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on Banking Supervision

Range of practice in the regulation and supervision of institutions relevant to financial inclusion

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1. Introduction

1.1. Background

There has been over a decade of engagement by international standard setting bodies (SSBs) on the relevance of financial inclusion objectives to banking regulation and supervision.[1] Initially, the focus was on microfinance activities conducted by banks and other deposit-taking institutions. In 2008 and 2009, the International Liaison Group of the Basel Committee on Banking Supervision (BCBS) conducted a survey to identify the range of practice in both BCBS member and non-member jurisdictions with significant experience in regulating and supervising microfinance activities by such institutions (2008-2009 Survey). The 2008-2009 Survey targeted the most significant risks in microfinance and the systems and processes used to manage and supervise these risks, using the 2006 version of the *Core Principles for Effective Banking Supervision* (Core Principles) as the framework of analysis.[2] The results of the 2008-2009 Survey informed the 2010 *Microfinance Activities and the Core Principles for Effective Banking Supervision* (2010 Guidance), the first set of guidelines issued by the Basel Committee related to financial inclusion.[3]

Over the past decade, the focus of providers and others interested in financial inclusion has broadened to include the full range of financial products and services that low-income and poor households may use to manage typically uneven income and expenses; accumulate assets; and mitigate economic shocks.[4] This period has also been marked by a growing recognition that financial inclusion raises issues that are relevant not only to the Basel Committee, but to other global SSBs.[5] Further, innovations that serve the needs of excluded or underserved low-income households now have potential to extend the reach and nature of financial services provided by banks and non-banks. These

1 The first Financial Stability Institute (FSI) convening of banking supervisors to discuss microfinance took place in 2003. The first FSI and World Bank conference on "promoting inclusive financial systems" took place in 2006.

2 Basel Committee on Banking Supervision, *Core Principles for Effective Banking Supervision*, October 2006, www.bis.org/publ/bcbs129.htm

3 Basel Committee on Banking Supervision, *Microfinance Activities and the Core Principles for Effective Banking Supervision,* August 2010, www.bis.org/publ/bcbs175.htm (See BCBS 2010).

4 This evolution is reflected in the founding of several global bodies of policymakers and regulators: the Alliance for Financial Inclusion (AFI) in 2008 (a membership organisation with now more than 100 banking supervisory entities and other financial sector policymaking bodies), the G20 Financial Inclusion Experts Group in 2009, and the Global Partnership for Financial Inclusion (GPFI), created in 2010 to implement the G20's multi-year Financial Inclusion Action Plan. For the full action plan, see G20 (2010).

5 See GPFI (2011). The GPFI Subgroup on Regulation and SSBs now engages with six SSBs: the Basel Committee, the Committee on Payments and Market Infrastructures (CPMI; formerly the Committee on Payment and Settlement Systems), the Financial Action Task Force (FATF), the International Association of Deposit Insurers (IADI), the International Association of Insurance Supervisors (IAIS) and the International Association of Securities Commission (IOSCO). The first high-level meeting of SSBs on financial inclusion was convened in 2011 by Nout Wellink, the Chairman of the Basel Committee, and Princess Máxima of the Netherlands, now Her Majesty Queen Máxima, the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA) and Honorary Patron of the GPFI. This was followed by a second high-level meeting of SSBs in 2012, as well as the first GPFI Conference and Technical Meeting on SSBs and Financial Inclusion hosted by FSI. A third high-level meeting of SSBs and a second GPFI Conference on SSBs and Financial Inclusion were both convened in 2014.

developments are, in turn, changing the nature of risks that are relevant to banking supervision, and triggering issues of relevance to multiple SSBs.

In parallel to these significant developments, the global financial crisis has prompted new thinking about the relationships among the core safety and soundness objective of banking supervision and the objectives of financial inclusion, financial integrity and financial consumer protection.[6] Awareness of the risks of financial exclusion has also increased.[7]

In the case of the Basel Committee, the concept of proportionality was reinforced in the revision of the Core Principles in 2012.[8] In undertaking the revisions, the Committee sought to achieve the right balance in raising the bar for sound supervision while retaining the Core Principles as a flexible, globally applicable standard. By reinforcing the proportionality concept, the revised 2012 Core Principles and their assessment criteria accommodate a diverse range of banking systems. The proportionate approach also allows assessments of compliance with the Core Principles that are commensurate with the risk profile and systemic importance of a broad spectrum of banks and other deposit-taking institutions - from large internationally active banks to small, non-complex deposit-taking institutions.

The 2013 Range of Practice Survey (Survey), the results of which this report analyses and summarises, aims to capture the current regulatory and supervisory approaches towards financial institutions and activities that are relevant to financial inclusion. The findings set forth below should not be considered exhaustive, nor should they be read as a compilation of *best* practices. The analysis presented in this report is intended to provide a snapshot of how some banking supervisors are responding to the rapidly evolving financial inclusion landscape.

This report is based on work done by the Workstream on Financial Inclusion, which is a work stream of the Basel Consultative Group (BCG). The BCG is the main outreach group of the Basel Committee (see Annex 1).

1.2. Innovations in digital financial inclusion

Banks and non-banks are developing new, cost-effective digital ways of serving poor and low-income customers who are often difficult to reach through traditional means (eg bank branches). The new digital means involve the use of access devices and channels (eg mobile phones, payment cards, point-of-sale terminals) and retail agents that accept cash from customers. It also involves recording such transactions on the relevant account ledger (often referred to as "cash-in") and enabling customers to withdraw cash from their accounts (often referred to as "cash-out"). Some non-banks operating in these areas have not previously been engaged in financial service activities. These non-banks include mobile network operators, which in some countries can become licensed as an e-money issuers or distributors and/or payment service providers.

Digital transactional platforms combine elements of a payments instrument with the capacity to store value for future use and can offer poor and low-income customers an affordable alternative to traditional transactional banking – an alternative that is generally suitable to their typically small and unpredictable income stream. These platforms are sometimes used alongside a core processing system, reducing the costs of serving poor and low-income customers.

6 GPFI (2012) discusses how financial regulators can optimise linkages between these four distinct policy objectives.

7 Perhaps the most significant example of this growing awareness among the SSBs can be found in FATF's formal recognition of financial exclusion as a money laundering and terrorist financing risk, as reflected in the Declaration of the Ministers and Representatives of FATF approving the organisation's 2012–2020 Mandate. See also GPFI (2011).

8 Basel Committee on Banking Supervision, *Core principles for effective banking supervision*, October 2012, http://www.bis.org/publ/bcbs230.pdf

In an increasing number of jurisdictions, additional products – including interest-bearing savings, consumer credit, insurance products, and even investment products – are being offered via digital transactional platforms. Regulation and supervision of these activities and institutions often involve prudential supervisors, as well as telecommunications authorities and agencies such as data protection, competition and consumer protection authorities.[9] The Survey results address many of these issues.

2. About the Range of Practice Survey

2.1. Purpose of the Survey

The purpose of the Survey is to understand current regulatory and supervisory practices with respect to deposit-taking institutions and other financial institutions of relevance to financial inclusion.[10] The results of the Survey will serve as background to subsequent work towards developing BCBS guidance on taking financial inclusion into account when implementing the 2012 Core Principles.

2.2. Scope of the Survey

Survey coverage

The Survey was distributed in mid-2013 to a broad range of supervisory authorities. These authorities coordinated with other national authorities as needed to complete the responses. Fifty-two valid responses[11] representing 59 jurisdictions[12] were received – almost twice the number of respondents to the 2008-2009 Survey (27 authorities representing 32 jurisdictions).

Using the World Bank's income classification as of July 1, 2014, the 59 jurisdictions are evenly spread across the four groupings: 18 are high income, 14 upper-middle income, 14 lower-middle income, and 13 low income.[13] Regional coverage is reflected in 13 countries from the Americas (across Latin America and the United States), 13 from Europe and Central Asia (including the Russian Federation and Turkey), two from the Middle East, 12 from East Asia and the Pacific, three from southern Asia, and 15 from sub-Saharan Africa. (See Annex 2 for the list of Survey respondents.)

Coverage of financial institutions

The Survey's scope covered a wide range of financial institutions relevant to financial inclusion, including banks and other financial institutions that serve poor and low-income customers and other financially excluded customers, including those that serve as a delivery platform for insurance and payment products offered to these customers. The Survey asked for specific information about six broadly defined

[9] The use of digital means for social payments (services identified by governments as effective means to bring individuals into the formal financial system) introduces other public agencies into the picture, such as ministries of social welfare.

[10] The 2012 Core Principles recognise the role of non-bank deposit-taking institutions (footnote 26): "The Committee recognises the presence in some countries of non-banking financial institutions that take deposits but may be regulated differently from banks. These institutions should be subject to a form of regulation commensurate to the type and size of their business and, collectively, should not hold a significant proportion of deposits in the financial system." BCBS (2012, p 25, n 26).

[11] Two responses were not considered valid for the purpose of this report because most questions were left unanswered.

[12] The response from the West African Economic and Monetary Union (WAEMU) represents eight countries.

[13] The income classifications of the 59 jurisdictions as of July 2014 are the same as those as of July 2013.

categories of financial institutions: Commercial banks, Other banks, Financial cooperatives, Other deposit-taking institutions (ODTIs),[14] Microcredit institutions (MCIs), and Non-bank e-money issuers or Distributors (NEIDs). See Box 1 for the Survey's definitions of each category.

Box 1

Financial institution categories

Definitions used in the Basel Consultative Group Range of Practice Survey (2013) [15]

Commercial bank: A bank that is (a) not subject by law or regulation to (i) a specified maximum size of loan or savings product or (ii) any limitation on type of client that may be served; and (b) not tasked by law or regulation with serving any particular industry

Other bank: A bank other than a commercial bank. In a given country this term may include rural banks, agricultural banks, postal banks, among other types of non-commercial banks. The category of Other banks does not include cooperative banks or mutual banks, which are categorised as Financial cooperatives for the purposes of this Survey.

Financial cooperative: A member-owned and member-controlled financial institution governed by the "one member one vote" rule. Financial cooperatives often take deposits or similar repayable funds from, and make loans only to, members, although some also serve non-members. The term includes credit unions, building societies, caisses, cajas, cooperative banks, mutual banks, and savings and credit cooperatives.

Other deposit-taking institution (ODTI): An institution authorised to collect deposits or savings that does not fit the definition of bank or Financial cooperative. ODTIs include deposit-taking microfinance institutions, savings and loan associations, among other non-bank deposit-taking institutions.

Microcredit institution (MCI): A financial institution that does not take deposits and provides microcredit targeting low-income and poor customers.

Non-bank e-money issuer or distributor (NEID): An issuer or a distributor of e-money[16] that is not a bank. The relevant questions in the Survey request respondents to indicate whether the non-bank entity is authorised to act as an issuer of e-money, distributor of e-money, or both.

Differentiation vs. proportionate approach

The Survey posed questions on whether respondents took a differentiated approach to the regulation and supervision of the six categories of institution. Some jurisdictions, in their responses to these questions, referred to the application of a proportionate approach, reflecting the risk profile and systemic importance of the institutions and/or the products, services and channels being regulated and supervised.

[14] The ODTI category is considerably narrower than the ODTI category in the 2008-2009 Survey, which was defined to include financial cooperatives and other institutions that are covered separately in this Survey.

[15] Notwithstanding the definitions, some respondents included certain institutional types in categories other than those specified by the definitions. For example, some respondents included building societies that had been de-mutualised in the Other banks category (instead of Financial cooperatives); one respondent included its cooperative banks as Other banks; another included them in the Commercial banks category.

[16] The Survey used the Committee on Payments and Market Infrastructures (CPMI) (formerly the Committee on Payment and Settlement Systems) definition of "electronic money": "monetary value represented by a claim on the issuers which is stored on an electronic device such as a chip card or a hard drive in personal computers or servers or other devices such as mobile phones and issued upon receipt of funds in an amount not less in value than the monetary value received and accepted as a means of payment by undertakings other than the issuer." Committee on Payment and Settlement Systems (2012, p 5 n 8).

When regulating and supervising new institutional types and new and innovative products and services (including those aimed at serving those typically not served by the formal financial sector), it may not be possible for the relevant authority to assess their risks from the outset. Thus, different standards and different approaches may not initially take into consideration or otherwise reflect the actual differences in benefits and risks across the multitude of institutions, products and services. The Survey, therefore, does not infer that differentiation equates with proportionality, nor do the Survey's quantitative questions about differentiation ask about the application of the concept of proportionality.

Topic coverage

The Survey asked questions about selected Core Principles considered by the Workstream to be most relevant to financial inclusion and financial consumer protection. While it does not have an identical topical coverage to other relevant data-gathering efforts on financial inclusion, such as the International Monetary Fund's "Financial Access Survey" and the World Bank-FinCoNet "Global Survey for Financial Consumer Protection and Financial Literacy," data from such sources have been used to supplement Survey data in the analysis contained in Sections 3, 4 and 5 of this Report.[17]

2.3. Survey methodology

The Survey was conducted during the second half of 2013 using an online platform. The Survey questionnaire, which called for both quantitative and qualitative information, was organised into four sections: (i) background information (financial sector landscape, developments in financial inclusion); (ii) the Basel Core Principles (supervisory powers, responsibilities and functions; and prudential regulations and requirements); (iii) financial consumer protection; and (iv) feedback on the 2010 Guidance.[18]

The Survey included quantitative questions on the financial sector landscape and regulatory and supervisory practices, allowing for cross-country comparison and tabulation. There were also extensive qualitative questions, for which individual authorities provided insightful information about their regulatory and supervisory experiences and elaborations on certain quantitative responses. An extensive data verification and cleaning process was taken to ensure the completeness and coherence of responses prior to data analysis. This process involved several rounds of follow-up clarifications, including questions submitted to all respondents and other questions on specific issues that were submitted to selected respondents.

The Survey relies on a self-reporting data collection method that allows jurisdictions to contextualise their responses. Despite several rounds of follow-up to verify these data, there remains a level of variation in responses due to differences in respondents' interpretation of the questions asked.

The Survey data regarding the financial sector landscape in respondent jurisdictions are as of December 31, 2012. Information regarding regulatory and supervisory approaches has been updated by respondent jurisdictions through August 2013.[19]

2.4. Presentation of the Survey results

The Survey results include almost 2,000 pieces of data from each respondent (ie over 104,000 data points) including extensive narrative responses, some of which were labelled confidential by

[17] See IMF (2012) and World Bank (2013b).

[18] The full text of the Survey questionnaire is available upon request.

[19] A few jurisdictions adopted regulation between the time of the Survey distribution in July 2013 and the submission of Survey responses. These changes are not reflected in Survey data or analysis.

respondents. Because of the complexity of the questions and diversity of responses, interpreting the data required a combination of different methods of analysis, including qualitative, quantitative, and textual interpretation. All tables and graphs presenting Survey data use the same wording to the relevant Survey questions.

The discussion and analysis of the Survey results below is organised into three parts. Section 3 provides a "macro" view of developments in financial inclusion, including some characteristics of the respondent jurisdictions and national policy approaches to addressing financial inclusion.

Section 4 (current regulatory and supervisory approaches) is organised topically by Core Principle or group of related Core Principles and presents the Survey results with respect to Commercial Banks, Other Banks, Financial Cooperatives, and ODTIs. Each Core Principle or group of Core Principles includes text highlighting its relevance to financial inclusion. Unless otherwise explicitly stated, the percentages indicating respondents' regulatory and supervisory treatment of each category of financial institution are calculated based on the number of respondents that subject such category to regulation and/or supervision by a financial regulator or a financial supervisor (as opposed to the total number of respondents, ie 52). The terms "financial regulator" or "financial supervisor" in this report include not only central banks or prudential banking supervisory agencies, but also ministries, specialised agencies or departments (eg cooperative development agencies, microfinance regulatory authorities) which prudentially regulate one or more types of financial institution, and financial conduct authorities.[20]

Section 5 covers financial consumer protection as applied to all six categories of financial institution and includes text highlighting the relevance of the topic to financial inclusion. Unless otherwise explicitly stated, the percentages in Section 5 indicating respondents' regulatory and supervisory treatment of each category of financial institution are calculated based on the number of respondents that subject such category to regulation and/or supervision by a financial regulator, a financial supervisor or a general consumer protection authority.

3. Survey results: Developments in financial inclusion

3.1. Jurisdictions included in the Survey

Overview of jurisdictions by income level, region and level of financial inclusion

As reflected in Graph 1, the 59 jurisdictions covered by Survey responses are distributed relatively evenly by country income level, using the 2014 World Bank income classification.

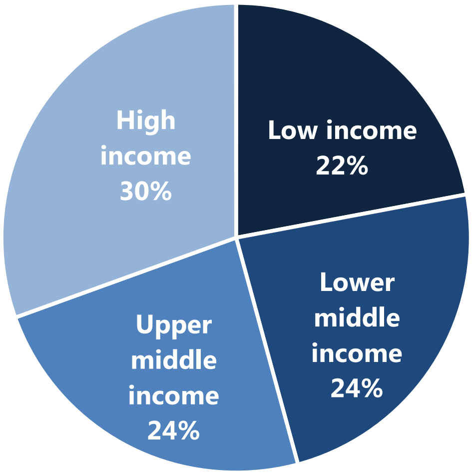
The Americas (including Latin America and the United States) and East Asia and the Pacific are the most diverse in terms of country income level. In the Americas, respondents represent three high-income, six upper-middle-income and four lower-middle-income jurisdictions. In East Asia and the Pacific, respondents represent four high-income, three upper-middle-income, four lower-middle-income and one low-income jurisdiction. The least diverse regions are Europe and Central Asia (10 of 14 jurisdictions are high income), and sub-Saharan Africa (11 of 15 jurisdictions are low income).

[20] A financial regulator or supervisor would not include a regulatory or supervisory body such as ministry of agriculture, telecommunications ministry, or general consumer protection body, the primary jurisdiction or purpose of which falls outside the realm of financial services.

Distribution of jurisdictions by income level[21]

In per cent

Graph 1



Source: Basel Consultative Group Range of Practice Survey (2013).

Based on the World Bank's Global Findex data, for 33 out of the 59 jurisdictions, less than 50% of the adult population has an account at a formal financial institution (see Table 1).[22] The percentage of the adult population having an account with a formal financial institution is only one data point for assessing financial inclusion. Nonetheless, it is a particularly relevant indicator for the types of institution that are the focus of the Survey, and is used in the report as the primary indicator of financial inclusion levels.

Number of jurisdictions by income level and by level of financial inclusion[23]

Table 1

	Percentage of adult population (age 15+) with an account at a formal financial institution					**Total**
	<25%	25% to 50%	>50% to 75%	>75%	N/A[24]	
Low income	9	3	0	0	1	**13**
Lower middle income	8	3	0	1	2	**14**
Upper middle income	2	4	7	0	1	**14**
High income	1	3	1	11	2	**18**
Total	**20**	**13**	**8**	**12**	**6**	**59**

Source: Demirguc-Kunt and Klapper (2012).

[21] The graph includes information for all jurisdictions represented by the responding authorities, including separate information for each of the eight WAEMU member countries.

[22] The Global Findex survey defines an account as an individual or joint account at a formal financial institution that can be used to save money, to make or receive payments, or to receive wages and remittances, and can be tied to a debit or automated teller machine card.

[23] This table includes information of all jurisdictions represented by the responding authorities, including separate information for each of the eight WAEMU member countries.

[24] These jurisdictions did not participate in the Global Findex survey (Demirguc-Kunt and Klapper (2012)).

Table 2 shows other indicators that provide useful information about characteristics of the income level groups of Survey respondents. Two indicators are significant to financial inclusion efforts: rural population as a percentage of total population and ease of doing business. The rural population is significantly higher for lower-middle and low-income jurisdictions, than for high and upper-middle income jurisdictions. The ease of doing business rankings for high and upper-middle-income jurisdictions are significantly better than for lower-middle and low-income jurisdictions.

Development indicators of jurisdictions

Average percentage and average ranking by income level — Table 2

	Rural population (% of total), 2013	Total gross savings (% GDP), 2011	Ease of doing business index ranking,[25] 2013
Low income	68%	8%	156
Lower middle income	51%	25%	112
Upper middle income	29%	19%	66
High income	19%	23%	37

Source: World Bank (2012, 2013a, 2013c).

Overview of the institutional landscape of Survey respondents[26]

All respondents have Commercial Banks. In terms of the institutional diversity of the financial sector, respondents reported having an average of four of the six possible categories of financial institutions covered in the Survey. All low-income respondents have at least five categories of financial institutions; and 47% (seven) of the respondents with six categories of financial institutions are either low or lower middle-income respondents.

Number of respondents by income level and by number of categories of financial institutions[27]

Table 3

	Number of categories of financial institutions						**Total**
	1	2	3	4	5	6	
Low income	0	0	0	0	3	5	**8**
Lower middle income	0	0	4	2	4	2	**12**
Upper middle income	0	0	4	5	1	4	**14**
High income	1	2	5	4	2	4	**18**
Total	**1**	**2**	**13**	**11**	**10**	**15**	**52**

Source: Basel Consultative Group Range of Practice Survey (2013).

25 The ease of doing business index ranks economies from 1 to 189. For each economy the ranking is calculated as the simple average of the percentile rankings on each of the 10 topics included in the index in Doing Business 2014. A high ranking on the ease of doing business index means the regulatory environment is more conducive to the starting and operation of a local firm. See World Bank (2013).

26 WAEMU is considered a low-income respondent for the purpose of Survey data analysis, even though two of its eight members (Cote d'Ivoire and Senegal) are lower-middle-income according to the World Bank income classification.

27 The number of categories of financial institutions in a respondent is determined by (i) the institutions operating in such respondent by December 2012, as self-reported, whether or not regulated or supervised, and (ii) the types of institution permitted by law or regulation, regardless of whether there were institutions in each type operating in December 2012.

Of the six categories of financial institutions, Financial Cooperatives and Other Banks are the second and third most common category present (79% and 77%, respectively). The least common category is ODTIs,[28] although they exist in a majority of respondents (54%).

3.2. Policy approaches to addressing financial inclusion

Defining financial inclusion

Twenty-eight respondents indicated that the prudential banking supervisor has a formal or working definition of financial inclusion. Several concepts were cited by numerous respondents as key components of financial inclusion, including access to and usage of financial services,[29] the offering of a variety of products and services, the quality of products and service delivery (eg consumer protection, financial capability, affordable or appropriate financial services) and the target customers.

National strategies and institutional mandates

Nineteen respondents (37%) have a national financial inclusion strategy and/or a microfinance strategy. However, the percentage is much higher for low-income respondents (63%), which have a high percentage of financially excluded consumers (see Table 1), and lower for high-income respondents (17%). Fourteen respondents (27% of all respondents) have no strategy, but are in the process of developing one. Another three respondents (6%) have neither a strategy nor a plan to develop one, but have signed the Maya Declaration.[30] The remaining 16 respondents (31%) neither have, nor have plans to develop, a strategy and have not signed the Maya Declaration.

For 68% of the respondents that have a national strategy on financial inclusion or microfinance, a single agency is leading its implementation. The most common lead agencies are the central bank and/or banking supervisory agency (47% of respondents that have a strategy) and the finance ministry or treasury (37% of respondents that have a strategy). For the remaining 32% of respondents multiple agencies are jointly leading strategy implementation (primarily through some type of interagency council).

In 62% of respondents, there is a specific policy statement (other than a national financial inclusion strategy or a national microfinance strategy) establishing a financial inclusion mandate or goal at the organisational or national level. Similar to the national strategies on financial inclusion or microfinance, only 39% of high-income respondents indicated having a financial inclusion mandate or goal, compared with 62% of low-income and 83% of lower-middle income respondents. The most common types of authority with a financial inclusion mandate are: central bank (31% of total respondents), banking supervisory agency (15%), finance ministry (13%), multi-agency body (10%) and state-owned/public financial service provider (6%). Table 4 shows that the majority of respondents with a financial inclusion mandate are those where the percentage of adults with a formal account is between 25% and 50%, or below 25%.

28 This is to be expected given the breadth of the definitions of the other five categories, particularly Other Banks.

29 Access and usage are two distinct measures and in some cases, access may be significantly higher than usage. This may be due to such factors as the cost of products or services or lack of suitability, the information available to the potential customers regarding the availability and appeal of services, or the distrust of potential customers due to unfamiliarity with the products or providers or past experiences of abuse. In 2013, global usage of e-money accounts stored on mobile phones was estimated at about 30% of total registered accounts. See GSMA (2013).

30 The Maya Declaration is a set of commitments to financial inclusion made by developing and emerging market financial regulators and policymakers during AFI's 2011 Global Policy Forum held in Mexico. Twenty-one Survey respondents have signed the Maya Declaration as of November 2013, including 10 with low levels of financial inclusion (less than 25% of their adult population) and six with relatively low levels of financial inclusion (between 25% and 50% of their adult population). For a full list of commitments, see AFI (2014b).

Existence of a financial inclusion mandate or goal at a national or organisational level

Number of responses by income level and by financial inclusion level — Table 4

	Percentage of adult population (age 15+) with an account at a formal financial institution					Total
	<25%	25% to 50%	>50% to 75%	>75%	N/A[31]	
Low income	3	2	0	0	0	**5**
Lower middle income	5	3	0	1	1	**10**
Upper middle income	1	3	5	0	1	**10**
High income	0	2	0	5	0	**7**
Total	**9**	**10**	**5**	**6**	**2**	**32**

Source: Demirguc-Kunt and Klapper (2012) and Basel Consultative Group Range of Practice Survey (2013).

Policies applied to promote the opening or use of accounts

A majority of respondents have adopted six of the ten policies listed in Table 5 (and included in the Survey) that can promote the opening or use of accounts. However, a low percentage of high-income respondents have adopted eight of the ten policies.

Policies to promote opening or use of accounts

Percentage of respondents by income level — Table 5

	Low income	Lower middle income	Upper middle income	High income	All respondents
Number of respondents	8	12	14	18	52
Innovative/non-traditional payment products are not prohibited	88%	75%	79%	78%	79%
Persons have right to open account	88%	83%	86%	44%	71%
Payments of public sector salaries are deposited into specific accounts in financial institutions	88%	83%	79%	11%	58%
Simplified account opening requirements	63%	67%	64%	39%	56%
Social benefits are deposited into specific purpose accounts in financial institutions	38%	83%	71%	22%	52%
Payments of government pensions are deposited into specific accounts in financial institutions	63%	83%	71%	11%	52%
Deposit-taking institutions can collect deposits through intermediaries	63%	50%	64%	33%	50%
Deposit-taking institutions are required to offer basic financial products	75%	50%	36%	22%	40%
Savings accounts may be opened without depositor's physical presence	25%	33%	29%	50%	37%
Deposit-taking institutions are incentivised or required to promote customer diversity	50%	25%	36%	17%	29%

Source: Basel Consultative Group Range of Practice Survey (2013).

[31] These jurisdictions did not participate in the Demirguc-Kunt and Klapper (2012) survey.

4. Survey results: Current regulatory and supervisory approaches

As stated in the 2012 Core Principles, "[b]y reinforcing the proportionality concept, the revised Core Principles and their assessment criteria accommodate a diverse range of banking systems. The proportionate approach also allows assessments of compliance with the Core Principles that are commensurate with the risk profile and systemic importance of a broad spectrum of banks (from large internationally active banks to small, non-complex deposit-taking institutions)."[32] The discussion and analysis in this Section therefore applies to the regulatory and supervisory treatment of four categories of deposit-taking institutions: Commercial Banks, Other Banks, Financial Cooperatives, and ODTIs. Survey results on MCIs and NEIDs are presented for the purpose of illustrating differences in their regulatory and supervisory treatment compared with that of the four categories of deposit-taking institutions.

4.1. Use of the terms "regulation", "supervision" and "licensing"

Financial regulation and supervision are inherently related. In this report, financial regulation is understood to mean the adoption and enforcement of the various laws and secondary rules (referred to in some countries as "regulations") that govern financial institutions, whether adopted by the legislature, a financial regulator, or another policymaking body. Financial supervision refers to the oversight of financial institutions by the relevant authority through the use of specific supervisory tools (which may themselves be specifically provided for in regulation and in supervisory manuals) to ensure and enforce compliance with applicable financial regulation.[33]

Licensing straddles both regulation and supervision. Licensing criteria are set forth in law or regulation. The enforcement of such criteria and the decision to approve a licence application may be the responsibility of the regulator. Supervision of a licensed institution often includes – as a sanctioning power – the right to withdraw the licence.

Financial regulation and supervision of a particular type of institution is often undertaken by the same authority, although the authority may differ from one type of financial institution to another. For a number of Survey respondents, financial regulation (eg rules, directives, ordinances) is not drafted by a financial sector authority but by the legislature, another authority, or government executive body. In other respondent jurisdictions, financial regulation is not enforced by a financial supervisor.

4.2. Supervisory powers, responsibilities and functions

4.2.1. Core Principles 4 and 5: Permissible activities and licensing criteria

Principle 4: Permissible activities. *The permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined and the use of the word "bank" in names is controlled.*

Principle 5: Licensing criteria. *The licensing authority has the power to set criteria and reject applications for establishments that do not meet the criteria. At a minimum, the licensing process consists of an assessment of the ownership structure and governance (including the fitness and propriety of Board members and senior management) of the bank and its wider group, and its strategic and operating plan, internal controls, risk management and projected financial condition (including capital base). Where the*

32 BCBS (2012, p 1).

33 Some enforcement measures, however, may be the responsibility of government authorities other than the financial regulator or supervisor. For example, in some instances enforcement is undertaken by the Attorney General or by judicial means.

proposed owner or parent organisation is a foreign bank, the prior consent of its home supervisor is obtained.

Poor and low-income customers often need a variety of financial products and services (including credit, savings, payments and insurance) with specific characteristics that differ from those used by higher income and experienced customers. Financial institutions that serve or seek to serve poor and low-income customers therefore engage in a different range of activities from those of traditional financial institutions – not only a narrower range of activities, but also activities that are typically simpler. [34] Consequently these institutions face a different range of risks and have different risk profiles.

The new or changing nature of risks posed by innovations in products, services and delivery channels are relevant considerations for the licensing criteria of financial institutions that serve poor and low-income customers. A full understanding of the activities, technologies, and institutions involved is important for determining appropriate and proportionate licensing criteria that would enable these financial institutions to be responsive to a market with evolving and unserved needs. This will also contribute to ensuring that all deposit-taking institutions providing financial services to poor and low-income customers are authorised to do so under a licensing framework that can build the trust in the system necessary for poor and low-income customers to choose formal financial services over those available in the informal economy.

Types of institutions and permissible activities

The 52 respondents present a variety of combinations of the six categories of financial institution covered by the Survey.[35] Respondents were asked to indicate, for each category, whether any of the following regulation and supervision applies and which authorities are responsible: prudential regulation, consumer protection/market conduct, financial integrity, competition, data protection. The numbers of respondents where a financial regulator or supervisor regulates and/or supervises the six institutional categories are indicated in Table 6.

Number of respondents with a financial regulator or supervisor, by category — Table 6

Category of financial institution	Number of respondents
Commercial Banks	52
Other Banks	37
Financial Cooperatives	34
ODTIs	26
MCIs	32
NEIDs	28

Source: Basel Consultative Group Range of Practice Survey (2013).

Commercial Banks are typically explicitly permitted by regulation to engage in 12 of the 14 activities listed in the Survey (see Table 7). They are typically not permitted to underwrite insurance or, to a lesser extent, to distribute private pensions. For 21% of respondents, Commercial Banks are permitted

34 Financial products typically involve significantly smaller amounts. For example, microloans may be as small as USD 50; deposits may be less than USD 1; transactional accounts may have maximum balance amounts or maximum monthly transaction totals. In terms of simpler activities, microloans may have shorter terms or fewer documentation requirements; insurance may have simpler documentation and payout processes.

35 Within these six categories, there is significant variation across respondents in the types and heterogeneity of institutions included. For example, as noted in Box 1, the category of Other Banks may include postal banks, rural banks, development banks, savings banks, scheduled banks and others. NEIDs may include e-money issuers and/or e-money distributors.

to contract with retail agents as third-party delivery channels, but with certain restrictions. All respondents explicitly permit Commercial Banks to provide current or checking accounts, whereas only 59% of respondents that regulate or supervise Financial Cooperatives explicitly permit them to provide such accounts, and less than half of relevant respondents explicitly permit this service for Other Banks (49%) and ODTIs (31%).

Activities explicitly permitted by regulation[36]

Percentage of respondents by category of financial institution

Table 7

	Commercial Banks	Other Banks	Financial Cooperatives	ODTIs	MCIs	NEIDs
Number of respondents	52	37	34	26	32	28
Issue payment cards	100%	70%	82%	58%	38%	36%
Provide checking or current accounts	100%	49%	59%	31%	0%	18%
Transfer international remittances	100%	59%	65%	50%	25%	54%
Transfer domestic remittances	98%	65%	85%	73%	38%	71%
Act as an agent of a financial provider	92%	70%	74%	77%	47%	57%
Collect and hold compulsory savings, cash collateral	90%	62%	85%	88%	28%	_
Distribute investment products	87%	65%	65%	58%	19%	_
Contract with retail agents as third-party delivery channels	85%	70%	59%	69%	34%	61%
Distribute insurance	79%	54%	71%	62%	41%	_
Issue e-money (including prepaid cards with an e-money function)	77%	57%	44%	54%	19%	82%
Act as partner of mobile financial services provider	77%	54%	65%	73%	41%	68%
Maintain trust accounts on behalf of another financial services provider	77%	43%	44%	35%	16%	_
Distribute private pensions	60%	35%	29%	38%	13%	_
Underwrite insurance	12%	14%	3%	12%	0%	_

Source: Basel Consultative Group Range of Practice Survey (2013).

For Other Banks, the most common explicitly permitted activities of those listed in the Survey are: issuance of payment cards, acting as an agent of a financial provider, and hiring agents to act as third-party delivery channels.

In contrast, of the respondents that regulate Financial Cooperatives and ODTIs, 85% and 88% (respectively) explicitly permit the collection and holding of "compulsory savings" (ie savings required by the financial institution, most often in connection with lending activity, but also with the opening of accounts) and cash collateral.[37] Eighty-five percent of relevant respondents also explicitly permit Financial Cooperatives to transfer domestic remittances. The next most commonly permitted activity for

[36] The figures in Table 7 generally underestimate the percentages: multiple respondents indicated that some activities are permitted even if not explicitly permitted in regulation.

[37] Financial institutions may require "compulsory savings" or cash collateral to demonstrate a borrower's ability to make payments and to serve as security for the loan. These funds are sometimes deposited in a third-party bank or kept in low-risk securities, so as not to be intermediated by the institution. See BCBS (2010, p 14).

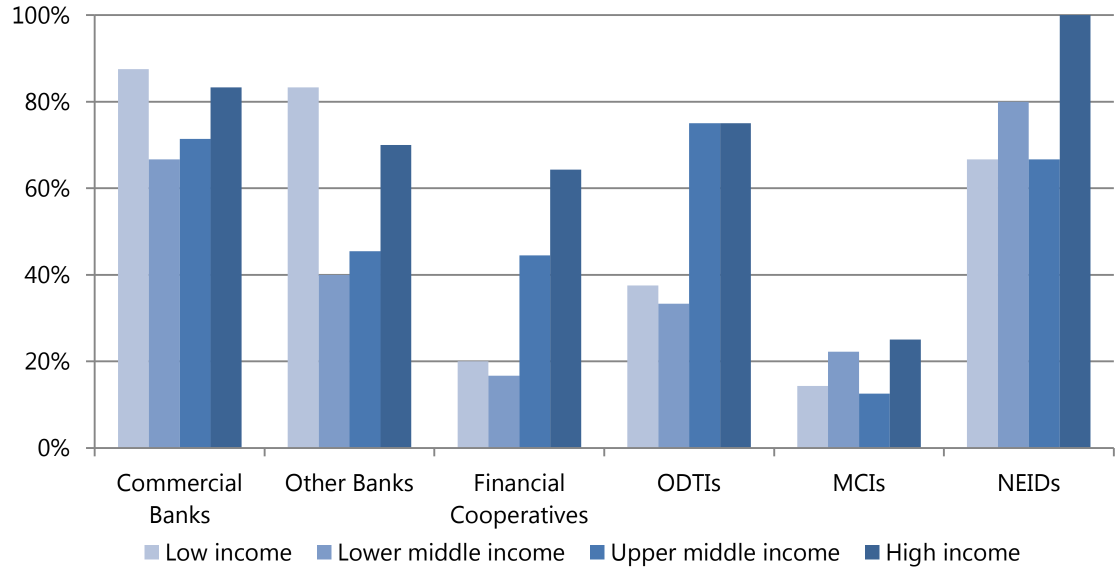
Financial Cooperatives is issuance of payment cards. Acting as an agent of a financial provider is the second most commonly permitted activity for ODTIs.

As expected, for NEIDs the most common explicitly permitted activities are issuing e-money and transferring domestic remittances.

As illustrated in Graph 2, the highest percentage of respondents explicitly permitting Commercial Banks and Other Banks to issue e-money (including pre-paid cards with an e-money function) are low-income respondents. The highest percentages of respondents that explicitly permit all other categories of institution to issue e-money are from high income jurisdictions (with the exception of ODTIs, where high-income respondents are tied with upper-middle-income respondents).

Issuance of e-money (including prepaid cards) explicitly permitted by regulation

Percentage of respondents by category of financial institution and income level — Graph 2



Source: Basel Consultative Group Range of Practice Survey (2013).

Permissible activities through alternative channels

In several respondent jurisdictions, digital transactional platforms are becoming the primary means by which those who are financially excluded can use financial services. In some cases, a bank or other financial institution outsources account management and processing to a third party. In other cases, a non-bank e-money issuer – whether a mobile network operator (MNO) or a payment card issuer – has the primary contractual relationship with the customer, while the customer's funds are held in an account with a bank or other prudentially regulated financial institution. Given the widespread access to mobile phones – as of 2012, about 39% of the total population living in developing countries had subscribed to mobile services[38] – their use as a means of accessing financial services is growing in significance across several jurisdictions.

Half of the 52 respondents have adopted regulation that explicitly permits transactions or other activities to be initiated by a mobile phone or other access devices connected to the mobile

[38] GSMA (2012).

communication network.[39] Many respondents, especially high-income jurisdictions, clarified in narrative responses to the Survey that the absence of explicit regulation on the use of a mobile phone would not prevent its use for various financial activities.

Across all income levels, but in particular among low-income jurisdictions, the use of a mobile phone to carry out financial transactions is most commonly described in regulation as person-to-person (P2P) payment services. In some jurisdictions, P2P transfers are permitted only if the accounts are both held by the same bank. The other commonly permitted activity in low-income respondents, which generally permit only a few mobile phone-based financial activities,[40] is for customers to put funds into their account. Regarding this activity, the Survey question did not make any explicit distinction between transferring funds into a checking, current or savings deposit account with a licensed financial institution and adding funds to the balance of an e-money account.

In response to specific follow-up questions on NEIDs and the use of mobile phones, agents, and POS devices,[41] six of the nine contacted respondents indicated that funds can be put into an e-money account by mobile phone or other access devices connected to a mobile communications network, using agents for the "cash-in" function. All nine respondents specified that e-money does not constitute a "deposit" under current regulation. One respondent clarified that such an account is treated as a prepaid account into which funds are "loaded" (not "deposited"); a second respondent that does not have "e-money" as a legal concept referred to the existence of different levels of simplified accounts that can be funded via a mobile phone; a third clarified that placement of funds into an e-money account is considered "prepaying" the account as only those financial institutions licensed to take deposits from the public may have "deposit accounts."

The mobile phone activity most commonly permitted by high-income respondents is for customers to apply for a loan (50%), followed by person-to-person payments and application for savings account (both with 44%). For upper- and lower-middle-income respondents, loan payments and person-to-person payments are the most commonly permitted mobile phone activities (in addition to customers adding funds to their accounts in the case of lower-middle-income respondents).

Licensing authorities and licensing criteria

All but two of the 52 jurisdictions require Commercial Banks to be licensed by (or in one case, at the recommendation of) the prudential banking authority or central bank (see Table 8). The other two jurisdictions require them to be licensed by a government ministry. More than 60% of respondents require the other five categories of financial institution to be licensed, and between 73% and 91% of such responses for each category indicated that the prudential banking supervisor or central bank is the licensing authority. Of the 41 respondents that indicated the existence of operating Financial Cooperatives in their jurisdiction, 11 do not license them: seven respondents register them (through the banking authority, a ministry, or an agency in charge of cooperative promotion and monitoring) and four respondents neither license nor register them.[42]

39 The question did not specify what type of relationship – if any – the MNO would be required to have with a financial institution. Some respondents reported that they are preparing regulation on "mobile banking" and "e-banking."

40 No low-income respondent allows financial institutions to advertise a loan or a savings account via mobile devices; and only 13% of low-income respondents allow customers to make loan payments, to apply for a savings account or a loan, or to open an account, and allow financial institutions to send approval of a loan or to deliver a loan.

41 Nine respondents with significant experience with financial services delivered via mobile phones were contacted for follow-up on these topics. Of the nine, two were low-income, three were lower-middle-income, three were upper-middle-income, and one was a high-income jurisdiction.

42 Only four respondents provided information about non-registered Financial Cooperatives. Others may also have Financial Cooperatives that operate without registration, but no information was provided.

Licensing and registration authorities

Number of respondents by type of authority[43] and category of financial institution Table 8

	Licensing authority				Registration authority (when licensing is not required)				No. of respondents in which the category operates
	Prudential authority (a) [44]	Other financial regulator (b) [45]	Other ministry/ public agency (c) [46]	Any authority (a), (b) or (c)	Prudential authority (d)	Other financial regulator (e)	Other ministry/ public agency (f)	Any authority (d), (e) or (f)	
Commercial Banks	50	8	3	52	0	0	0	0	52
Other Banks	29	9	1	33	1	0	1	2	40
Financial Cooperatives	22	6	10	30	5	1	4	7	41
ODTIs	21	3	3	23	0	0	2	2	28
MCIs	18	3	3	24	3	2	6	11	39
NEIDs	24	2	1	27	2	0	1	3	30

Source: Basel Consultative Group Range of Practice Survey (2013).

With respect to licensing Financial Cooperatives, the prudential banking supervisor is not involved in the case of eight respondents; instead, the finance ministry, another ministry, or a general cooperative authority is involved. In six of those eight respondents, the prudential banking supervisor is not involved in any supervision either. Three of these cases involve significant numbers of customers and/or assets. In one respondent, the Financial Cooperatives serve over 6.5 million customers - approximately a quarter of the number of customers served by Commercial Banks in that jurisdiction. In another, the Financial Cooperatives serve 67% of the number of customers served by Commercial Banks, although the total assets of the Financial Cooperatives are not significant. In a third respondent, the total number of customers served by Financial Cooperatives is approximately 3million – 15% of the number served by Commercial Banks – and the total assets of the Financial Cooperatives are approximately 10% that of Commercial Banks.

[43] In some cases, more than one authority is involved in the licensing and/or registration process.

[44] Central bank or prudential banking supervisor.

[45] Finance ministry or financial consumer protection authority.

[46] This includes a wide variety of public agencies outside the financial sector, such as general cooperative development authority, justice ministry, interior ministry, commercial registry, economic development ministry, national microfinance agency, commerce ministry.

Licensing criteria

Percentage of respondents by category of financial institution — Table 9

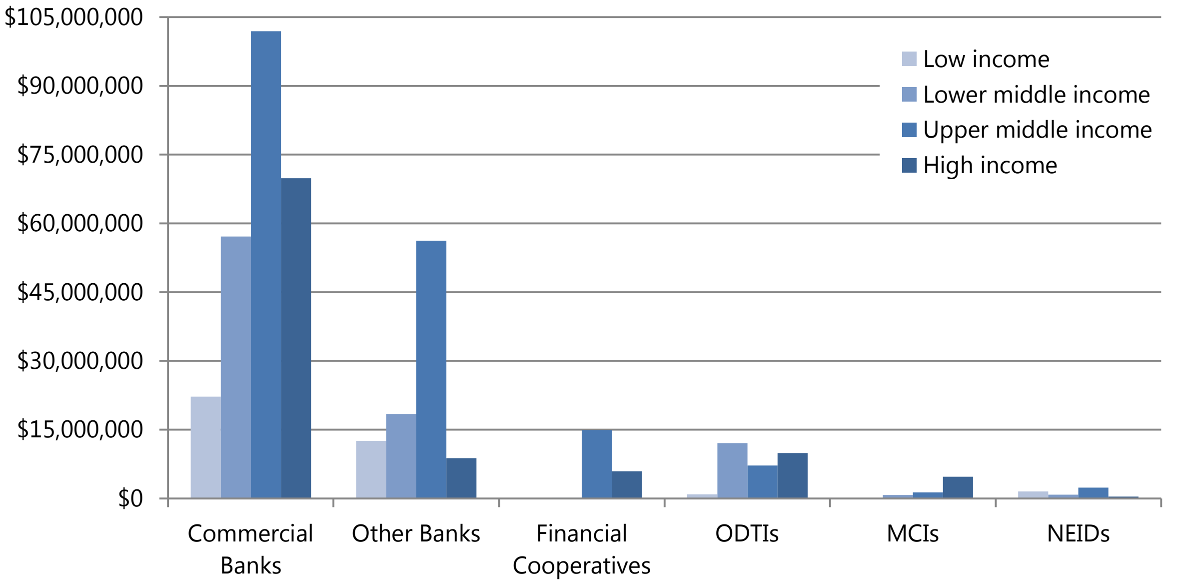
	Commercial Banks	Other Banks	Financial Cooperatives	ODTIs	MCIs	NEIDs
Number of respondents	52	37	34	26	32	28
Strategic plan and business plan	98%	76%	79%	88%	63%	68%
Projected financial condition	98%	76%	82%	88%	59%	64%
Suitability and financial strength of major shareholders	96%	73%	59%	85%	53%	50%
Minimum initial capital requirement	96%	73%	74%	81%	59%	61%
Risk management policies and processes	94%	73%	59%	85%	47%	64%
Fit-and-proper requirements for Board	92%	70%	76%	85%	56%	64%
Internal controls	92%	76%	71%	81%	50%	61%
Fit-and-proper requirements for Senior management	90%	70%	71%	92%	56%	57%
Compliance with AML/CFT requirements	90%	73%	65%	73%	44%	64%
Minimum data security requirements	81%	68%	68%	73%	41%	68%

Source: Basel Consultative Group Range of Practice Survey (2013).

Commonly cited examples of differentiated licensing requirements include different minimum initial capital requirements, especially between deposit-taking and non-deposit-taking institutions and different requirements for management.

Average minimum initial capital requirements[47]

In US dollars by income level and category of financial institution — Graph 3



Source: Basel Consultative Group Range of Practice Survey (2013).

[47] If a respondent gave a range of minimum initial capital requirements per institutional category, the highest amount was used to calculate these averages.

4.2.2. Core Principle 1: Responsibilities, objectives and powers

Principle 1: Responsibilities, objectives and powers. *An effective system of banking supervision has clear responsibilities and objectives for each authority involved in the supervision of banks and banking groups. A suitable legal framework for banking supervision is in place to provide each responsible authority with the necessary legal powers to authorise banks, conduct ongoing supervision, address compliance with laws and undertake timely corrective actions to address safety and soundness concerns.*

The banking supervisory authority is usually endowed with the power to authorise operations, supervise and implement enforcement actions on institutions that engage in deposit-taking or similar activities. This potentially involves supervising a range of financial institutions, including non-banks providing deposit-taking services to poor and low-income customers.[48] While most of these institutions are small, in some jurisdictions they collectively manage a significant proportion of assets of the domestic financial sector or serve a significantly large number of customers, justifying attention from the prudential supervisor.

Various challenges can arise in the supervision of non-bank deposit-taking institutions serving poor and low-income customers. In many countries, because they are so numerous, small in size, and geographically remote, they are extremely difficult to supervise effectively. It is not uncommon for such institutions to fall under the supervisory jurisdiction of a body such as a ministry of agriculture or a cooperative agency (as with 11 Survey respondents) or other authority that lacks adequate experience with prudential supervision or is otherwise inappropriately staffed for the task. As the Survey results indicate, in some cases there is no supervision at all (eg seven respondents in the case of Financial Cooperatives). A country may not even have reliable data on the existence of all such deposit-taking institutions..

Prudential regulation and supervision

In all respondent jurisdictions, Commercial Banks are subject to prudential regulation and supervision. For the other categories of institution, the percentages of respondents that subject them to prudential regulation and supervision are: 90% for Other Banks, 87% for NEIDs, 86% for ODTIs, 83% for Financial Cooperatives, and 69% for MCIs.[49] These percentages change when looking at the respondents by income level.

Prudential regulation and supervision of Financial Cooperatives is common in high-income and upper-middle-income respondents, where there are larger credit unions and savings and credit cooperatives that are perceived as systemically important (eg in at least six respondents this category represents more than 10% of the assets of the financial system). About 40% of lower-middle-income and of low-income respondent jurisdictions do not prudentially supervise Financial Cooperatives. In such jurisdictions, there is often a higher number of Financial Cooperatives with small asset size, but serving a large number of customers. ODTIs are the only category prudentially regulated by all low-income respondents.

[48] In many countries, non-bank financial institutions serve these population segments and increasingly, new types of non-bank financial institutions have been specifically created for this purpose. As noted in the 2012 Core Principles, "[i]n countries where non-bank financial institutions provide deposit and lending services similar to those of banks, many of the Principles . . . would also be appropriate to such non-bank financial institutions. However, it is also acknowledged that some of these categories of institution may be regulated differently from banks as long as they do not hold, collectively, a significant proportion of deposits in a financial system." BCBS (2012, p 13).

[49] These percentages are calculated based on respondents' self-reported numbers of existing financial institutions although not all respondents provided information. This may, at times, be due to lack of readily available information or lack of any information on institutions that are not required to be registered.

Prudential banking supervisor's coverage of multiple types of financial institutions

The prudential banking supervisory authority on average covers four of the six categories of financial institutions defined in the Survey, and carries out not only prudential supervision, but also supervision in the areas of consumer protection, financial integrity, competition and data protection. In two respondents, the prudential banking supervisor *only* supervises Commercial Banks; in one of the two, there is no type of financial institution aside from Commercial Banks.

In 61% of high-income respondents and 64% of upper-middle-income respondents, the prudential banking supervisory authority covers no more than three categories of institution. In contrast, 50% of lower-middle income respondents and 75% of low-income respondents cover four or more categories.

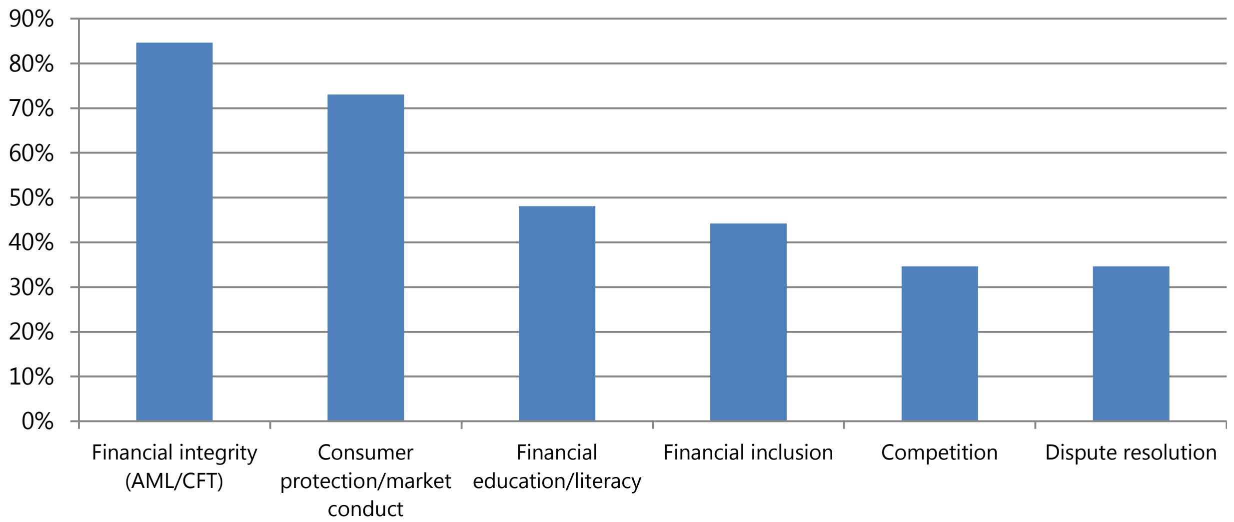
The main responsibility for prudential supervision of ODTIS, NEIDs and Other Banks lies with the prudential banking supervisory authority. This is the case for all ODTIs, in all but one case for NEIDs, and in all but four cases for Other Banks.[50]

Prudential supervisor's functional responsibilities

In addition to having responsibility for multiple categories of institution, prudential banking supervisors may also carry out other responsibilities beyond their core prudential mandate. On average, a prudential banking supervisory authority has four additional responsibilities (and in 15% of respondents such authority has seven or eight additional responsibilities).

Prudential banking supervisor's responsibilities beyond prudential supervision

In per cent of respondents — Graph 4



Source: Basel Consultative Group Range of Practice Survey (2013).

Fifty percent of respondents answered affirmatively, and provided examples, to a Survey question regarding whether they take specific steps to balance the objective of financial stability with those of financial inclusion, financial integrity, consumer protection/market conduct and/or

[50] For MCIs and Financial Cooperatives, about a quarter of respondents indicated that their prudential supervision is not the responsibility of the prudential banking authority.

competition.[51] Examples given by the respondents include: setting up a market conduct/consumer protection unit independent from prudential supervision and with direct reporting line to management; developing regulations that include financial integrity, consumer protection and stability provisions; making decisions in management committees where multiple objectives are represented; developing a risk-based approach to financial integrity that considers potential adverse regulatory impact on financial inclusion.

Thirty-six respondents where prudential authorities have several departments explicitly dealing with multiple responsibilities indicated that they have implemented some type of intra-institutional coordination mechanism. More than 60% of such respondents stated that they have some type of high-level coordination mechanism in place (eg regular meetings between department heads or directors, cross-department managerial committees, high-level working groups, a centralised coordination function), whereas close to 50% indicated that there are working-level meetings, projects or working groups, and that there are regular exchanges of information.

Prudential supervisor's multiple responsibilities and institutional coverage

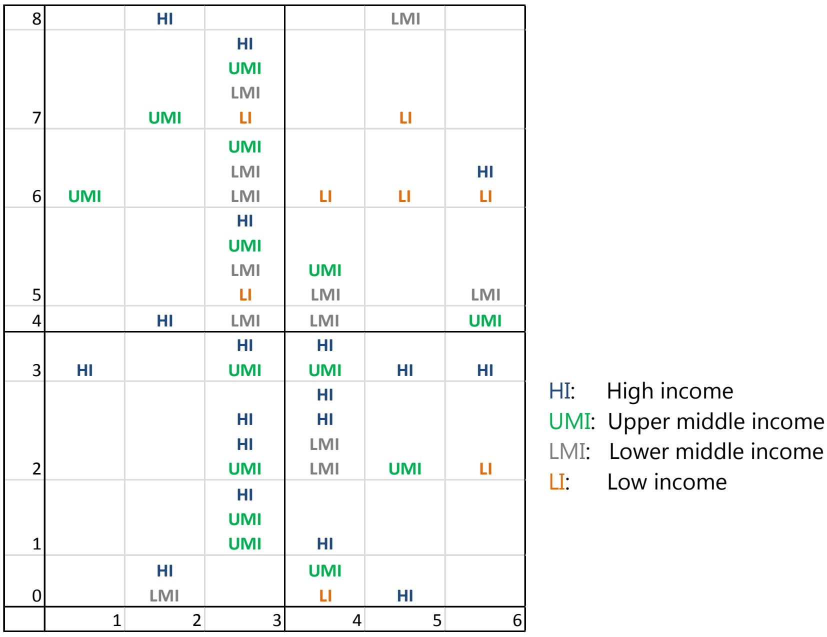
The Survey results indicate that high-income jurisdictions are least likely to have prudential banking supervisors with both a high number of functional responsibilities beyond prudential supervision *and* responsibility for more than three categories of institution. This combination of multiple functions is more commonly seen in low-income jurisdictions. However, there does not seem to be strong relationship between the population size of a jurisdiction and either the number of functional responsibilities that the prudential supervisor bears or the number of categories of institution for which it is responsible.

51 The G20 Finance Ministers and Central Bank Governors' Communiqué of November 2012 highlighted the importance of exploring the linkages among financial inclusion, financial stability, financial integrity and financial consumer protection. See G20 (2012, p 6).

Diversity of institutions supervised by prudential banking supervisor
vs. number of responsibilities beyond prudential banking supervision

Number of categories versus number of responsibilities by income level — Graph 5

Number of responsibilities beyond prudential supervision



Number of categories of financial institutions supervised by prudential authority

Source: Basel Consultative Group Range of Practice Survey (2013).

4.2.3. Core Principle 3: Cooperation and collaboration

Principle 3: Cooperation and collaboration. *Laws, regulations or other arrangements provide a framework for cooperation and collaboration with relevant domestic authorities and foreign supervisors. These arrangements reflect the need to protect confidential information.*

Some of the institutions serving poor and low-income customers and new channels designed to reach such customers are subject to regulation by multiple regulators, such as the prudential banking authority, the cooperative authority, the consumer protection authority, and even the telecommunications regulator. Coordination and communication between and among the different regulators and supervisory authorities is essential in this context.

Multiplicity of supervisory authorities

There is significant variation across the respondents regarding which supervisors take responsibility for prudential supervision of the different categories of institution. Prudential responsibilities may be assumed by multiple authorities, and each of those authorities may have several supervisory functions and cover more than one market or sector. On average, each respondent has two authorities covering the prudential regulation and supervision of the six categories of financial institutions defined in the Survey. Fourteen respondents have more than two prudential authorities: twelve respondents have three, and two respondents have four such authorities. More respondents have two or more authorities involved in the prudential regulation and supervision of Financial Cooperatives (15 respondents) and Commercial Banks (13 respondents) than that of the other categories. Prudential authorities include not only central banks and banking supervisors, but also specialised non-bank regulators and finance ministries.

When not only prudential authorities are considered, the average number of regulatory and supervisory authorities involved in the financial sector rises to four. They include functional supervisors (eg financial integrity, competition, consumer protection and data protection authorities) as well as sector supervisors (eg insurance and securities supervisory agencies that supervise financial institutions distributing such types of products, and self-regulatory organisations). The averages are lower for low-income and lower-middle-income respondents (four and three, respectively) than for upper-middle-income and high-income respondents (six and five, respectively). This may be explained due to a higher centralisation of functions in fewer long-standing institutions in the former groups, and a greater diversity of institutions (including recently established functional supervisors) in the latter groups. For example, several upper-middle-income and high-income respondents have data protection authorities, consumer protection agencies, competition agencies, financial consumer protection/market conduct authorities as well as independent financial intelligence units. Separate agencies to perform these functions do not exist in several lower-middle-income and low-income respondents.[52]

Among respondents, the prudential banking supervisor engages most with the financial consumer protection or market conduct agency. This finding is consistent with the high number of prudential supervisors (among respondents) that have consumer protection responsibilities. The Survey responses do not reflect as much collaboration between prudential banking supervisors and financial intelligence units. Among respondents where such unit exists outside the prudential banking supervisor, 62% indicated that the financial intelligence unit and the prudential banking supervisor share information about a provider, and only 48% share market information. (This is the lowest percentage observed in terms of collaboration between the prudential banking supervisor and other financial regulators.) This low level of reported engagement with financial intelligence units contrasts with the high number of prudential supervisors that indicated having financial integrity responsibilities.

Prudential banking supervisors engage less with the authorities that are not specialised in the financial sector. Even in jurisdictions where NEIDs are present or are regulated, and where mobile phones are used to deliver financial services, coordination with the telecommunications regulator is below 50%. As the role of mobile phones in the provision of financial services increases, coordination between the telecommunications regulator and other relevant regulators (prudential, consumer protection, competition, payments system oversight) may be expected to increase. Only two jurisdictions indicated that they carry out all collaborative actions listed in the Survey (as set forth in Table 10). Among the 16 respondents for which the general consumer protection agency (including agencies with joint consumer protection and competition responsibilities) is responsible for consumer protection supervision of at least one category of institution, 10 (63%) indicated that their prudential supervisors engage in some type of collaboration with such agency.[53]

The Survey results indicate that most cases of coordination by the prudential banking supervisor with other authorities occur when there is a need to comment on relevant regulations or guidelines, although cooperation with the insurance supervisor is more commonly carried out by sharing information on the market or types of providers. Regarding the frequency of coordination, most respondents answered "As needed" across all activities and types of authority.

[52] There is no uniform approach, however, and some high-income jurisdictions have established a centralised authority with responsibility for all financial institutions and several regulatory areas, including prudential regulation and supervision, consumer protection, and financial integrity.

[53] In two of the six respondents where no collaboration was reported, the prudential supervisor does not have any consumer protection responsibility.

Prudential banking supervisor's collaborative engagements with other authorities[54]

Number of responses by authority the prudential banking supervisor engages with — Table 10

	Number of responses	Consent prior to licensing	Comment on regulations or guidelines	Share information on market or types of providers	Share cases of non-compliance with laws	Share complaints information	Share information on a provider	Discuss corrective measures
Financial consumer protection/ market conduct agency	6	5	6	6	6	6	6	6
Cooperative agency	15	6	12	11	8	9	9	7
Finance ministry	15	6	13	11	10	8	9	10
Financial intelligence unit	21	8	17	10	14	11	13	11
Insurance supervisor	19	4	12	13	11	10	12	10
General consumer protection agency	16	2	9	4	5	6	5	6
Competition agency	33	8	16	12	11	11	13	9
Data protection agency	13	0	8	3	4	5	5	2
Tele-communications regulator	28	4	8	6	4	5	7	5

Source: Basel Consultative Group Range of Practice Survey (2013).

4.2.4. Core Principle 8: Supervisory approach

Principle 8: Supervisory approach. *An effective system of banking supervision requires the supervisor to develop and maintain a forward-looking assessment of the risk profile of individual banks and banking groups, proportionate to their systemic importance; identify, assess and address risks emanating from banks and the banking system as a whole; have a framework in place for early intervention; and have plans in place, in partnership with other relevant authorities, to take action to resolve banks in an orderly manner if they become non-viable.*

Proportionate regulation and supervision[55] calls for a supervisory approach commensurate with the systemic importance and risk profile of supervised institutions. In the financial inclusion context, this requires effective allocation of supervisory resources, as well as specialised understanding of the changing nature – and sometime also level – of risks that accompany progress on financial inclusion. The recipe will also not be the same across varying country contexts. For example, in countries where the

[54] The denominator (indicated in the first column) reflects the number of respondents in which the prudential supervisor would have a specific reason (because of the presence of a relevant institution) or be able (because of having the authority) to cooperate and collaborate.

[55] As noted above in Section 2.2, the Survey did not ask whether respondents applied a proportionate approach to regulation and supervision. Instead, questions were posed regarding whether there are differences in the regulation and supervision applied to Commercial Banks and the five other categories of institution covered by the Survey, as well as some questions as to the nature of any such differences. As noted, a differentiated approach is not necessarily a proportionate approach.

largest financial cooperatives eclipse banks in either assets or numbers of customers, the appropriate allocation of supervisory resources will differ from countries where financial cooperatives are uniformly small as both a percentage of the financial sector and in terms of the numbers of customers served.

It is important to acknowledge that proportionate regulation is interpreted differently in this report from proportionate supervision. Whereas proportionate regulation can set different standards for different types of institutions and their products and activities, proportionate supervision is primarily about the allocation by the supervisor of its resources, including staff time, as well as the use of different tools, such as early warning systems, corrective actions, and remedial powers. For example, some categories of institution and some specific institutions might justifiably be subject to intensive on-site supervision, while others are subject to less or none.

The large majority (67%) of respondents take a differentiated approach to supervision of different categories of financial institution. Of the 17 that do not take a differentiated approach to supervision based on the category of institution, 11 do take a differentiated approach to *licensing*.

Application of differentiated supervision

Number of responses by income level

Table 11

	Low income	Lower middle income	Upper middle income	High income[56]
Yes	5	6	9	14
No	3	6	5	3
Total	8	12	14	17

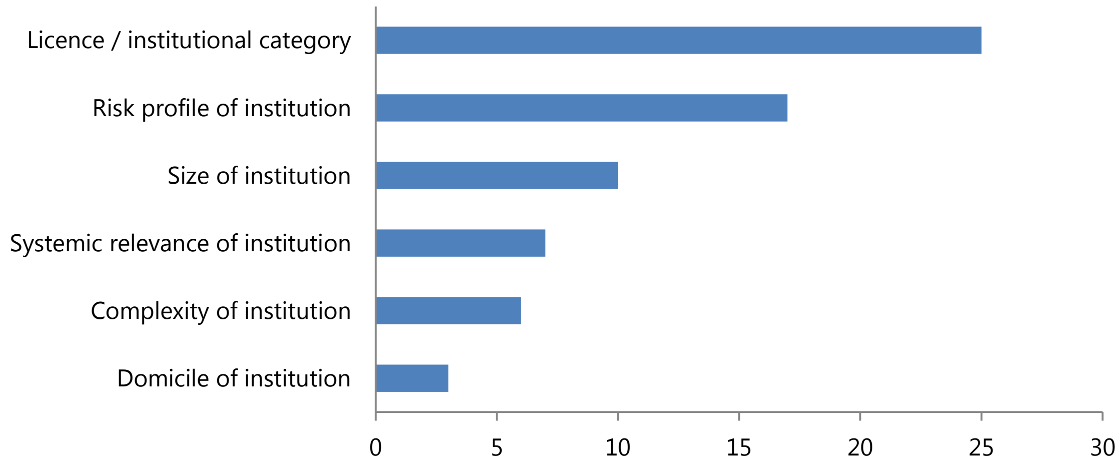
Source: Basel Consultative Group Range of Practice Survey (2013).

Several respondents (including three of the 11 that take a differentiated approach to licensing) indicated that they do not differentiate their supervisory approach based on type of licence; rather, they apply a risk-based approach, varying their use of supervisory tools and techniques according to the risk profile, risk rating, business model, or size of the supervised entity. Two thirds of these respondents are from the high-income group.

Concepts included in differentiated supervisory approaches

Number of responses by concept

Graph 6



Source: Basel Consultative Group Range of Practice Survey (2013).

[56] One high-income respondent has only Commercial Banks and therefore is not included in the table.

Other respondents specifically stated that they regulate and supervise certain types of institutions identically. For example, multiple respondents regulate Commercial Banks in the same way as Other Banks; others regulate cooperative banks (which were defined in the Survey as Financial Cooperatives) the same as Commercial Banks because, in fact, the two types of banks engage in similar activities; still others apply differentiated supervision to Commercial Banks and cooperative banks – because they engage in different activities. Some respondents supervise cooperative banks of a certain size the same as Commercial Banks, and cooperative banks that are smaller than the specified size are supervised differently.

4.2.5. Core Principle 9: Supervisory techniques and tools

Principle 9: Supervisory techniques and tools. *The supervisor uses an appropriate range of techniques and tools to implement the supervisory approach and deploys supervisory resources on a proportionate basis, taking into account the risk profile and systemic importance of banks.*

Effective and proportionate supervision of institutions serving poor and low-income customers requires the supervisory staff to understand the risks of such institutions (including their products and services, customers, activities, and operations). Understanding these providers and their customers will allow the supervisory staff to use appropriate supervisory techniques and tools, which may be different from those applied to systemically important banks and the customers they serve.

Supervisory capacity

Table 12 gives an indication of the number of institutions supervised by respondents in the different income groups (although not all respondents provided data on all types of institutions).[57] This table clearly illustrates that for the Survey respondents, the number of Financial Cooperatives far exceeds the number of all other institutional categories, and narrative responses to the Survey suggest this category of institution may frequently be under-reported (due to poor data availability). For some jurisdictions, the average number of Financial Cooperatives relative to overall supervisory capacity far exceeds what any supervisor could reasonably handle (eg for one respondent, the ratio of institutions to supervisor is well in excess of 300:1).

Number of supervised financial institutions

Number of institutions by category of institution and income level — Table 12

	Low income	Lower middle income	Upper middle income	High income
Number of respondents	8	12	14	18
Commercial Banks	295	458	645	9,803[58]
Other Banks	50	2,452	109	473
Financial Cooperatives	1,080	121,805	2,522	12,412
ODTIs	61	413	113	412
MCIs	2,830	5,758	5,614	4,850
NEIDs	23	26	32	1,753

Source: Basel Consultative Group Range of Practice Survey (2013).

Among the 50 respondents where the prudential banking authority supervises more than one category of financial institution (from a prudential, consumer protection, integrity or competition

[57] Specifically, several respondents from the Americas and the Middle East regions did not provide data on the numbers of institutions other than with respect to Commercial Banks.

[58] The number of Commercial Banks is high due to a few high-income respondents, including one respondent with over 6,000 Commercial Banks.

perspective),[59] 48% of all such respondents (and 63% of such low-income respondents) have only one supervisory department. For several of these 24 respondents, the same supervisory staff performs off-site supervision and on-site examination for different types of regulated institutions.

For respondents with a prudential banking authority that supervises more than one category of financial institution, in 52% of all cases (and in 38% of low-income respondents), the prudential banking authority has at least one other supervisory department separate from the banking supervision department. The large majority of respondents (69%) with more than one supervisory department mentioned the existence of a capacity building program for supervisors, compared with 42% of respondents with only a single supervisory department. However, there is no specification on whether the content of the capacity building program covers financial inclusion issues.

Number of supervisory departments at prudential banking authorities supervising more than one category of financial institution[60]

Number and percentage of responses by income level — Table 13

	Low income		Lower middle income		Upper middle income		High income		All respondents
	#	% of responses	#	% of responses	#	% of responses	#	% of responses	% of responses
One department	5	63%	5	42%	7	54%	7	41%	48%
More than one department	3	38%	7	58%	6	46%	10	59%	52%

Source: Basel Consultative Group Range of Practice Survey (2013).

Assessing the risk profile of an institution requires training and a fundamental understanding of its businesses and specific products and services. Some jurisdictions require hiring criteria for supervisory staff to include experience in microfinance.[61] (See Table 14.) This requirement is most common for MCIs, Financial Cooperatives and ODTIs and – for these categories – is also most common in low-income and lower-middle-income respondents. There are very few high-income and upper-middle-income respondents that apply such criteria. No respondents applied such hiring criteria to NEIDs.

Supervisory staff hiring criteria include microfinance experience

Number of respondents by category of financial institution and income level — Table 14

	Commercial Banks	Other Banks	Financial Cooperatives	ODTIs	MCIs
Low income	2	1	3	3	4
Lower middle income	4	3	3	2	4
Upper middle income	0	1	2	2	3
High income	1	0	1	1	0
Total	**7**	**5**	**9**	**8**	**11**

Source: Basel Consultative Group Range of Practice Survey (2013).

Approximately one-third of respondents provide specific staff training for supervisors of Commercial Banks, Other Banks, and MCIs on how to serve poor and low-income customers. (See Table

59 The number of respondents (52) is reduced by two to account for one upper-middle-income and one high-income respondent for which, in each case, the prudential banking authority supervises only one category of financial institution: Commercial Banks.

60 For one upper-middle-income and one high-income respondent, the prudential banking authority supervises only one category of financial institution. These respondents are excluded from this table.

61 The term "microfinance" is often used to refer to the provision of financial services to low-income persons and small informal businesses. See, for example, BCBS (2010).

15 for a breakdown by income group.) For supervisors of ODTIs, the percentage of respondents providing such training rises to 46%. For supervisors of Financial Cooperatives and NEIDs, training is much less common (24% and 14%, respectively). Such training is scarce among high-income respondents, which generally have lower levels of financial exclusion: only one respondent provides training to supervisors of Commercial Banks, Financial Cooperatives, ODTIs or MCIs, and none provide training to supervisors of Other Banks or NEIDs. This lack of training presents the risk that supervisors are not sufficiently prepared to supervise these institutions or their specific activities focused on poor and low-income customers, which in turn can present financial stability issues.

Supervisory staff training includes topics on how to serve poor and low-income customers

Number of respondents by category of financial institution and income level Table 15

	Commercial Banks	Other Banks	Financial Cooperatives	ODTIs	MCIs	NEIDs
Low income	4	4	1	4	3	1
Lower middle income	7	6	4	4	4	2
Upper middle income	4	2	2	3	3	1
High income	1	0	1	1	1	0
Total	**16**	**12**	**8**	**12**	**11**	**4**

Source: Basel Consultative Group Range of Practice Survey (2013).

Supervisory techniques and tools

In 96% of respondents, the supervisor has manuals, guidance tools and/or procedures for on-site supervision of Commercial Banks; the percentage for Other Banks is 89% and for Financial Cooperatives is 88%. Fewer jurisdictions have manuals, guidance tools and/or procedures for on-site supervision of MCIs (59%) and NEIDs (43%). The percentages of respondents with manuals, guidance tools and/or procedures for off-site supervision were only slightly higher or the same as for on-site supervision. While only a few respondents (12 out of 28) have on-site supervision manuals and procedures for NEIDS, many respondents impose specific operational risk requirements for NEIDS.

The eight supervisory techniques and tools listed in Table 16 are most often used by respondents in supervision of Commercial Banks, Other Banks and ODTIs. Fewer respondents use such tools in supervising Financial Cooperatives, MCIs and NEIDs. The review of financial institutions' policies and procedural manuals is the most commonly used technique for all categories of institution. Analysis of consumer complaints is the second most commonly used supervisory tool. Some respondents mentioned that specific supervision techniques and tools are being developed for NEIDs and agents. The most common techniques for agent supervision are mystery shopping and consumer feedback. In addition, the majority of respondents have early warning systems in place for Commercial Banks (94%), Other Banks (79%), Financial Cooperatives (79%), and ODTIs (76%).

Techniques and tools used in supervision

Percentage of respondents by category of financial institution Table 16

	Commercial Banks	Other Banks	Financial Cooperatives	ODTIs	MCIs	NEIDs
Number of respondents	52	37	34	26	32	28
Review of manuals, policies and procedures	96%	89%	79%	88%	66%	57%
Analysis of consumer complaints	87%	81%	65%	81%	63%	43%
Loan portfolio sampling prior to inspections	87%	76%	65%	77%	53%	11%
Review of customer records	87%	76%	65%	73%	56%	29%
Revision of performance indicators	87%	70%	68%	73%	53%	39%
Monitoring of advertising	58%	54%	35%	42%	47%	32%
Consumer feedback	38%	38%	32%	46%	41%	21%
Mystery shopping	29%	24%	12%	15%	13%	25%

Source: Basel Consultative Group Range of Practice Survey (2013).

4.2.6. Core Principle 10: Supervisory reporting

Principle 10: Supervisory reporting. *The supervisor collects, reviews and analyses prudential reports and statistical returns from banks on both a solo and a consolidated basis, and independently verifies these reports through either on-site examinations or use of external experts.*

The key risk indicators that are used in the supervision of banks and other deposit-taking institutions engaged in conventional retail banking activities would need to be adjusted (or calculated differently) as appropriate or complemented by additional indicators for the supervision of financial institutions engaged in serving poor and low-income customers. This is due to the differences in customer profile, products and services, as well as the new arrangements and partnerships with other providers. Moreover, the new digital transactional platforms that are emerging in many countries – and the additional financial services targeting poor and low-income customers that they can leverage – introduce new market participants and allocate roles and risks (both new and well known) in different ways. In this context, reporting formats and verification procedures used with conventional retail banking may not adequately capture a full risk picture.

The Survey results show that most supervisors require supervised entities (all or a subset) to submit a variety of reports. The reports most commonly required by supervisors are financial statements, liquidity position, reports of external auditors, loan portfolio quality, and significant changes in activities. Not only the banking supervisors but also the supervisors of non-bank deposit taking institutions review and verify the majority of the 10 mandatory reports listed in the Survey.[62] For 79% of respondents the supervisory authority for Financial Cooperatives reviews eight to 10 mandatory reports; in 77% of those cases the supervisory authority also verifies such reports. Similarly high percentages are observed in the case of ODTIs.

4.2.7. Core Principle 11: Corrective and sanctioning powers of supervisors

Principle 11: Corrective and sanctioning powers of supervisors. *The supervisor acts at an early stage to address unsafe and unsound practices or activities that could pose risks to banks or to the banking system. The supervisor has at its disposal an adequate range of supervisory tools to bring about timely corrective actions. This includes the ability to revoke the banking licence or to recommend its revocation.*

Some corrective actions required by supervisors of banks engaged in traditional retail banking activities can be less effective or even counterproductive with deposit-taking institutions engaged in serving poor and low-income customers. For example, stop-lending orders for microcredit providers can exacerbate the problem of deteriorating portfolio quality, given the role that borrowers' expectation of a follow-on microloan typically plays in their incentive to repay.[63]

As is to be expected, for each of the nine corrective and remedial powers listed in the Survey (shown in Table 17), respondents indicate that the authority to use the powers in question is most often given with respect to Commercial Banks. Such authority is also given – but less commonly – with respect to other categories of deposit-taking institution: Other Banks, Financial Cooperatives and ODTIs. Supervisors are least often authorised to use such powers with respect to MCIs and NEIDs. Regarding

[62] The 10 reports covered in the Survey are: (i) financial statements, (ii) loan portfolio quality, (iii) funding structure, (iv) liquidity position, (v) significant changes in activities, (vi) material changes in ownership or management, (vii) credit history of borrowers (sent to the credit registry), (viii) report of internal auditors, (ix) report of external auditors, and (x) reports on consumer complaints.

[63] One of the most distinctive features of microfinance is progressive lending: customers who have limited access to finance are usually dependent upon ongoing access to credit, and microlenders use incentive schemes to reward good borrowers with preferential access to future, larger loans, sometimes with favourable repayment schedules and lower interest rates. See BCBS (2010, p 10-11).

sanctioning authority, supervisors of all categories of institution are most commonly authorised to impose criminal sanctions for reporting of false information and fraudulent practices.

Corrective and remedial powers granted to supervisors

Percentage of respondents by category of financial institution Table 17

	Commercial Banks	Other Banks	Financial Cooperatives	ODTIs	MCIs	NEIDs
Number of respondents	52	37	34	26	32	28
Require the institution to take prompt corrective/ remedial action	98%	89%	76%	88%	63%	61%
Require the institution to increase capital	98%	81%	68%	81%	56%	50%
Impose cease and desist orders	88%	78%	74%	85%	59%	61%
Impose other restrictions on activities of institutions	96%	86%	74%	88%	56%	64%
Remove or restrict the powers of management	88%	73%	65%	81%	41%	57%
Provide for the interim management of the institution	81%	68%	56%	77%	44%	43%
Impose fine on the institution	94%	81%	79%	81%	63%	61%
Remove licence or authorisation of institution	98%	78%	79%	81%	66%	61%
Impose sanctions on management	94%	81%	71%	73%	53%	57%

Source: Basel Consultative Group Range of Practice Survey (2013).

4.3. Prudential regulations and requirements

4.3.1. Core Principle 15: Risk management process

Principle 15: Risk management process. *The supervisor determines that banks have a comprehensive risk management process (including effective Board and senior management oversight) to identify, measure, evaluate, monitor, report and control or mitigate all material risks on a timely basis and to assess the adequacy of their capital and liquidity in relation to their risk profile and market and macroeconomic conditions. This extends to development and review of contingency arrangements (including robust and credible recovery plans where warranted) that take into account the specific circumstances of the bank. The risk management process is commensurate with the risk profile and systemic importance of the bank.*

For banks and other financial institutions that cater to poor and low-income customers, a comprehensive risk management framework should take into consideration the scale and scope of the activities undertaken. There may be, in general, lower risk for some activities or institutions, or the risks may be changing as new customers come on board and new products and services are developed. As noted, the digital transactional platforms that are emerging in many countries – and the additional financial services targeting poor and low-income customers that they can leverage – introduce new market participants and allocate roles and risks (both new and well known) in different ways.

In terms of regulation of the risk management process, as is to be expected, Commercial Banks and Other Banks are the most regulated among the categories of financial institution covered by the related Survey question.[64] A high percentage of respondents require the six risk management policies and processes shown in Table 18 for all deposit-taking institutions. Of the respondents that specifically indicated differences in risk management treatment among the categories of financial institution, nine respondents reported applying a proportionate approach. Two high-income and three upper-middle-income respondents explicitly indicated applying the same requirements with respect to risk management strategies to all licensed financial institutions.

[64] This Survey question asked respondents to select policies that apply to Commercial Banks, Other Banks, Financial Cooperatives, ODTIs and MCIs, but not to NEIDs.

For Commercial Banks, Other Banks and ODTIs, higher percentages of respondents require ongoing risk management policies than require such policies as part of the licensing process.

Risk management policies and processes required by law or regulation

Percentage of respondents by category of financial institution Table 18

	Commercial Banks	Other Banks	Financial Cooperatives	ODTIs	MCIs
Number of respondents	52	37	34	26	32
Policies and processes to identify, measure, evaluate, monitor, report and control or mitigate all material risks	98%	84%	74%	88%	44%
Risk identification, measurement, evaluation, monitoring and control functions are clearly segregated from the risk-taking functions	96%	78%	62%	85%	34%
Internal audit	96%	84%	74%	92%	41%
Risk management strategies (approved by the Boards, consistent with their risk appetite)	94%	81%	65%	77%	31%
An adequate information system for measuring, assessing and reporting on the size, composition and quality of exposures on all risk types	94%	78%	65%	88%	38%
Compliance function	92%	78%	71%	81%	31%

Source: Basel Consultative Group Range of Practice Survey (2013).

4.3.2. Core Principle 14: Corporate governance

Principle 14: Corporate governance. *The supervisor determines that banks and banking groups have robust corporate governance policies and processes covering, for example, strategic direction, group and organisational structure, control environment, responsibilities of the banks' Boards and senior management, and compensation. These policies and processes are commensurate with the risk profile and systemic importance of the bank.*

Corporate governance requires that financial institutions have well-defined organisational and operational structures. In the case of some providers that serve poor and low-income customers, such structures may be lacking.

The Survey asked respondents about the frequency with which the following weaknesses with respect to the boards of directors of Commercial Banks, Other Banks, Financial Cooperatives, ODTIs, and MCIs were observed:

- No fit-and-proper requirements for the selection of senior management (and no plans for succession);
- Failure to approve and oversee implementation of strategic direction, risk appetite and strategy;
- No suitable qualifications and competences (combined with a weak process for nominating and appointing board members);
- Failure (i) to adequately oversee senior management's execution of Board strategies and (ii) to monitor senior management's performance against set standards; and
- Failure to oversee the design and operation of a compensation system, including the appropriate incentives aligned with prudent risk taking and long-term objectives.

Over one third of respondents that supervise Financial Cooperatives frequently observed the first weakness with respect to their boards of directors: the Board has not established fit-and-proper requirements for the selection of senior management and does not have plans for succession. In contrast, only half of the respondents indicated that they observed (and only “rarely”) any of the weaknesses with respect to the boards of directors of Commercial Banks. The responses with respect to

Other Banks and ODTIs were similarly more heavily weighted towards having only "rarely observed" the five corporate governance weaknesses. For MCIs, the responses leaned more towards having "frequently observed" the five listed weaknesses.

4.3.3. Core Principle 25: Operational risk

Principle 25: Operational risk. *The supervisor determines that banks have an adequate operational risk management framework that takes into account their risk appetite, risk profile and market and macroeconomic conditions. This includes prudent policies and processes to identify, assess, evaluate, monitor, report and control or mitigate operational risk*[65] *on a timely basis.*

Supervised institutions that provide financial services to poor and low-income customers face operational risk challenges posed by large volumes of small transactions, which require more support personnel than a traditional retail banking institution, as well as technology-based systems (some of which are outsourced or provided by partners) to deliver services to the customers and to deal efficiently with the inherently high transaction volumes. Other operational risk challenges are posed by a higher likelihood of breakdowns in internal systems and controls due to poor or unreliable infrastructure in areas where poor and low-income customers are being served. In addition, the BCBS has recognised that outsourcing and the typical decentralised and labour-intensive microcredit methodology have significant implications for operational risk management in comparison with retail banking.[66]

The digital transactional platforms that are emerging and rapidly reaching significant scale in many countries – and the additional financial services targeting poor and low-income customers that they can leverage – are also changing the operational risk picture by introducing new market participants, new uses of technology, and retail agents as the principal customer interface.

Operational risk in general

Almost all respondents have regulations requiring Commercial Banks to have specific policies and procedures to identify, assess, evaluate, monitor, report and control or mitigate operational risk on a timely basis. Slightly lower percentages of respondents require such procedures of Other Banks and ODTIs (86% and 81%, respectively). The percentages decline further with respect to Financial Cooperatives (68%) and NEIDS (50%).

Only about 20% of respondents requiring Financial Cooperatives and ODTIs to have policies and procedures for operational risk apply different requirements from those applicable to Commercial Banks, although their operational risk profile can be quite distinct. Differentiated operational risk requirements are more common in the case of NEIDs (43%), although it is not clear from the data the extent to which this variance is tailored to the specifics of the alternative delivery model in question. In fact, several respondents indicated that the regulatory requirements for NEIDs regarding operational risk are similar to those for Commercial Banks or Other Banks issuing e-money, taking into consideration differences in size, complexity and business model (ie applying the concept of proportionality). Other respondents mentioned specific requirements for NEIDs regarding information technology and business continuity plans.

The Survey results may indicate a growing recognition regarding the importance of operational risk in the financial inclusion context as half of the respondents explicitly require (by regulation) providers to analyse the operational risk involved prior to the launch of a new product, service or

[65] The BCBS has defined operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk but excludes strategic and reputational risk." BCBS (2012, p 59, n 79).

[66] BCBS (2010, p 4).

delivery channel aimed at increasing financial inclusion. Most of the respondents that do not require analysis of operational risk before the launch of a new product indicated that there are efforts underway to introduce such a requirement.

In 35-45% of respondents (with a higher percentage among the low-income and lower-middle-income groups), the supervisory authority has implemented measures to address concerns arising from financial inclusion practices such as the delivery of financial services via agents and mobile phones. Among those concerns listed in the Survey, [67] the majority of respondents addressed the following: cybercrime and security issues, disputed transactions, data security breaches specifically related to the use of mobile phones or other mobile devices, [68] and loss of customer funds due to agent fraud. The most common measures used to address such concerns are to monitor and measure risks and to issue guidance.

Operational risk, agents and outsourcing generally

Some but not all respondents permit the different types of institutions to outsource activities to agents and other third parties. One high-income respondent permits all six types of institution to outsource all such activities. Several respondents are currently undertaking, or have recently finalised, changes in the regulatory framework regarding the use of agents and other third parties. There seems to be a trend towards progressively adding categories of institution to the range allowed to outsource at least some activities to third parties, as shown in Table 19.

Activities that institutions are allowed to outsource

Percentage of respondents by category of financial institution Table 19

	Commercial Banks	Other Banks	Financial Cooperatives	ODTIs	MCIs
Number of respondents	52	37	34	26	32
Market or advertise a financial product or service	79%	73%	65%	62%	38%
Collect debts	67%	62%	56%	54%	31%
Receive and submit to the institution a loan application	65%	57%	56%	54%	25%
Receive and submit to the institution a deposit account application	60%	51%	53%	54%	19%
Identify and/or verify the identity of the customer	56%	54%	53%	54%	31%
Receive payment of loans	52%	43%	44%	35%	13%
Receive deposits	50%	32%	35%	42%	13%
Carry out internal audit	42%	30%	47%	58%	25%

[67] The Survey listed the following possible concerns that might be addressed by supervisory measures: cybercrime and security issues, disputed transactions, data security breaches specifically relating to the use of mobile phones or other mobile devices, loss of customer funds by agent fraud, loss of customer and agent funds due to non-bank e-money issuers, liquidity of agents, over-indebtedness via payroll lending.

[68] While the Survey asked about data security breaches specifically related to mobile devices, the risk of data security breaches exists in all circumstances, including the use of other technology such as POS devices. This point was made by respondents who responded to follow-up questions specifically related to mobile phones, agents, and POS devices.

Disburse loans	38%	30%	35%	31%	13%
Open a customer account following the institution's policies	27%	19%	35%	31%	13%
Open a simplified account (eg a low value account or an account with a limited set of allowed transactions), following the institution's policies	27%	22%	32%	31%	16%
Analyse and approve a loan following the institution's policies and limits	25%	19%	32%	15%	13%

Source: Basel Consultative Group Range of Practice Survey (2013).

The majority of respondents permitting financial institutions to contract with retail agents require the institutions to adopt specific risk management procedures and policies for such activities, with the exception of MCIs. (See Table 20.) About two thirds of respondents require such specific risk management procedures and policies of deposit-taking institutions. This lower percentage (when compared with other risk management process requirements (see Table 18)) may be explained by the existence of operational risk requirements that apply to general outsourcing activities that would address the operational risks associated with using third-party agents.

Risk management policies and procedures for working through agents

Number and percentage of respondents by category of financial institution — Table 20

	Commercial Banks	Other Banks	Financial Cooperatives	ODTIs	MCIs
Number of respondents	52	37	34	26	32
Number of respondents that permit contracting with retail agents as third-party delivery channels (A)	44	26	20	18	11
Percentage of respondents that permit contracting with retail agents as third-party delivery channels (A/Number of respondents)	85%	70%	59%	69%	34%
Number of respondents that require risk management procedures and policies for working through agents (B)	28	15	13	11	4
Percentage of respondents that require risk management procedures and policies (B/A)	64%	58%	65%	61%	36%

Source: Basel Consultative Group Range of Practice Survey (2013).

The Survey also asked questions about risk management requirements for five categories of institution serving as agents for another financial service provider. Just over half of the respondents that permit Commercial Banks and Other Banks to act as agents require such institutions to adopt specific risk management procedures and policies for such activities. A lower percentage of respondents impose such requirement to Financial Cooperatives, ODTIs and MCIs serving as agents. (See Table 21.) For all categories, the percentages are lower than those related to working through agents. This could be because agency arrangements between financial institutions (especially those involving banks) are considered an ordinary business activity that may be established by contract without specific regulatory authority or associated risk management procedures.

Risk management policies and procedures for acting as agent

Number and percentage of respondents by category of financial institution Table 21

	Commercial Banks	Other Banks	Financial Cooperatives	ODTIs	MCIs
Number of respondents	52	37	34	26	32
Number of respondents that permit acting as an agent of a financial provider (A)	48	26	25	20	15
Percentage of respondents that permit acting as an agent of a financial provider (A/Number of respondents)	92%	70%	74%	77%	47%
Number of respondents that require risk management procedures and policies for acting as an agent (B)	28	14	11	7	4
Percentage of respondents that require risk management procedures and policies (B/A)	58%	54%	44%	35%	27%

Source: Basel Consultative Group Range of Practice Survey (2013).

4.3.4. Core Principle 17: Credit risk

Principle 17: Credit risk. *The supervisor determines that banks have an adequate credit risk management process that takes into account their risk appetite, risk profile and market and macroeconomic conditions. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate credit risk (including counterparty credit risk) on a timely basis. The full credit lifecycle is covered including credit underwriting, credit evaluation, and the ongoing management of the bank's loan and investment portfolios.*

The credit risk presented by a microloan portfolio is different from the credit risk posed by a bank's standard retail loan portfolio. This is due to the specific characteristics of the microcredit product (small size, short term, borrowers' expectation of follow-on loan upon timely repayment, typically minimal loan documentation) and its client profile. Microcredit providers have developed lending techniques that allow them to serve poor and low-income customers and to manage the risks associated with their activities, including relationship-intensive and group lending methodologies. In addition, the credit risk faced by a microfinance institution differs from that faced by a financial institution engaged in microlending alongside substantial other lending activities.[69] Also, microloan portfolios are typically the primary source of revenues for microfinance institutions, which makes credit risk management an important factor to take into account when assessing the viability of microcredit providers.

In recent years, many countries have witnessed significant growth in the availability of credit to poor and low-income customers (from both formal and informal financial services providers), leading to significant concern in some markets regarding debt stress and even systemic consequences of over-indebtedness.[70] The proliferation of providers serving these market segments – including traditional microlenders as well as consumer lenders and payday lenders with business models relying on high interest rates – challenges supervisors to differentiate among them when monitoring credit risk management approaches.

69 The BCBS has recognised that implementation of the 2006 BCP on credit risk in the context of microfinance activities should be tailored to the particular risks of microlending. Specifically, "specialised knowledge of characteristically labour-intensive microlending methodologies and an appropriate degree of flexibility from supervisors are imperative for assessing asset quality and risks." BCBS (2010, p 3).

70 See, for example, Davel (2013).

A very new development relevant to credit risk in inclusive finance results from the emergence of digital transactional platforms that are rapidly reaching significant scale in many countries, which allow poor and low-income customers to transact in very small amounts while still giving rise to a profitable business case for providers. In a few markets, consumer credit is being extended in very small amounts via the same mobile phones that customers use in lieu of a transactional bank account.[71]

Definition of microcredit

Sixty-seven percent of Survey respondents have a regulatory definition of "microcredit" or other similar terms, such as "credit to micro-entrepreneurs," or "credit to micro-enterprises." All low-income and all lower-middle-income respondents have, or are planning to have, such a formal definition. In many cases, the definition refers to the maximum size of loan, the maximum total indebtedness in the financial sector, or restrictions on the permitted loan recipients. These terms and other similar terms are used for a variety of regulatory purposes, including tailored loan provisioning, adjusted reserve and capital requirements, and interest rate caps.

Formal definition of microcredit (or similar concept)

Number of respondents by income level — Table 22

	Yes	No, but there are plans	No	**Total**
Low income	7	1	0	**8**
Lower middle income	9	3	0	**12**
Upper middle income	11	2	1	**14**
High income	8	0	10	**18**
Total	35	6	11	**52**

Source: Basel Consultative Group Range of Practice Survey (2013).

Credit risk procedures and policies

The large majority of respondents (approximately 90%) require all of their regulated financial institutions to have specific procedures and policies to identify, measure, evaluate, monitor or control credit risks. Of the respondents that apply credit risk regulatory requirements, some apply different requirements to Commercial Banks from those applicable to the other categories of institution. Specifically, for Financial Cooperatives, 30% apply different requirements; for ODTIs, 21%; for MCIs, 13%; for Other Banks, 6%.

Most respondents also require all categories of institution to adopt and maintain policies and procedures applicable to their microcredit portfolio, regarding credit approval, renewal and refinancing; credit administration; loan documentation and information; risk management information systems; over-indebtedness; and responsible debt collection.[72]

Only 11 (21%) respondents – five in the lower-middle-income category, three in the upper-middle-income category, two in the low-income category, and one in the high-income category – have regulations that explicitly address group microcredit methodologies (which have historically been viewed as a type of substitute for conventional collateral, and more generally as a way to deal with credit market information asymmetries, which are more severe when dealing with poor and low-income customers).

[71] The first of these partnerships to reach significant scale is in Kenya, and was only launched in late 2012. (See www.cbagroup.com/ke/m-shwari/Loan-Product.html) Accordingly, no questions on such partnerships were included in the Survey.

[72] Two policies that are less commonly required among respondents are: more stringent limit of individual loan size, and incentive systems for credit officials. In the 2008-2009 Survey most respondents required policies for approving new credit exposures and for refinancing existing loans generally, but few had differentiated requirements specifically for microcredit.

Credit bureaus and registries

Significantly, 81% of respondents have one or more credit bureaus or credit registries that collect information on microcredits, either exclusively or in addition to other types of credit. However, in more than 70% of respondents, neither Financial Cooperatives nor MCIs are required to check a credit bureau or registry. One lower-middle-income and one low-income respondent do not have any credit bureau or registry.[73]

Reporting to a credit bureau or registry is mandatory for Commercial Banks and Other Banks in 33 and 23 respondents, respectively. Among the 17 respondents where Commercial Banks are not required to report to a credit bureau or credit registry but do so voluntarily, 11 are high income, three are upper-middle income, two are lower–middle income, and one is low income. ODTIs, Financial Cooperatives and MCIs are the categories with the lowest number of respondents (13, 15 and 15, respectively) requiring mandatory reporting to a credit bureau or credit registry.

4.3.5. Core Principle 18: Problem assets, provision and reserves

Principle 18: Problem assets, provision and reserves. *The supervisor determines that banks have adequate policies and processes for the early identification and management of problem assets, and the maintenance of adequate provisions and reserves.*

Microcredit portfolios typically manifest distinct dynamics compared with a bank's standard retail loan portfolio. While factors can lead to high portfolio quality – for example, loan officers' personal knowledge of the borrowers, borrowers' expectation of a follow-on loan upon successful repayment, and very short initial loan terms – these factors can also contribute to rapid portfolio deterioration. This is especially the case if borrowers' confidence in the lender's capacity to supply the expected follow-on loans comes into question. Understanding these dynamics is essential to understanding and assessing microlenders' processes for identifying and managing problem assets[74] and to establishing appropriate provisioning and classification requirements with respect to microcredit portfolios.

Eighty-five percent of respondents indicated that regulation establishes one or more specific criteria for classifying a microcredit portfolio for at least one of the following categories of institution: Commercial Banks, Other Banks, Financial Cooperatives and/or ODTIs.[75] The possible criteria listed in the Survey included: (i) days in arrears, (ii) number of rescheduling operations, (iii) absence of guarantees, (iv) inadequate or no analysis of debtor's capacity to pay, (v) inadequate identification of the debtor, and (vi) special repayment plans. The number of days in arrears was the most common criterion for all categories of institution (50% of respondents for Financial Cooperatives, 57% for Other Banks, 60% for Commercial Banks, and 73% for ODTIs), followed by the number of rescheduling operations (from 35% of respondents for Financial Cooperatives to 54% for ODTIs).

Between 20% and 50% of lower-middle-income and low-income respondents indicated that their nonaccrual classification of microcredit offered by different categories of institution is different

[73] In numerous jurisdictions, over-indebtedness is a problem due to irresponsible lending practices. For this reason, some jurisdictions require credit providers to check a credit bureau or registry to assess the credit worthiness of a potential borrower before extending a loan. (FSB 2011, p 13.)

[74] The BCBS has noted that a definition of microcredit is necessary for differentiated definition of non-performance of microloans. (BCBS 2010, p 22.) See discussion of definitions of microcredit in Section 4.3.4 above.

[75] The remaining eight respondents, comprising 15% of the total, did not respond to the question. The 85% figure is in marked contrast to the 2008-2009 Survey. The 2010 Guidance stated that: "microcredit is a separate asset class in only a few jurisdictions (non high-income). In the vast majority (78%) of sampled countries loan classification rules apply equally to conventional retail loans and microcredit, for all institutional types."

from the classification for conventional retail credit.[76] Only one high-income and one upper-middle income respondent have different nonaccrual classifications for micro and retail loans. Between 26% and 42% of respondents have regulation that requires microcredit granted by Commercial Banks, Other Banks, Financial Cooperatives or ODTIs to be considered as nonaccrual when it is past due for more than 60 days notwithstanding that only three respondents specifically define microcredit as a short-term credit (as compared with 23 respondents that define microcredit by maximum size).

Regulatory requirement for classification of microcredit as nonaccrual

Number of respondents by category of financial institution Table 23

	Commercial Banks	Other Banks	Financial Cooperatives	ODTIs
< 30 days	3	2	2	0
30 days	6	5	3	6
31-60 days	2	2	3	2
> 60 days	22	13	9	9
Other	2	2	0	2

Source: Basel Consultative Group Range of Practice Survey (2013).

4.3.6. Core Principle 24: Liquidity risk

Principle 24: Liquidity risk. *The supervisor sets prudent and appropriate liquidity requirements (which can include either quantitative or qualitative requirements or both) for banks that reflect the liquidity needs of the bank. The supervisor determines that banks have a strategy that enables prudent management of liquidity risk and compliance with liquidity requirements. The strategy takes into account the bank's risk profile as well as market and macroeconomic conditions and includes prudent policies and processes, consistent with the bank's risk appetite, to identify, measure, evaluate, monitor, report and control or mitigate liquidity risk over an appropriate set of time horizons. At least for internationally active banks, liquidity requirements are not lower than the applicable Basel standards.*

The specific assets and liabilities typical of many financial institutions that serve poor and low-income customers introduce different liquidity risks as compared with banks generally. A bank's standard retail loan portfolio has different characteristics from a microloan portfolio, which is comprised of small uncollateralised loans (or secured by untraditional forms of collateral such as a group guarantee), each of which usually carries the expectation of a follow-on loan. This expectation effectively converts such a loan from a short-term into a long-term asset. On the other side of the ledger, many financial institutions serving poor and low-income customers also have very different sources of funding as compared with a typical bank. While some sources, such as microfinance investment vehicles and development finance institutions[77] may offer concessionary rates – which may not be available to conventional banks in the same markets – such institutions may have difficulty responding in case of a liquidity shortfall. In some markets, microfinance institutions borrow heavily from local banks for on-lending, exposing both lenders and borrowers in the event of market-wide deleveraging. Finally, non-bank deposit-taking institutions are less likely to have access to "lender of last resort" facilities. These balance sheet structures and practices pose unique liquidity risk management and supervisory challenges.

The digital transactional platforms emerging in many countries trigger liquidity considerations. Where the core of the platform is e-money issued by a non-bank entity such as an MNO, multiple jurisdictions impose – or providers have consented to – restrictions on the investment of customers' funds, such as a requirement that they be held in a trust account with a prudentially regulated bank.

[76] The Survey did not ask respondents to specify whether the nonaccrual definition for microcredit is stricter than for retail credit.

[77] See, for example, BCBS (2010, p 50).

With respect to deposit-taking institutions, most Survey respondents require specific procedures and policies to identify, measure, evaluate, monitor and/or control liquidity risk. Few, however, apply a differentiated approach that might capture unique aspects of providers' liquidity risk profile, except with respect to Financial Cooperatives for which 37% of respondents requiring procedures and policies for liquidity risk apply a differentiated approach. Some respondents mentioned that a differentiated approach must reflect the diversity in size and scale of operations and the range of financial services and activities permitted.

With respect to NEIDs, only 39% of those respondents that regulate NEIDs explicitly require policies and procedures for liquidity risk management.[78] The 61% of respondents that do not impose a liquidity requirement may separately impose a safeguarding requirement.

4.3.7. Core Principle 29: Abuse of financial services

Principle 29: Abuse of financial services. *The supervisor determines that banks have adequate policies and processes, including strict customer due diligence (CDD) rules to promote high ethical and professional standards in the financial sector and prevent the bank from being used, intentionally or unintentionally, for criminal activities.*

The Financial Action Task Force (FATF), which sets international standards for anti-money laundering and countering the financing of terrorism (AML/CFT), has taken significant recent actions that support policymakers in pursuing financial inclusion goals while combating money laundering, terrorist financing, and other financial crimes. These actions were in response to growing awareness over the past decade that country-level implementation of the FATF's AML/CFT standards and guidance, particularly regarding customer due diligence (CDD), can inadvertently prevent poor and low-income customers from accessing formal financial services (or can discourage their use even where there is access). The resulting financial exclusion can compromise countries' ability to track money laundering and terrorist financing by relegating vast numbers of people and transactions to informal providers in the cash economy. This growing awareness is reflected in FATF's formal recognition, in the renewal of the organisation's 2012–2020 mandate, that financial *exclusion* can represent a real risk to effective implementation of the FATF Recommendations for combating money laundering and terrorist financing.[79]

This coincides with the following developments of relevance to financial inclusion: (i) revision of the FATF Recommendations on AML/CFT (the body's highest level normative pronouncements on the subject) embedding a proportionate "risk-based approach" to AML/CFT regulation and supervision, and expanding on the concepts of "lower-risk" and "low-risk" activities; (ii) updating of FATF guidance on AML/CFT and financial inclusion and the publication of new guidance on prepaid cards, mobile payments and internet-based payment services; and (iii) revision of the methodology for assessing compliance with the FATF Recommendations, incorporating for the first time assessment of the effectiveness of a country's AML/CFT regime, and explicitly including financial inclusion policy objectives and financial exclusion issues as factors that assessors may consider in their evaluations.

78 Two respondents indicated that NEIDs are required to have sufficient liquid assets to cover the total amount of outstanding e-money issued; one respondent applies specific safeguarding requirements to funds received from customers (eg they are required to place such funds in a trust account with a commercial bank or other similarly prudentially regulated institution or to invest the funds in highly liquid, low-risk assets), and one requires NEIDs to comply with qualitative liquidity requirements set by internal control regulation.

79 Financial Action Task Force, *Declaration of the Ministers and Representatives of the Financial Action Task Force*, April 2012, www.fatf-gafi.org/topics/fatfgeneral/documents/ministersrenewthemandateofthefinancialactiontaskforceuntil2020.html

Collectively, these actions clarify the landscape for country-level policymaking, offering new opportunities —in some cases, even incentives— for policymakers to adopt AML/CFT regimes that also advance financial inclusion. BCBS has recognised the importance of these developments.[80]

For 98% of Survey respondents, Commercial Banks are required to comply with AML/CFT regulation. The percentages for the other categories of institution covered by the Survey are slightly lower (ranging from 84% for MCIs to 96% for ODTIs), with only a few indicating that the requirements are different from those applied to Commercial Banks.

Regulation subjecting specific lower-risk transactions and products to simplified CDD requirements is most common with respect to transactions and products offered by Commercial Banks and Other Banks and least common for MCIs.[81] (See Table 24 below.) The most common means of establishing "lower risk" is the imposition of low-value thresholds, whether for account balances, individual transactions, or total value of transactions, in a given period.

Simplified CDD requirements applied to lower risk transactions and products

Percentage of respondents by category of financial institution — Table 24

	Commercial Banks	Other Banks	Financial Cooperatives	ODTIs	MCIs	NEIDs
Number of respondents	52	37	34	26	32	28
Value of individual transactions is below a threshold	50%	38%	29%	38%	22%	36%
Account balance is below a threshold	38%	38%	26%	31%	13%	25%
Total value of transactions in a given period is below a threshold	37%	35%	21%	27%	19%	18%
Customers' income is below a threshold	13%	16%	3%	12%	13%	11%
No foreign currency transactions	13%	14%	9%	12%	0%	4%
No cross-border transactions	12%	14%	9%	8%	3%	4%

Source: Basel Consultative Group Range of Practice Survey (2013).

Upper-middle-income and lower-middle-income respondents indicated significantly greater use of a risk-based approach than high-income and low-income respondents, particularly with respect to the following two requirements: exemptions from standard CDD processes for lower-risk products or transactions, and allowing simplified transaction monitoring based on lower-assessed risk. The following two requirements were also used slightly more in those two income groupings than in the high-income and low-income respondents: non-face-to-face CDD by agents and/or mobile device, and acceptance of non-standard identification documentation.

4.3.8. Core Principle 16: Capital adequacy

Principle 16: Capital adequacy. *The supervisor sets prudent and appropriate capital adequacy requirements for banks that reflect the risks undertaken by, and presented by, a bank in the context of the markets and macroeconomic conditions in which it operates. The supervisor defines the components of capital, bearing in mind their ability to absorb losses. At least for internationally active banks, capital requirements are not less than the applicable Basel standards.*

Capital adequacy requirements are important for ensuring that a financial institution has a cushion adequate to withstand financial losses due to economic shocks and operational failures. The

80 The BCBS for example, endorses the FATF's 2013 "useful guidelines on designing AML/CFT procedures that are not overly restrictive to the financially or socially disadvantaged" (BCBS (2014, p 5)).

81 In many cases, the respondent indicated that the characteristic described was an element of the simplified account product.

requirements should reflect the risks presented by an institution and its products and services. Some countries have higher requirements across all types of financial institutions than others.

Factors that might justify higher capital adequacy for deposit-taking institutions targeting poor and low-income customers include: (i) the risks presented by a typical microcredit portfolio, which is comprised primarily of unsecured loans meaning that portfolio deterioration results in loss with no possibility of recovering anything through collateral; (ii) the dynamics of a deteriorating microcredit portfolio and negative repayment incentives caused by customers' doubt regarding the availability of follow-on loans; and (iii) the high administrative costs of high volumes of small transactions, which dictate that a given level of delinquency will de-capitalise a microlender much more quickly than it would decapitalise a typical bank.

The majority of Survey respondents require total regulatory capital adequacy ratios that fall in the range of 8% to 9.9% across all categories of financial institution.[82] The majority of respondents that require regulatory capital adequacy ratios of 10% or more are from the lower-middle- and low-income groups. Such high capital adequacy ratios are primarily required of Commercial Banks, Other Banks and ODTIs. Some respondents where this capital adequacy ratio is not required of Other Banks, Financial Cooperatives, ODTIs and NEIDs indicated they have established other types of capital requirements (eg minimum nominal capital, leverage ratio). No capital adequacy requirement was indicated by about half of respondents regarding NEIDs and about a quarter of respondents for Other Banks, Financial Cooperatives and ODTIs.

Range of total regulatory capital adequacy requirements for credit risk

Number of respondents by category of financial institution and income level — Table 25

Ranges of capital adequacy requirements	Income level	Commercial Banks	Other Banks	Financial Cooperatives	ODTIs	NEIDs[83]
Number of respondents		52	37	34	26	28
8% - 9.9%	Low income	3	3	1	2	0
	Lower middle income	2	0	0	0	0
	Upper middle income	10	4	3	2	0
	High income	16	5	11	3	2
	Total	31	12	15	7	2
10% - 12%	Low income	4	1	1	2	0
	Lower middle income	8	6	1	0	1
	Upper middle income	4	3	0	2	0
	High income	2	1	1	1	0
	Total	18	11	3	5	1
> 12%	Low income	1	1	1	3	1
	Lower middle income	2	0	0	3	1
	Upper middle income	0	0	1	0	0
	High income	0	0	0	1	0
	Total	3	1	2	7	2

Source: Basel Consultative Group Range of Practice Survey (2013).

82 This Survey question asked about the capital adequacy ratios that apply to Commercial Banks, Other Banks, Financial Cooperatives, ODTIs and NEIDs.

83 Two high-income respondents have a capital adequacy requirement lower than 8% for NEIDs.

5. Financial consumer protection

Financial consumer protection is relevant to all users of financial services, but may be more important to poor and low-income customers. Many of them have little if any experience with formal financial institutions, and so may face initial challenges understanding the products and services offered, as well as their rights and responsibilities as financial consumers. Poor and low-income customers also have limited capacity to absorb losses, so the potential negative consequences of bad financial decisions are high.

In emerging markets, the fast expansion of consumer credit offered to new poor and low-income customers by a wide range of credit providers has given rise to concerns regarding over-indebtedness and credit bubbles with potentially systemic consequences. At a global scale, after the recent financial crisis several global bodies and jurisdictions have placed increased emphasis on the linkages between financial consumer protection and financial stability.[84] They have also underscored the importance of accompanying financial inclusion efforts with proportionate financial consumer protection policies, to ensure that newly included consumers are not subject to business practices that may not only cause them harm but also endanger the long-term health of the financial sector. Ultimately, financial consumer protection policies[85] aim to build consumer confidence and trust in the formal financial sector.[86]

An additional dynamic of consumer protection in the context of financial inclusion is the fast pace of product innovation occurring in many markets. This includes innovations in service delivery, with the increasing importance of non-financial actors (eg retail agents, MNOs), and product innovations such as bundled financial products and services and financial products bundled with non-financial products (eg life and health insurance products tied to voice and data plans for mobile phones). These innovations raise important consumer protection challenges, including issues of liability, redress and rule enforcement when a financial product is delivered by one type of provider (eg an MNO) but resides on the balance sheet of another (eg a Commercial Bank); issues of consumer behaviour and usage of products when delivered via new channels that lead to faster consumer decision-making;[87] and issues of data privacy and protection.

84 FinCoNet (2014), FSB (2011), G20 (2009). According to the FSB, "policies that protect the interests of consumers of financial products and services contribute to enhanced risk management by households, more competitive financial markets, and greater financial stability." FSB (2011, p 3).

85 The following G20 High-level Principles on Financial Consumer Protection indicate key elements to consider when designing financial consumer protection regimes: (i) legal, regulatory and supervisory framework; (ii) role of oversight bodies; (iii) equitable and fair treatment of consumers; (iv) disclosure and transparency; (v) financial education and awareness; (vi) responsible business conduct of financial services providers and authorised agents; (vii) protection of consumer assets against fraud and misuse; (viii) protection of consumer data and privacy; (ix) complaints handling and redress; and (x) competition. These Principles were developed by the G20/OECD Task Force on Financial Consumer Protection, in cooperation with the FSB, other international organisations, standard setting bodies and consumer and industry associations. See OECD (2011).

86 According to the Global Findex data, 13% of the adult population and 16% of low-income population do not have an account at a formal financial institution because of mistrust. See Demirguc-Kunt and Klapper (2012).

87 Recent insights from fields such as behavioural economics have brought forth important insights in consumer decision-making, sales staff incentives, and responsible product design that steers consumers towards optimal financial outcomes. These innovations in evidence-gathering and experimental research could help policymakers address related financial consumer protection challenges. See Mazer et al (2014).

5.1. Responsible authorities

The main providers of financial services to poor and low-income customers (Financial Cooperatives, ODTIs, MCIs, and NEIDs) are often subject to different sets of consumer protection laws and regulations depending on their regulator — not depending on the nature or risks of the financial provider. This regulatory fragmentation often generates overlapping and unclear rules and mandates, with potential for regulatory arbitrage and for limited accountability of regulators with no clear authority to enforce rules. This affects the prospects for effective and consistent financial consumer protection regimes.

For at least three quarters of respondents, each category of financial institution is regulated or supervised from a consumer protection or market conduct standpoint by a financial regulator or supervisor. The prudential banking supervisory agency or central bank is the primary consumer protection supervisor for all categories (from 85% of respondents for ODTIs to 49% of respondents for MCIs) and especially for low-income respondents. (See Table 26.) Other financial supervisors responsible for consumer protection include specialised financial consumer protection (or market conduct) authorities[88] and securities commissions. General regulators (eg consumer protection agencies and ministry departments) are responsible for financial consumer protection regulation and/or supervision of Commercial Banks, Other Banks, Financial Cooperatives and MCIs in about a third of respondents. The percentage of respondents where general regulators have financial consumer protection responsibilities is slightly higher for NEIDs (43%) and lower for ODTIs (12%). It is more common for general regulators to be responsible for financial consumer protection in high-income and upper-middle-income respondents.

Financial or general regulators carrying out financial consumer protection regulation and supervision[89]

Percentage of respondents by category of financial institution and income level — Table 26

	Type of regulator or supervisor	Low income	Lower middle income	Upper middle income	High income	All respondents
Commercial Banks	Financial regulator/supervisor	100%	75%	93%	83%	87%
	General regulator/supervisor	0%	33%	43%	33%	31%
Other Banks	Financial regulator/supervisor	100%	70%	83%	70%	79%
	General regulator/supervisor	0%	40%	42%	20%	29%
Financial Cooperatives	Financial regulator/supervisor	86%	67%	80%	79%	78%
	General regulator/supervisor	14%	17%	60%	36%	35%
ODTIs	Financial regulator/supervisor	100%	100%	75%	100%	96%
	General regulator/supervisor	0%	0%	50%	13%	12%
MCIs	Financial regulator/supervisor	100%	100%	78%	60%	80%
	General regulator/supervisor	0%	33%	56%	40%	34%
NEIDs	Financial regulator/supervisor	100%	80%	83%	82%	86%
	General regulator/supervisor	33%	0%	83%	45%	43%

Source: Basel Consultative Group Range of Practice Survey (2013).

60% of respondents vest responsibility for financial consumer protection in two or more separate authorities (including 35% of respondents where such responsibility is vested in three or more

88 Financial consumer protection or market conduct authorities also play a role in the registration and licensing of financial institutions.

89 Several respondents indicated that general and financial authorities share consumer protection responsibilities for multiple categories of financial institutions.

authorities).[90] In 30% of respondents, at least two categories of institution are supervised by two or more different authorities, raising potential coordination challenges.

Inter-agency collaboration

As indicated in Section 4.2.3, the closest inter-institutional collaboration is observed between prudential banking supervisors and financial consumer protection authorities. All the six respondents that have a separate financial consumer protection or market conduct authority indicated that it engages with the prudential supervisor in at least one of the following actions listed in the Survey: (i) consenting prior to licensing, (ii) commenting on relevant regulations or guidelines, (iii) sharing information on market or types of providers, (iv) sharing cases of non-compliance with laws, (v) sharing complaints information, (vi) sharing information on a provider, and (vii) discussing corrective measures.

Among respondents where a general consumer protection agency or department plays a supervisory or regulatory role in financial consumer protection, 63% indicated that they engage with the prudential banking supervisor in at least one of the collaborative actions listed in the Survey. Both institutions most commonly collaborate when commenting on relevant regulations or guidelines (56% of respondents) and discussing corrective measures and sharing complaints information (38% of respondents), followed by sharing cases of noncompliance with laws and sharing information on a provider (31% of respondents each). Only 25% of respondents share information on markets or providers types, and 13% coordinate regarding the provision of consent prior to licensing.

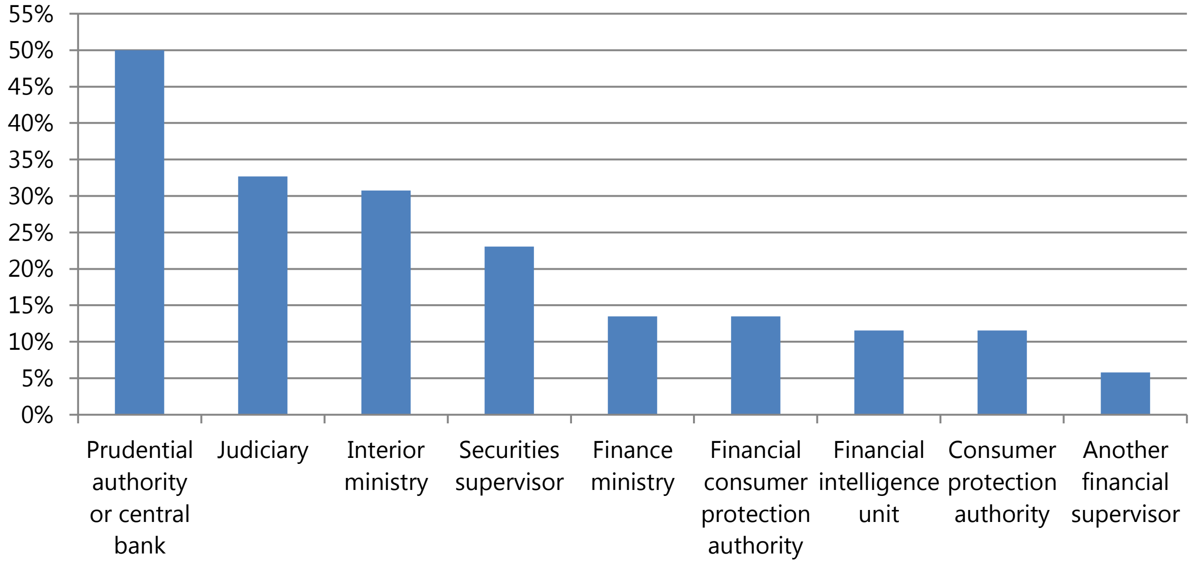
Inter-agency coordination is also important with respect to termination of fraudulent operations. Specifically, coordination is needed between the authority with consumer protection responsibility in the financial sector and the authorities with the lead power to terminate the operation of a fraudulent financial scheme. This leading role is most commonly played by the prudential authority or the central bank in low-income, lower-middle-income and upper-middle-income respondents (63%, 67% and 50%, respectively). For high-income respondents, the leading role is played mostly by the judiciary (56%) followed by the interior ministry (39%). Taking into account not only leading but also collaborating authorities, on average each respondent has four institutions dealing with terminating the operation of fraudulent financial schemes. The prudential authority or the central bank is involved in a leading or collaborative role in the termination of fraudulent operations in 77% of respondents.

[90] These results are consistent with the findings of the Global Survey on Consumer Protection and Financial Literacy, where 74% of jurisdictions indicated that multiple regulators are involved in financial consumer protection. World Bank (2013b, p 6).

Government agency with lead authority to terminate fraudulent operations

Percentage of respondents by agency

Graph 7



Source: Basel Consultative Group Range of Practice Survey (2013).

5.2. Regulations on financial consumer protection

Financial consumer protection regulatory requirements are more commonly applied to Commercial Banks and Other Banks than to the other financial institutions that are the main providers of financial services to poor and low-income customers. For these generally smaller providers, among Survey respondents, regulation places higher emphasis on the right of consumers to receive a copy of the signed contract agreement (or a receipt in the case of a transaction), but many respondents (between 35% and 61%) do not impose such a requirement. The establishment of complaints handling rules is also relevant for non-bank financial institutions and especially for NEIDs –it is their most commonly applied regulatory requirement among those listed in Table 27. This is consistent with the need to build trust in these new categories of financial providers by emphasising the handling of consumer complaints to avoid or minimise reputational risks.

Protection of data privacy and confidentiality is the most common type of regulation addressing financial consumer protection issues. Only NEIDs have less than 50% of respondents applying this requirement—which still makes it the second most common type of consumer protection regulation for this category.

Consumer protection issues explicitly covered by regulation

Percentage of respondents by category of financial institution — Table 27

	Commercial Banks	Other Banks	Financial Cooperatives	ODTIs	MCIs	NEIDs
Protection of data privacy and confidentiality	90%	87%	57%	62%	51%	43%
Prohibition of unfair or abusive practices	87%	76%	59%	62%	51%	39%
Providing consumer with a copy of signed agreement	79%	76%	54%	65%	51%	39%
Establishment of complaints handling rules	77%	66%	57%	54%	37%	46%
Pricing transparency	77%	61%	57%	50%	49%	29%
Assessment of borrowers' total debt exposure	71%	68%	51%	54%	46%	21%
Responsible lending practices	71%	71%	51%	58%	51%	18%
Setup of a complaints handling unit or function	67%	66%	49%	46%	31%	29%
Interest rate caps	50%	45%	38%	38%	34%	11%
Approval of contract clauses by supervisory authority	25%	26%	14%	15%	14%	0%
Allocation of resources for financial education	10%	13%	3%	8%	6%	4%

Source: Basel Consultative Group Range of Practice Survey (2013).

5.3. Supervisory tools and techniques applied to financial consumer protection

Seventy-nine percent of respondents indicated that they use at least one of five sources of information to monitor risks arising from household finance listed in the Survey (ie regulatory reports, macroeconomic reports, statistical household surveys, credit register, and reports from other authorities and agencies). The most common source of information was regulatory reports. Multiple respondents also showed the importance placed on inter-agency collaboration in this area: reports from other authorities and agencies were the second most important source of information on consumer complaints (35% of respondents) and the most important source of information on levels of debt from non-supervised entities (27% of respondents). The aforementioned regulatory fragmentation prevalent among respondents not only confirms the need for this type of collaboration, but also exacerbates the associated coordination challenges.

The Survey listed 14 consumer protection related supervisory activities that prudential banking supervisory authorities may undertake. (See Table 28.) For Commercial Banks, 12 activities are carried out by at least 50% of respondents where prudential supervisors also have consumer protection responsibility. Some differences in approaches to consumer protection are observed. For Commercial Banks and Other Banks, the highest emphasis is placed on the supervisory review of reports on complaints handled by financial institutions. For Financial Cooperatives and ODTIs, the most common consumer protection activity is the analysis of cases investigated by the supervisory authority, which would indicate a relatively more direct role of the supervisors in the handling of complaints against these two categories of institution. For MCIs and NEIDs the most common consumer protection activities are related to the monitoring of business practices, namely the monitoring of advertising or marketing materials and monitoring of compliance with consumer protection requirements. In general, consumer protection supervisory tools based on field research (mystery shopping and consumer research) are the least used across the board. This finding is consistent with the previous finding on overall supervisory tools.[91]

[91] Other surveys also show that mystery shopping and consumer interviews are used by less than half of respondents, and that market monitoring (including advertisements and websites of financial institutions) and operation of hotlines are used by most respondents (World Bank (2013b), FinCoNet (2014)). FinCoNet (2014) also indicated that regulators use stakeholder

Consumer protection activities carried out by prudential banking supervisory authority

Percentage of respondents by category of financial institution Table 28

	Commercial Banks	Other Banks	Financial Cooperatives	ODTIs	MCIs	NEIDs
Review of reports on complaints handled by financial institution	75%	64%	50%	52%	37%	41%
Analysis of cases investigated by supervisory authority	73%	61%	62%	56%	37%	37%
Review of financial institution's website	71%	56%	50%	52%	37%	33%
Monitoring of advertising or marketing materials	69%	56%	53%	48%	40%	41%
Monitoring compliance with consumer protection requirements	69%	58%	41%	48%	40%	41%
Review of financial sector news or media reports	65%	56%	53%	48%	33%	33%
Assessment of consumer protection risks in written policies and procedures	63%	53%	47%	48%	27%	33%
Assessment of consumer protection risks in internal audits	63%	53%	41%	48%	27%	37%
Review of consumer contracts	62%	58%	44%	44%	37%	30%
Inspection of premises	58%	47%	38%	48%	27%	26%
Assessment of consumer protection risks in external audits	56%	47%	29%	44%	27%	33%
Analysis of cases investigated by other authorities	52%	50%	38%	36%	23%	19%
Mystery shopping	27%	19%	12%	20%	3%	4%
Consumer research	27%	14%	15%	12%	17%	11%

Source: Basel Consultative Group Range of Practice Survey (2013).

consultations, industry intelligence and consumer group intelligence to monitor compliance with responsible lending obligations.

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Group of Twenty (G20) (2009): *Leaders' statement: The Pittsburgh Summit*, Pittsburgh, September.

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World Bank (2012): *World development indicators 2012,* Washington, DC, World Bank Group.

——— (2013a): Doing business 2014: Understanding regulations for small and medium-size enterprises, Washington, DC, World Bank Group.

——— (2013b): Global survey on consumer protection and financial literacy: Results brief. Regulatory practices in 114 economies, Washington, DC, World Bank Group.

——— (2013c): *World development indicators 2013*. Washington, DC, World Bank Group.

Annex 1

Mandate of the Workstream on Financial Inclusion

The broad goal of the Workstream on Financial Inclusion (Workstream), launched in November 2012 by the Basel Consultative Group (BCG) of the Basel Committee, is to ensure a more in-depth understanding of the country contexts and regulatory and supervisory constraints faced by both member and non-member jurisdictions associated with inclusive finance. The Workstream focuses on identifying and managing opportunities and challenges in proportionate prudential regulation and supervision of banks and other deposit-taking institutions engaged in serving poor and low-income customers as important actors in a broader financial ecosystem.

The mandate of the Workstream calls for the consideration of cross-sectoral issues – including gaps in regulatory coverage – to form an overall risk picture of financial inclusion that would be of particular relevance to banking supervisors, and for the exploration of the balance between: (i) proportionate application of prudential measures for deposit-taking institutions that serve poor and low-income customers, and (ii) the broader supervisory objective of preserving the safety and soundness of the banking sector. The Workstream is also mandated to consider issues related to consumer protection and to anti-money laundering and combating the financing of terrorism (AML/CFT), in both cases from the perspective of new risk exposures that may be created as innovative delivery approaches are developed and banks and other deposit-taking institutions endeavour to serve poor and low-income customers.

Annex 2

List of Survey respondents

Jurisdiction	Income level	BCBS membership
Argentina	Upper middle income	Member
Armenia	Lower middle income	Non-member
Australia	High income	Member
Austria	High income	Non-member
Bangladesh	Low income	Non-member
Bolivia	Lower middle income	Non-member
Bosnia and Herzegovina	Upper middle income	Non-member
Brazil	Upper middle income	Member
Cambodia	Low income	Non-member
Chile	High income	Observer
Colombia	Upper middle income	Non-member
Congo, Democratic Republic	Low income	Non-member
Czech Republic	High income	Non-member
Fiji	Upper middle income	Non-member
France	High income	Member
Germany	High income	Member
Guatemala	Lower middle income	Non-member
Honduras	Lower middle income	Non-member
Hong Kong SAR	High income	Member
Hungary	Upper middle income	Non-member
India	Lower middle income	Member
Indonesia	Lower middle income	Member
Isle of Man	High income	Non-member
Italy	High income	Member
Japan	High income	Member
Jersey	High income	Non-member
Kenya	Low income	Non-member
Lebanon	Upper middle income	Non-member
Madagascar	Low income	Non-member
Malaysia	Upper middle income	Observer
Mexico	Upper middle income	Member
Mongolia	Lower middle income	Non-member
The Netherlands	High income	Member
New Zealand	High income	Non-member
Nicaragua	Lower middle income	Non-member
Pakistan	Lower middle income	Non-member
Panama	Upper middle income	Non-member
Peru	Upper middle income	Non-member
Philippines	Lower middle income	Non-member
Russian Federation	High income	Member
Samoa	Lower middle income	Non-member
Saudi Arabia	High income	Member
South Africa	Upper middle income	Member
Spain	High income	Member

Thailand	Upper middle income	Non-member
Turkey	Upper middle income	Member
Uganda	Low income	Non-member
United States	High income	Member
Uruguay	High income	Non-member
West African Economic and Monetary Union	Low income *(for the purpose of this Report only)*	
Benin	Low income	Non-member
Burkina Faso	Low income	Non-member
Cote d'Ivoire	Lower middle income	Non-member
Guinea-Bissau	Low income	Non-member
Mali	Low income	Non-member
Niger	Low income	Non-member
Senegal	Lower middle income	Non-member
Togo	Low income	Non-member
Zambia	Lower middle income	Non-member
Zimbabwe	Low income	Non-member

Annex 3

Additional resources on financial inclusion reported by Survey respondents[92]

Argentina	Anastasi, A, E Blanco, P Elosegui, M Sangiácomo, and Banco Central de la República Argentina (2010): "Bankarization and Determinants of Availability of Banking Services in Argentina." *BCRA Working Paper Series*, no 200615, October.
	Banco Central de la República Argentina (2007, 2009): *Una Encuesta de Bancarización en Argentina*.
Armenia	Central Bank of Armenia (n.d.). *Supply Side Survey*.
Bangladesh	Gates Foundation (2011): *Bangladesh Financial Inclusion Mapping*.
	Institute of Microfinance (2011): *Access to Financial Services in Bangladesh.*
Brazil	Central Bank of Brazil (2010, 2011): *Report on Financial Inclusion*.
	National Confederation of Industry (2012): *Retratos Da Sociedade Brasileira: Inclusão Financeira.*
Chile	Gobierno de Chile (2013): *Inclusion Financiera y Medios de Pagos Electronicos*.
Colombia	Government of Colombia (2007): *Encuesta de Mercado de Crédito Informal en Colombia*.
	——— (2010): *Crédito, Otorgamiento Con Recursos Propios, Captación De Dineros Del Público.*
	International Monetary Fund (2009): *Ponzi Schemes in the Caribbean.*
	Superintendencia Financiera de Colombia and Banca de las Oportunidades (2013): *Financial Inclusion Annual Report*.
European Union	European Commission (2008): *Financial Services Provision and Prevention of Financial Exclusion*.
	——— (2010): *Poverty and Social Exclusion Report.*
	——— (2010): *Financial Exclusion in the EU*.
	——— (2012): *Commission Staff Working Document: National measures and practices as regards access to basic payment accounts*.
Fiji	Fischer, D and T Bruett (2010): *Credit Unions and Co-operatives in Fiji: A missed opportunity for financial inclusion.*
	Government of Fiji (2011): *National Financial Competency Survey*.
	Leith, R and R Subramanian (2013): *Building supervisory capacity to create inclusive insurance markets in the Pacific*.
	Leonard, M (2011): *G2P, expanding financial inclusion in the Pacific: Fiji's transfer of social welfare to a savings-linked electronic payment*.
	Pacific Financial Inclusion Programme (2009): *Fiji Financial Services Sector Assessment*.
	——— (2014): *How Fiji's social welfare recipients are adapting to electronic payments*.
	Qazi, M U (2012): *Mobile Money Applications in Disaster Relief and Recovery.*
	Sibley, J (2010): *Financial capability, financial competence and wellbeing in rural Fijian households.*
	——— (2012): *Financial competency of low income households in Fiji.*

[92] Includes responses to three questions that ask for additional documents and resources on the following topics: research on the risks of financial exclusion, supply-side or demand-side data on financial inclusion, and literature on informal providers.

	Tayag, J (2012): *Microinsurance in Fiji: An Evaluation of Demand for Insurance*.
France	Moscovici, P, J P Bel and C Bartolone (2012): *Rapport Annuel de l'Observatoire de l'Epargne Réglementée.*
Germany	Bundestag, D (2000): *Unterrichtung durch die Bundesregierung: Bericht zum 'Girokonto für jedermann'*.
	KfW Bankengruppe (2007): *Microfinance in Germany and Europe- Market Overview and Best Practive Examples*.
Honduras	Comisión Nacional de Bancos y Seguros (forthcoming): *Norma de Agentes Corresponsales*.
	——— (forthcoming): *Norma de Cuenta Básica*.
	——— (forthcoming): *Norma de Servicios Financieros a través de Medios Electrónicos*.
Hong Kong	Hong Kong Mortgage Corporation Limited ("HKMC") (2011): *Microfinance Study Group Report*.
Hungary	Centre for Strategy and Evaluation Services (2010): *Study on the Costs and Benefits of Policy Actions in the Field of ensuring access to a Basic Bank Account – Final report*.
India	Ghosh, J (2013): "Microfinance and the Challenge of Financial Inclusion for Development", *Cambridge Journal of Economics*, September.
	Government of India (2004): *Survey on Financial Inclusion*.
	——— (2013): *Report of the Financial Sector Legislative Reforms Commission*.
Indonesia	Bank Indonesia (2006, 2012): *Survey on Financial Literacy.*
	——— (2013): *Annual Household Survey*.
	Bank Indonesia and the World Bank (2010): *Survey on Financial Access*.
Japan	Central Council for Financial Services Information (2005): *Annual Household Public Opinion Survey on Financial Services*.
Kenya	Central Bank of Kenya and FSD Kenya (2013): *FinAccess National Survey 2013: Profiling developments in financial access and usage in Kenya*.
Lebanon	Banque du Liban (2010): *Basic Circular 124*.
	——— (n.d.): *Basic Circular 273*.
Madagascar	Banque Centrale de Madagascar (1996): *La loi bancaire de 1995*.
	——— (n.d.): *Bulletin de la Banque Centrale de Madagascar*.
	Supervision Bancaire et Financiere (2005): *Un Recensement des Entreprises Irrégulières de Microfinance*.
Malaysia	Bank Negara Malaysia (2011): *Financial Inclusion Demand-Side Survey*.
	Economic Census (2011). *Profile of SMEs.*
Mexico	Asociación nacional de Microfinancieras y Fondos (2013): *Popular Finance*.
	Comisión Nacional Bancaria y de Valores et al. (2013): *Annual Financial Inclusion Report*.
	National Institute of Statistics, Government of Mexico (2012): *National Survey for Financial Inclusion*.
	Prodesarrollo (2013): *Annual Report*.
Mongolia	Microfinance Development Fund (n.d.): Various.
Netherlands	Ministry of Finance (2008): *The Money Wise Platform*.
	National Institute for Family Finance Information (2012): *Financial attitudes and skills as early-warning signs of financial problems*.
	Pantei (2012): *Households with Late Payments*.
	——— (2013): *Overindebtedness of Households*.
	Statistics Netherlands and the Social and Cultural Planning Office (2012): *Poverty Survey.*
	SEO Economisch Onderzoek at the University of Amsterdam (2011): *Non-Usage of Income Supportive Measures*.
Nicaragua	La Comisión Nacional de Microfinanzas (2011): *La Ley N° 769*.

Pakistan	Finmark Trust (2008): *Access to Finance Services Survey*. Pakistan Microfinance Network (2005): *A Study of Informal Finance Market in Pakistan*. State Bank of Pakistan and Security Exchange Commission of Pakistan (2009): *Beware of Fraudulent Companies, Non-Corporate Entities, Individuals*. ——— (2013): *Beware of Frauds*. ——— (2014): *Quarterly Branchless Banking Newsletter*. ——— (2014): *Development Finance Review*.
Peru	Consortium of Private Organizations to Promote the Development of Small and Micro Enterprises (n.d.): Various. Superintendencia de Banca de Peru (n.d.): *Supply-Side Data*.
Philippines	University of the Philippines Diliman Journals (n.d.): Various.
Rwanda	Finmark Trust (2008): *FinScope Rwanda 2008*. ——— (2012): *FinScope Rwanda 2012*. ——— (2012): *Finscope Rwanda 2012: VSLAs and ROSCAs*.
Saudi Arabia	Saudi Arabian Monetary Agency (2013): *Banking Consumer Protection Principles*.
South Africa	Finmark Trust (2013): *FinScope South Africa 2013*. National Credit Regulator (2014): *National Credit information.*
Spain	Government of Spain (2011): *Microfinanzas para la inclusión social y financiera: Modelos para asegurar que nadie sea excluido del acceso a oportunidades*.
Thailand	Bank of Thailand and National Statistical Office (2010): *Financial Access Survey of Thai Households*.
Uganda	Finmark Trust (2006): *Finscope Uganda 2006 Survey*. ——— (2009): *Finscope Uganda 2009 Survey.* ——— (2013): *Finscope Uganda 2013 Survey*.
United States	Aspen Institute's Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD) (2011): *Economic Opportunities Program Data*. Federal Deposit Insurance Corporation (2011): *Surveys on Unbanked and Underbanked Households*. Federal Reserve (2010): *The Survey of Consumer Finances (SCF)*. National Research Symposium on Financial Literacy and Education (n.d.): *Research Priorities*. United States Census Bureau (2014): *Various*. ——— (2012): *Table 1165 and Table 1166*. United States Government (2011): *MyMoney.gov*. United States Treasury (2007): *A Longitudinal Evaluation of the Intermediate-term Impact of the Money Smart Financial Education Curriculum upon Consumers' Behavior and Confidence*, April. ——— (2009): *The Community Financial Access Pilot (CFAP) in 2008-2009*. ——— (2012): *Financial Capability in the United States – 2012 Report of National Findings.*
Uruguay	Central Bank of Uruguay (2014): *Red Física del Sistema Financiero*. Uruguay Financial Stability Committee (forthcoming): *Survey on Financial Inclusion/Literacy and Indebtedness*.
Zambia	Finmark Trust (2009): *Finscope Zambia 2009*.
Zimbabwe	Ernst & Young (2006): *National Microfinance Survey*. Finmark Trust (2011): *Finscope Zimbabwe 2011 Consumer Survey*. ——— (2012): *Finscope Retail Payment Systems Survey*. ——— (2013): *Finscope MSME Survey Zimbabwe*.

Annex 4

List of members of the Workstream on Financial Inclusion

Bangko Sentral ng Pilipinas, Philippines	Nestor A Espenilla, Jr, *Chair* Pia B Roman-Tayag Lyn I Javier Gerardo A Butardo Rochelle D Tomas
Consultative Group to Assist the Poor	Timothy Lyman, *Vice Chair* Juan Carlos Izaguirre Kate Lauer Djibril Mbengue Kathryn Imboden José Rutman Myra Valenzuela Sonja Kelly
Autorité de Contrôle Prudentiel et de Résolution, France	Emmanuel Carrère
Comisión Nacional Bancaria y de Valores, Mexico	José Loyola María Fernanda Trigo
De Nederlandsche Bank, The Netherlands	Ron B M Jongen
Superintendencia de Banca, Seguros y AFP, Peru	Narda Sotomayor
Saudi Arabian Monetary Authority, Saudi Arabia	Sami I Al Belaihid
Association of Supervisors of Banks of the Americas	Rudy Araujo
World Bank	Damodaran Krishnamurti
Secretariat of the Basel Committee on Banking Supervision, Bank for International Settlements	Colleen Cassidy Ju Quan Tan