



FINANCIAL SERVICE PROVIDER-REGULATOR

POLICY FORUM **ON** **Digital Financial Services**



June 2020



**LAGOS
BUSINESS
SCHOOL**

PAN-ATLANTIC UNIVERSITY

INTRODUCTION

On June 2, 2020, financial service providers and regulators convened to discuss policy and regulatory levers that will create and deliver improved customer value propositions, which in turn will move the financial inclusion needle.

This brief features a summary of the findings shared with the audience along with the feedback and contributions made by the Forum participants.

As part of our mandate to assess and advocate for market enabling policies, the SIDFS policy workstream periodically tracks and communicates the implementation of policy reforms and initiatives outlined and agreed on in 2017.

These identified policy reforms fell under 6 categories:

- **Identity management/KYC**
- **Consumer Protection**
- **DFS Infrastructure**
- **Enabling environment for DFS ecosystem**
- **DFS Environment: Interoperability, Collaboration & Competition**
- **Enabling financial inclusion at the last mile**

The SIDFS policy workstream embarked on a study in 2020 to:

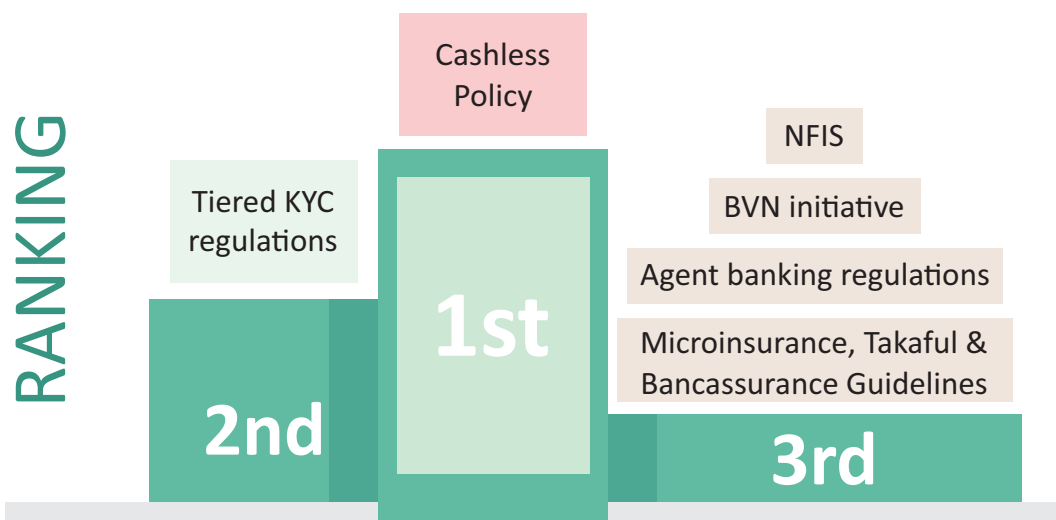
Identify how policies, legislation and regulatory measures targeted at providing citizens access to formal financial services, have influenced the development of inclusive financial services and products by financial service providers (FSPs).



SUMMARY FINDINGS

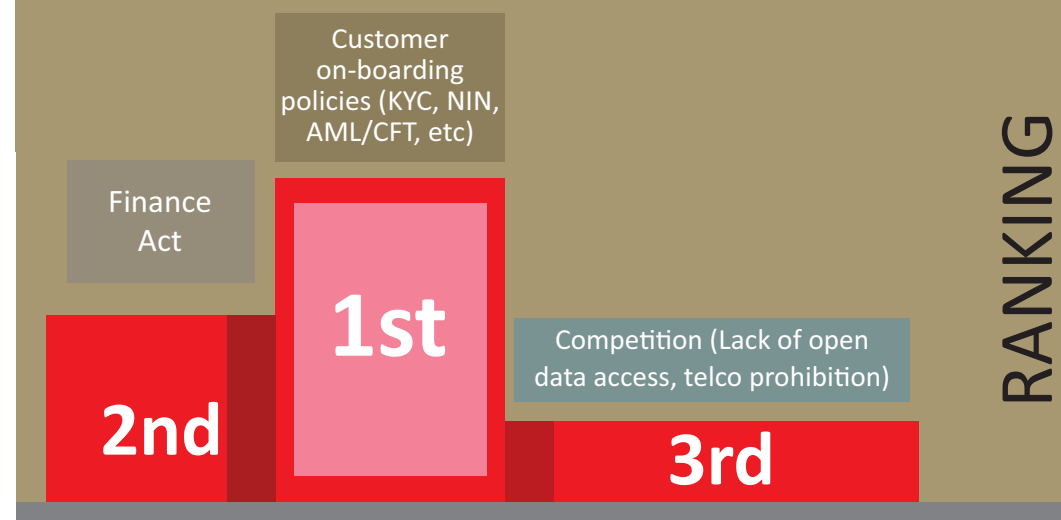
ENABLING POLICIES

What is/are the most important public policy, legislation and/or regulatory measure that has significantly motivated FSPs to develop inclusive financial products and services?



INHIBITIVE POLICIES

Which public policy, legislation and regulatory measure has been a significant obstacle to the development of inclusive financial products and services by FSPs?



INSIGHTS

- 1 Creating and maintaining the right enabling environment has made the most impact on product development and financial inclusion.



Recommendation: Regulators should continue to encourage diversity of players, avoid undue dominance by any player or sector, whilst consumer protection should be actively monitored.



- 2 Measures supporting digital infrastructure and transactions are critical in promoting product development and financial inclusion.

Recommendation: Concerted efforts should be made to improve infrastructure in order to incentivize more investment and lower the operating costs by players.

- 3 Good regulatory quality effects (market directed, risk based prudential financial inclusion regulations, proportionate measures, effective stakeholder consultation and monitoring) have had greater positive influence in incentivizing FSP competition and innovation and accomplishing financial safety objectives, rather than mere rules based/compliance related measures.



Recommendation: Regulators should ensure adequate stakeholder consultation, market friendly regulations that enhance the ease of doing business, reduced administrative and compliance burdens, especially for SMEs.



- 4 Risk based measures that focus on essential objectives and allow for innovation and proportionality are more influential in promoting inclusive product development than rules-based measures.

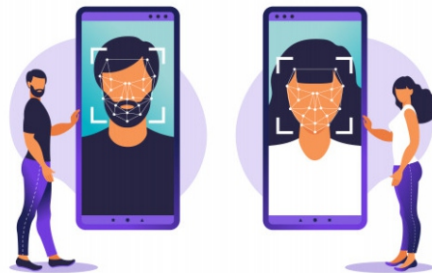
Recommendation: Regulatory innovation and openness to experiment in order to promote inclusive products is highly recommended.

The complete presentation of findings can be found [here](#) while insights can be found [here](#)

INSIGHTS

5 Minimum digital identity - imperative for product development/financial stability.

Recommendation: E-KYC and measures to align regulations on other players with the latitude enjoyed by Fintech's, followed by restrictions after recruitment to manage AML/CFT risks, may be more effective in driving quicker inclusion.



7 The data supports existing literature that a national financial inclusion strategy “can support coordination among public and private sector stakeholders and provide an organizing framework for financial inclusion policies and regulations to be implemented”.

Recommendation: Coordinating the implementation of financial inclusion through the FIS, FRSCC and the National Economic Council and propagating financial inclusion to the unit governments should be strengthened.



6 Focused implementation of financial inclusion policies and alignment with financial inclusion objectives to avoid counterproductive results is required to drive development of inclusive products and services.

Recommendation: Coherence in policy and regulatory measures that relate to or impact financial inclusion should be pursued by all relevant regulators, for example, by clearing them through the Steering mechanism for NFIS 2018.



The complete presentation of findings can be found [here](#) while insights can be found [here](#)



About the 2019 Finance Act

Insight

The new stamp duty has impacted lower income citizens and their adoption of digital financial services. The stamp duty has also deterred merchants from accepting digital payments. Consumers are opting for cash rather than be subjected to paying the stamp duty + VAT + transfer fee for e-payments.

It has increased the cost burden on the consumer compelling them to seek out alternatives i.e. cash.

Action: Tax legislation should provide for cross-subsidisation, so that tax payment by consumers with ability to pay is used to defray and subsidize tax burdens for those at the bottom of the pyramid.



About Enabling Financial Inclusion at the Last Mile

Insight

Beyond offering no-frills account at the bottom of the pyramid, an incentive that could lead to better adoption is introducing/bundling micro-insurance and micro-health products. These are untapped opportunities for providers.

Action: Review policy/framework to encourage and enhance microinsurance and microhealth service providers' activity within the informal sector.



About Complaints Resolution

USSD transactions require better digital receipt narration/transaction recordkeeping to enhance customer complaints resolution.

For disputes at agent locations, the timeline for complaints resolution is dependent on when the customer reports the error.

Action: Review policies on dispute resolution to be holistic, protecting everyone in the financial service value chain, not only consumers, particularly those protecting agents.



About Competition

Restricting open access to telcos' data and prohibition of telcos from leading mobile money delivery have impacted development of inclusive financial products.

The Payment Service Bank (PSB) license opens a gateway for telco subsidiaries to provide limited financial services.

However, the PSB license only allows them to participate in payments. Managing savings and deposits is still within the purview of the banks

Action: Regulatory mindset that favours one sector or players, rather than optimally leveraging collaboration and competition in the financial ecosystem, is counterproductive to financial inclusion and financial system stability.



About Microfinance Bank Categorisation

With reference to regulating the operation of microfinance banks, the unit, regional and national categorization of microfinance banks was introduced to cater for provider size, capacity and asset base and also the need to deepen financial inclusion in excluded areas.



Insight

Contrary to popular belief, the categorization (unit, regional, national) is not based on number of customers or volume of transactions. Rather, according to a representative of the Central Bank, the categorization limits physical branch expansion and not service to individuals.

So, while licensees are not allowed to have branches outside their stipulated region, if a Nigerian in Sokoto, for example, wishes to open an account with a unit Microfinance bank in Lagos, s/he would not be refused service.

However, due to the rapid changes digital financial services have caused within the operating environment, the microfinance guidelines are being reviewed alongside stakeholder consultations.

Action: Speed up the review of the microfinance guidelines to reflect present realities.

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