categorizing the key contributions and interests.
## STAKEHOLDER CLASSIFICATION

<table>
<thead>
<tr>
<th>PROVIDERS</th>
<th>Institutions that <strong>provide financial products and services</strong>, and their partner infrastructure and technology providers.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ENABLERS</td>
<td>Institutions responsible for <strong>setting regulations and policies</strong> on financial inclusion, including regulators and public institutions.</td>
</tr>
<tr>
<td>SUPPORTING INSTITUTIONS</td>
<td>Institutions that can provide <strong>technical and funding assistance</strong> towards financial inclusion.</td>
</tr>
<tr>
<td>TARGETED POPULATION</td>
<td>Financially excluded groups mostly consisting of low-income sectors, rural dwellers, micro, small and medium enterprises (MSMEs), etc.</td>
</tr>
</tbody>
</table>
STAKEHOLDER MAP IN FIJI
Outcomes of a good coordination structure:

1. The interwoven collaboration between all stakeholders results in an **effective & authoritative position on FI**.
2. Stakeholders can **achieve more** in terms of FI when working together.
3. Every stakeholder has a **sense of ownership** of their responsibilities & works towards achieving their **target**.
4. Each stakeholder is **accountable** and **effective**; thus, **monitoring of the outcomes** becomes very **easy** for the **lead** stakeholder.
5. Based on the familiarity between the stakeholders, they can count on the **continued support** of other stakeholders in the implementation process.

*Effective Stakeholder Coordination for National Financial Inclusion Strategy implementation (2019)*
The steering committee to oversee implementation

- Ministers or senior representatives from relevant and key government ministries
- The governor/deputy governor of the central bank
- The CEOs of non-bank financial regulators (including pensions, insurance and capital markets)
- Leaders in the NGOs identified as actors in FI
- The national program director/head of the agency responsible for FI
- Leaders in development finance institutions (DFIs)
- Leaders in savings and credit cooperatives (SACCOS)
- Leaders in rural finance
- Leaders in credit institutions (banks and non-banks)
- Telecommunications regulatory agencies
Technical committee/working groups

• Payment systems: provided both privately by the banks and by telecommunications companies
• Regulators/leaders in bank supervision
• Regulators/leaders in non-bank organization supervision (including pensions, insurance and capital markets)
• Member(s) of the financial inclusion coordination agency
COUNTRY EXPERIENCES

- Fiji,
- Solomon Islands,
- Vanuatu, and
- Rwanda
  - Have established a National Financial Inclusion Task Force (NFIT),
  - Chaired by the central bank.

Malawi

- Financial Inclusion and Entrepreneurship Scaling Project
  (World Bank Facility: 2020-2025)
The Gender Perspective
Objectives of [financial] regulation

• Protecting investors (builds confidence in the market),

• Ensuring that markets are fair (efficient and transparent),

• Reducing systemic risk (contagion)

• Protection against malpractices (such as money laundering) and

• Maintaining consumer confidence in the financial system
Caution on Regulatory Sandboxes Impact Financial Inclusion

• Sandboxes are dominated by companies innovating in payments services, (especially by those testing crypto-based solutions.)
• Evidence of sandbox-driven regulatory change is weak.
• Most sandbox-tested innovations do not target excluded and underserved customers at the base of the pyramid.

CGAP/World Bank Survey (2019). Preliminary results (16 responses)
Using new technologies to scale up financial inclusion: *Digital Finance*

Regulatory Enablers for Digital Finance

- Enabler 1: Nonbank e-money issuance
- Enabler 2: Use of agents
- Enabler 3: *Risk-based* customer due diligence (KYC)
- Enabler 4: Consumer protection
LOOK! UP IN THE SKY!

IT'S A BIRD!

IT'S A PLANE!

IT'S ...
Regulatory framework of mobile money in Malawi

Communications Regulator
- Regulation
  - Communications Act 1998
- Licence
- Mobile Network Operator

Financial Services Regulator
- MOU
  - In respect of mobile money
- Regulation
  - Reserve Bank Act 1998
  - Financial Services Act 2010
  - Payment Systems Act 2016
  - Electronic Transactions Act 2016
  - Mobile Payments Guidelines 2011
- Licence
- Mobile Money Issuer
  - Letter of No Objection (2011-2016)
  - Licence (post 2016)
- Cash
- Mobile Money
- Bank
RACE TO THE BOTTOM
Pragmatic approaches towards FI

1. National ID system
2. Leveraging government payments.
3. Allowing mobile financial services to thrive
4. Welcoming new business models, such as leveraging e-commerce data for financial inclusion
5. Taking a strategic approach by developing a national financial inclusion strategy (NFIS) & bringing together diverse stakeholders
6. Paying attention to consumer protection & financial capability to promote responsible, sustainable financial services
Registrar of financial institutions

Section 8 – Financial Services Act

(1) There is hereby appointed a Registrar of Financial Institutions for the purposes of this Act and all financial services laws, who shall be the regulatory and supervisory authority for the financial services industry.

(2) The Governor of the [RBM] shall be the Registrar.
s19. Arrangements with other Agencies

(1) In carrying out his supervisory functions, the Registrar shall consult, and may enter into arrangements with, other agencies of the Government that have functions related to the financial system, the regulation or supervision of financial services, taxation or social security.
s20. Delegation by the Registrar

(1) The Registrar may delegate any of his supervisory functions, other than this power of delegation \[delegatus non potest delegare\], to—

(a) a director or employee of the Reserve Bank;

(b) an examiner;

(c) an investigator; or

(d) a self-regulatory organization.
s21. Financial institutions to be licensed or registered

(1) A person **shall not** operate, as a business, a financial institution unless—

(a) the financial institution is licensed or registered;

(b) the financial institution is complying with the terms of the licence, including any conditions to which the licence is subject.
s100. CDD / KYC

(1) A financial institution in Malawi shall—

(a) demand proof of and record the identity of its clients or customers, whether usual or occasional, when establishing business relations or conducting transactions, and in particular, when performing large cash transactions; and

(b) together with its directors, officers and employees, report promptly to the Financial Intelligence Unit (FIA) any suspected money laundering activity related to any client or customer of the financial institution.
Lessons: Sierra Leone’s Regulatory Sandbox?

1. **Financial inclusion objective** - linked the sandbox programs to national financial inclusion strategies.

2. **Coordination with ecosystem-building initiatives.** As voluntary regulatory programs, sandboxes require interest and participation from market actors.

3. **Institutional commitment and leadership.** Program has benefited from deep institutional engagement and support, starting with the Office of the Governor.

4. **Sunset provision.** Pilot program requires review and reauthorization after the initial one-year pilot term - conveying the country’s willingness to experiment and learn from new regulatory approaches.
Final Thoughts

1. New wine in old wone containers?
2. Village banks – *bank nkhonde*
3. Inclusive financial inclusion strategy
4. Government must come also join the match
5. Leveraging Government payments
6. Redefining the financial inclusion matrix?
   - Access
   - Affordability
   - Accessibility
Thank you