



GPI

Global Partnership
for Financial Inclusion



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1st Annual GPI Conference on Standard-Setting Bodies and Financial Inclusion

Plenary 2: Proportionality in Practice across Standard-Setting Bodies: Applying Standards and Guidance while Supporting a Financial Inclusion Agenda

Hosted by

FINANCIAL STABILITY INSTITUTE



BANK FOR INTERNATIONAL SETTLEMENTS



The Proportionality Principle

- The proportionality principle: the balancing of risks and benefits against costs of regulation and supervision
 - Supported by the G20 Principles for Innovative Financial Inclusion*
 - Increasingly recognized within the normative standards of the SSBs
- Growing number of countries officially committed to bringing all their citizens into the formal financial system benefit from this recognition

***The G20 Principles for Innovative Financial Inclusion counsel country-level policy makers to “[b]uild a policy and regulatory framework that is proportionate with the risks and benefits involved in innovative products and services and is based on an understanding of the gaps and barriers in existing regulation.”**



Two Broad Types of Challenges in Applying the Proportionality Principle in the Financial Inclusion Context

1. Several of the SSBs have added specificity to the concept of proportionality as set forth in their standards, but there remains comparatively little guidance about how to apply it in the everyday practice of regulation and supervision
2. The application of proportionality triggers somewhat different issues in the case of each of the five SSBs here today

These issues are the focus of the present GPF1 conference



Inherent Challenges with the Proportionality Principle

- Incorporating a financial inclusion agenda requires the SSBs to consider specifically the experiences of countries with large numbers of financially excluded households from which lessons can be drawn
 - This “bottom up” approach yields many questions not yet explicitly addressed by the SSBs
- Until recently, SSBs did not consider in their work the risks of financial exclusion nor the changing nature of risks accompanying progress from financial inclusion
- The consideration of the risks of financial exclusion and the risks and benefits of financial inclusion may be only indirectly related to the core mandate of an SSB
 - Possibility of incorporation into their work
 - Are priorities for many country-level policy makers seeking to apply the SSBs’ standards and guidance



Further Challenges of Risk Assessment and Implementation

- Risks and benefits are often perceived and measured differently by different stakeholders
- Also, some risks and benefits cannot be easily quantified
- Challenges of risk and benefit assessment multiply in complexity when the various standards of the SSBs are applied across different products, services, and institutions
- The difficulty of implementing the differing standards and guidance challenges even those policy makers, regulators, and supervisors in countries with relatively higher levels of regulatory and supervisory capacity and financial inclusion; greater challenges for emerging market and developing countries



Three Countries Applying Proportionality in the Financial Inclusion Context

Mexico, Pakistan, and the Philippines:

- All recognized for their leadership in the proportionate adaptation of their regulatory frameworks: progress on financial inclusion while striving to implement the standards and guidance of the SSBs
- Recognized as leading examples of efforts to operationalize the proportionality principle across the types of products and providers likely to contribute significantly to progress in closing the financial access gap



Session Objectives and Format of Plenary Session 2

- To deepen the understanding of proportionality in the context of application of international standards and guidance to national regulatory and supervisory frameworks while pursuing a broad financial inclusion agenda
- To explore application of proportionality at the country level in three leading examples
- To gain a better understanding of the assessment of risks of financial exclusion and the changing risk and benefits of financial inclusion
- To identify needs of countries in terms of further guidance to enhance application of the proportionality principle

Three country presentations
Open discussion, bringing in other examples and SSB insights
Conclusions

