GLOBAL CENTER ON COOPERATIVE SECURITY

POLICY BRIEF

Risk-Based Supervision for Digital Financial Services

Policy and Practice

By Mercy Buku
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In recent years, the growth of digital financial services, and more particularly mobile money, has been at the center of financial inclusion initiatives in various countries, notably in sub-Saharan Africa and South Asia.[1] Financial inclusion is featured prominently as an enabler of the Sustainable Development Goals (SDGs) and included as a target in eight of the 17 goals. It is shown to have direct and indirect impacts on achievement of the SDGs, including in the elimination of poverty, reduction of hunger and promotion of food security, achievement of good health and well-being, nurture of quality education, and promotion of gender equality.[2]

Access to financial services can support families in saving money, managing cash flows, and building and accessing credit, as well as enabling entrepreneurship that creates jobs.[3] The use of regulated financial services, including digital financial services, also contributes to enhanced transparency and accountability in the global financial system.

Access to traditional banking services, however, is often limited across sub-Saharan Africa and South Asia due to restricted accessibility of brick-and-mortar financial institutions, the high costs of account ownership, and barriers such as low-income levels, unfavorable account-opening terms, and stringent regulatory requirements regarding customer due diligence (CDD) in these regions. As of 2017, 63 percent of adults in developing countries had access to a traditional banking account, compared to 94 percent in high-income countries.[4]

This brief explores the barriers and constraints that hinder digital financial inclusion efforts in jurisdictions that have unbanked populations. It offers

1 Digital financial services are “the broad range of financial services accessed and delivered through digital channels, including payments, credit, savings, remittances and insurance … [and] includes mobile financial services.” Alliance for Financial Inclusion, “Digital Financial Services: Basic Terminology,” *Guideline Note*, no. 19 (August 2016), p. 3, https://www.afi-global.org/wp-content/uploads/publications/2016-08/Guideline%20Note-19%20DFS-Terminology.pdf. “Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs—transactions, payments, savings, credit and insurance—delivered in a responsible and sustainable way.” World Bank, “Financial Inclusion,” 2 October 2018, https://www.worldbank.org/en/topic/financialinclusion/overview#1.

2 Leora Klapper, Mayada El-Zoghbi, and Jake Hess, “Achieving the Sustainable Development Goals: The Role of Financial Inclusion,” Consultative Group to Assist the Poor (CGAP), April 2016, https://www.cgap.org/sites/default/files/researches/documents/Working-Paper-Achieving-Sustainable-Development-Goals-Apr-2016_0.pdf.

3 FINCA International, “Financial Inclusion,” n.d., https://finca.org/our-impact/improved-lives/financial-inclusion/ (accessed 11 November 2021).

4 Asli Demirgüç-Kunt et al., “The Global Findex Database 2017,” World Bank, 2018, p. 18, https://openknowledge.worldbank.org/bitstream/handle/10986/29510/9781464812590.pdf.

recommendations to policymakers and financial sector supervisors on adopting a risk-based approach that overcomes these challenges and enables expanded provision of mobile money and other digital financial services to realize financial inclusion objectives.

GROWTH OF DIGITAL FINANCIAL SERVICES

The increasingly widespread use of mobile phones has given rise to a mobile phone–based economy in which mobile platforms are used more and more as an alternative to traditional banking systems.[5] As of 2020, there were 310 live services of mobile money in 96 countries, with more than 1.2 billion registered mobile money accounts transacting more than $2 billion daily.[6] More than half of this activity was in sub-Saharan Africa, with 157 providers processing more than 27.4 billion transactions totaling $490 billion.[7] In East Asia and the Pacific region, mobile money providers processed 5.4 billion transactions totaling $111 billion.[8]

Mobile money platforms provide access to cheap, reliable financial services for the previously unbanked segment of the global population, serving as a "key driver of socio-economic growth by creating employment, driving business productivity and entrepreneurship, helping to formalize the economy, and providing stability during economic downturns."[9] For example, a 2019 study found that access in Kenya to mobile money provider M-PESA lifted 2 percent of the Kenyan population out of poverty and has been effective in improving the economic lives of poor women and of members of female-headed households.[10] Additionally, according to a 2016 study, "digital finance could raise the level of [gross domestic product] of emerging economies by a total of 6 percent, or $3.7 trillion, by 2025."[11]

The COVID-19 pandemic has further underscored the importance of mobile money and digital financial services, even in places with higher usage of traditional banking. Pandemic-related movement restrictions, coupled with corresponding regulatory changes in the financial sector promoting the use of cashless payments in most economies, has triggered an upsurge in transactions on mobile money and other digital platforms, not only in Africa and Asia but also in places such as the United States and Europe.[12] In this regard, there was a 12.7 percent increase in the number of registered mobile money accounts globally in 2020, which was double the forecasted growth rate.[13] "Apart from changes in consumer behaviour, this impressive uptake was due to regulators implementing more flexible Know Your Customer (KYC) processes and relaxing on-boarding requirements to make it easier to open an account."[14]

5 Indeed, when M-PESA was launched in Kenya in 2007, only "one billion of the world's 6.5 billion people had bank accounts yet at least three billion had mobile phones." Briana Sapp, "Mobile Phones Revolutionise Banking," Inter Press Service, 23 May 2007, http://www.ipsnews.net/2007/05/finance-africa-mobile-phones-revolutionise-banking/.

6 Simon K. Andersson-Manjang and Nika Naghav, "State of the Industry Report on Mobile Money 2021," GSM Association (GSMA), 2021, p. 6, https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2021/03/GSMA_State-of-the-Industry-Report-on-Mobile-Money-2021_Full-report.pdf.

7 Ibid., p. 8.

8 Ibid.

9 Nika Naghavi, "State of the Industry Report on Mobile Money 2019," GSMA, 2020, p. 1, https://www.gsma.com/sotir/wp-content/uploads/2020/03/GSMA-State-of-the-Industry-Report-on-Mobile-Money-2019-Full-Report.pdf.

10 Tavneet Suri and William Jack, "The Long-Run Poverty and Gender Impacts of Mobile Money," *Science*, 9 December 2019, pp. 1288–1292, https://doi.org/10.1126/science.aah5309.

11 James Manyika et al., "Digital Finance for All: Powering Inclusive Growth in Emerging Economies," McKinsey Global Institute, September 2016, p. 10, https://www.mckinsey.com/~/media/mckinsey/featured%20insights/employment%20and%20growth/how%20digital%20finance%20could%20boost%20growth%20in%20emerging%20economies/mg-digital-finance-for-all-full-report-september-2016.pdf.

12 Piotr Filipiak, "COVID-19: The Viral Spread of Cashless Society?" Comarch and *Financial Times*, n.d., https://www.ft.com/partnercontent/comarch/covid-19-the-viral-spread-of-cashless-society.html (accessed 19 December 2021); "Has Digital Finance Softened the Impact of COVID-19," International Telecommunication Union, 21 July 2021, https://www.itu.int/hub/2021/07/has-digital-finance-softened-the-impact-of-covid-19/.

13 Andersson-Manjang and Naghav, "State of the Industry Report on Mobile Money 2021," p. 4.

14 Ibid.

Despite this success, however, unfettered access to financial services has yet to be achieved in many countries. In 2017 it was estimated that about 1.7 billion adults were still unbanked and without access to safe, reliable, and convenient financial services through an account at a financial institution or through a mobile money provider.[15] These unbanked adults are found mainly in developing economies, as opposed to high-income economies, where bank account ownership and access to financial services are more widespread.

BARRIERS TO DIGITAL FINANCIAL INCLUSION

Various constraints and barriers prevent eligible adults from accessing digital financial services. Policy and regulatory factors affect the environment in which these services are provided, practical barriers affect an individual's ability to access and utilize digital financial services, and social and cultural factors affect the customer's adoption and usage of and trust in digital financial services or its providers.

The regulatory environment is one of the most important factors that can advance or hinder digital financial inclusion. Many countries have yet to put in place an enabling regulatory environment for the provision of digital financial services on a large scale. In such cases, existing financial services regulations meant to mitigate risk may unintentionally be stifling innovation or may be so restrictive as to make the offering of such services unviable from a business perspective.

Like traditional financial services, digital financial services present a risk of being misused for fraud, money laundering, terrorism financing, and other criminal activity. In particular, mobile money and other digital and electronic forms of payment are attractive to criminals due to the speed of their delivery, the potential for anonymity, and the availability of cross-border and international digital payment channels. The prevalence of mobile phones and acceptance of mobile money as an alternative financial inclusion tool in developing economies also make mobile money platforms vulnerable to money laundering and terrorism financing risks. In addition, increased usage of digital financial services during the COVID-19 pandemic has created fresh opportunities for fraud and cybercrime.[16]

Digital financial services can pose unique risks to the customer. Notably, there are data protection concerns to consider with regard to digital financial services. Many such services require digital disclosures whereby a customer must provide personal information during an online registration process. In addition to raising questions around data security, this creates a potential for phishing schemes, identity theft, and fraud.[17] Financially disadvantaged persons or those lacking financial literacy are disproportionately vulnerable because they may lack awareness of their consumer rights or the need to protect personal data. Consumers may also experience risk stemming from the rapid nature of transactions. For example, money sent to the wrong person may be impossible to retrieve once the recipient has transferred the funds.

Given the relatively recent rise of digital financial services and the diversity of products available, policymakers and regulatory authorities can lack a nuanced understanding of the associated risks and benefits of these products and services, which can lead to overregulation or a miscalibration of anti–money laundering and countering the financing of terrorism (AML/CFT) efforts that further stifle the expansion of digital financial services.

Barriers to consumers' ability to use and access financial services can also undercut digital financial

15 Demirgüç-Kunt et al., "Global Findex Database 2017," p. 4.

16 "This could be the case particularly if efforts to rapidly scale up digital payments during the COVID-19 crisis cannot be matched by equally paced improvements in cybersecurity." Itai Agur, Soledad Martinez Peria, and Celine Rochon, "Digital Financial Services and the Pandemic: Opportunities and Risks for Emerging and Developing Economies," *IMF Special Series on COVID-19*, 1 July 2020, p. 8, https://www.imf.org/~/media/Files/Publications/covid19-special-notes/en-special-series-on-covid-19-digital-financial-services-and-the-pandemic.ashx.

17 Mercy Buku and Rafe Mazer, "Fraud in Mobile Financial Services," CGAP, April 2017, https://www.cgap.org/research/publication/fraud-mobile-financial-services.

inclusion efforts. Often, policymakers focus solely on advancing particular aspects of financial inclusion, such as closing gender gaps, without addressing these other important constraints.

High transactional fees can make digital financial services unaffordable, particularly mobile money where peer-to-peer transfers are often sent frequently but for relatively small amounts. Lack of regulation that establishes transparency in pricing or guides the setting of tariff structures can further discourage users, as in many cases customers are not able to compare the various service offerings. Unfavorable terms and conditions for the opening of mobile banking accounts also discourage potential customers, as can CDD obligations imposed as part of AML/CFT regimes. Although CDD measures are an important aspect of ensuring transparency and accountability in the financial system, these requirements can pose practical challenges due to the unavailability of the required documentation. The negative impact of these requirements is felt most by populations that already experience higher levels of financial exclusion, including low-income and rural populations. It is these communities where digital financial services offer the most promise for advancing global financial inclusion goals.

Where banks and mobile money agent outlets are too far away, potential customers will be discouraged from opening accounts and mobile wallets. In these instances, customers may choose instead to keep money on their person or in the house, which can expose them to security and fraud risks. This is particularly relevant in the ongoing challenges arising from pandemic-related movement restrictions, during which physical visits to banks and agents may not be possible.[18]

Limited access to mobile phones or internet availability can also be a major barrier to digital financial inclusion, especially in rural areas. Even where mobile phones may be available, such phones may not be internet enabled, or internet service may be unreliable or inconsistent.

Further, the menus for digital financial services are often in foreign languages rather than in the local or national language of target communities. This is compounded by a lack of financial numeracy skills and the perception of mobile financial services as being too complicated to understand. Often, programming to raise awareness of digital financial services availability and build financial literacy for its use is limited to a subset of the population, such as those living in urban areas or to the middle- and high-income tiers who already have access to traditional banking services.

Finally, various cultural and social factors can affect digital financial inclusion. These include lower levels of education and income, lack of collateral for credit services, lack of financial empowerment, and mobility constraints. Women in particular may face cultural constraints, such as social norms where women are not allowed to open bank accounts or have a phone with access to a mobile wallet, and an overall lack of gender parity.[19] In such contexts, social and cultural factors can result in financial exclusion for women, thereby shutting out a huge potential market for financial service providers.

OVERCOMING THE BARRIERS

THE RISK-BASED APPROACH

There is an obvious need for supervisors to implement measures to mitigate the above barriers to digital

18 CGAP, "COVID-19 (Coronavirus) Insights for Inclusive Finance," n.d., https://www.cgap.org/topics/collections/coronavirus-inclusive-finance (accessed 19 December 2021). In this regard, "[t]he COVID-19 pandemic has created an urgent need to accelerate digital delivery to minimize the spread of the virus through physical contact." Ivo Jenik, Mehmet Kerse, and Louis de Koker, "Rapid Account Opening in a Pandemic: How to Meet AML/CFT Rules for Social Assistance Payments," *CGAP COVID-19 Briefing*, July 2020, p. 1, https://www.cgap.org/sites/default/files/publications/2020_07_COVID_Briefing_Rapid_Account_Opening.pdf. For example, social assistance payments can be disbursed through physical or digital channels.

19 For a detailed discussion on gender barriers, see Mercy Buku, "Removing the Barriers to Women's Financial Inclusion," *TC Note*, November 2019, https://res.torontocentre.org/guidedocs/Barriers%20to%20Womens%20Financial%20Inclusion.pdf.

financial inclusion, but such measures must ensure that providers engage in responsible finance[20] through the maintenance of the integrity of the systems on which digital financial services are offered.

Favorable regulatory environments and supervisory good practices are key factors in the success of financial inclusion initiatives, allowing critical innovation in the development and deployment of mobile money and digital financial services. Such innovative financial technologies, products, and services may offer significant economic opportunities. Yet, they present a risk of being misused by criminals for money laundering and other criminal activity, including terrorism financing. Accordingly, supervisory efforts to enhance financial inclusion must ensure that the systems and processes supporting these initiatives remain transparent and uphold AML/CFT standards.

The Financial Action Task Force (FATF), the international standard-setting body on AML/CFT compliance, recommends that countries identify, assess, and understand the risks of money laundering and terrorism financing within their jurisdiction and then use a risk-based approach to take action and invest resources to mitigate these risks.[21]

FATF has adopted a series of guidance notes in order to assist public authorities and the private sector in applying a risk-based approach. This guidance calls for understanding risk and existing mitigation or prevention mechanisms at the national, sectoral, product, and customer levels.

With regard to products and customers, financial institutions are required to identify potential risks at the beginning of a relationship and to categorize risks according to severity, likelihood, and impact level.[22] The outcome of risk assessment should determine the appropriate level of identification, verification, and monitoring, as well as additional customer information needs, and inform the regulation and supervisory policies, controls, and procedures to manage and mitigate identified money laundering and terrorism financing risks.[23]

The FATF guidance related to digital financial services was issued in 2013 and includes application of the risk-based approach to debit and credit cards, prepaid cards, mobile payments, and internet payment services.[24] In 2018, FATF amended its standards to explicitly clarify their application to new technologies such as virtual assets and digital financial services[25] and require the AML/CFT regulation of virtual asset service providers, including mobile money and other digital financial service providers.[26]

Since then, a series of interpretive notes and guidance has been developed related to virtual assets, with the most recent issued in October 2021. The guidance notes that "jurisdictions should be aware of the intersection and potential impact AML/CFT requirements have on other regulatory requirements and policy

20 Responsible finance refers to "coordinated public and private sector interventions that encourage and assist financial services providers and their clients in improving their understanding and approaches, practices, and behaviors that can eventually contribute to creating more transparent, inclusive, and equitable financial markets." International Finance Corporation, CGAP, and the German Federal Ministry for Economic Cooperation and Development, "Advancing Responsible Finance for Greater Development Impact," 27 January 2011, p. 1, https://responsiblefinanceforum.org/wp-content/uploads/2014/08/ResponsibleFinanceReport.pdf. "One of the critical dimensions of financial sector responsibility is fair treatment of clients and acting in ways that protect clients' social and economic welfare." Ibid.

21 FATF, *International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation: The FATF Recommendations*, October 2021, Recommendation 1, https://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202012.pdf (hereinafter *FATF Recommendations*).

22 FATF, *Guidance for a Risk-Based Approach: The Banking Sector*, October 2014, https://www.fatf-gafi.org/media/fatf/documents/reports/Risk-Based-Approach-Banking-Sector.pdf.

23 FATF, *Risk-Based Supervision*, March 2021, https://www.fatf-gafi.org/media/fatf/documents/Guidance-Risk-Based-Supervision.pdf.

24 FATF, *Guidance for a Risk-Based Approach: Prepaid Cards, Mobile Payments, and Internet-Based Payment Services*, June 2013, http://www.fatf-gafi.org/media/fatf/documents/recommendations/Guidance-RBA-NPPS.pdf.

25 "A virtual asset is a digital representation of value that can be digitally traded, or transferred, and can be used for payment or investment purposes. Virtual assets do not include digital representations of fiat currencies, securities and other financial assets." *FATF Recommendations*, p. 130.

26 Ibid., Recommendation 15.

areas, such as data protection and privacy, financial inclusion, de-risking, consumer and investor protection, and financial innovation."[27]

A proportionate, risk-based approach to digital financial services regulation is therefore essential to addressing the barriers noted above and achieving the full financial inclusion potential provided by digital financial services. Proportionality entails the balancing of risks and benefits of products and providers against the costs and the expected benefits of regulation and supervision. A proportionate regulatory environment will enable the accommodation of different digital financial services and a range of diverse providers, including those aiming to reach financially excluded and underserved customers.

Regulators and supervisors should consider the following measures to promote digital financial inclusion through the risk-based approach.

FOSTERING AN ENABLING REGULATORY ENVIRONMENT

1. **Creation of an enabling regulatory environment for innovative digital financial services.** Policymakers and regulators should adopt a risk-based approach that encourages and enables innovation in designing and implementing digital financial services while upholding AML/CFT obligations. For example, regulators in Kenya, Morocco, and the Philippines have established "regulatory sandboxes" to allow financial technology start-ups and other innovators to pilot innovative products in a controlled environment and under regulatory supervision. Such measures can help reorient regulatory approaches to account for the differences and opportunities that digital financial services present over traditional banking models, allowing providers to design and market products specifically for segments of the unbanked population. Where applicable, regulatory and supervisory approval should be expedited to facilitate the timely launch of successful products.
2. **Use of data to promote digital financial services.** Policymaking on digital financial services must be evidence based to maximize its potential impact. Governments can undertake national surveys to identify underserved areas and assess challenges to ongoing financial inclusion initiatives. These surveys can be augmented by sector-specific analysis, including research led by private sector entities, to determine market conditions and consumer needs. These data can inform the design and deployment of complementary efforts that support and enable usage of digital financial services, for example, by ensuring the provision of cheap and affordable mobile phones for disadvantaged sectors to promote the use of mobile money or by extending mobile network services and improving network availability in the affected areas. In particular, gender-disaggregated data on women's mobile phone ownership would help to quantify the market opportunities for mobile money and identify countries where women lag behind men in their access to mobile financial services.[28]
3. **Risk-based supervision of agent networks.** Branch and agent networks are essential for expanding access to mobile financial services, and regulations should be adapted and refined to enable the widespread use of agents for client onboarding in accordance with AML/CFT obligations. Regulators should monitor agent networks to ensure the adequacy of financial services reach in previously unserved areas. Regulators also should review the adequacy of pre-engagement due diligence that digital financial service providers perform on prospective agents to confirm compliance with applicable agent banking requirements.

27 FATF, *Updated Guidance for a Risk-Based Approach: Virtual Assets and Virtual Asset Service Providers*, October 2021, p. 12, https://www.fatf-gafi.org/media/fatf/documents/recommendations/Updated-Guidance-VA-VASP.pdf.

28 Global Banking Alliance for Women, Data2X, and the Inter-American Development Bank, "Measuring Women's Financial Inclusion: The Value of Sex-Disaggregated Data," n.d., https://data2x.org/wp-content/uploads/2019/08/MeasuringWomensFinInclusion-ValueofSexDisaggData.pdf.

4. **Training and awareness campaigns for digital financial service providers and supervisory staff.** Regular training for supervisory staff, including joint training for multiple authorities, is key to enable them to remain updated on market and regulatory developments. Regulators should provide guidance to digital financial service providers on the implementation of the risk-based approach, appropriate money laundering and terrorism financing assessments, and CDD measures that respond appropriately to higher and lower risk, including understanding the drivers of de-risking.
5. **Stakeholder participation.** It is important for supervisors to communicate regularly their expectations of institutions' compliance with legal and regulatory obligations, which should include consultation with relevant stakeholders and the fostering of cooperation and information exchange between the public and private sectors, where appropriate.

ENABLING CLIENT USAGE OF DIGITAL FINANCIAL SERVICES

6. **Removal of customer barriers to utilizing digital financial services.** Regulators should work with digital financial service providers to identify strategies to reduce practical barriers that restrict potential customers from opening a bank account or mobile wallet. In this regard, AML/CFT regulatory and supervisory regimes should be informed by a national risk assessment for money laundering and terrorism financing, including the conditions under which simplified and enhanced CDD measures can be utilized.[29] Guidelines for collecting and verifying customer identity in the widespread absence of national identity cards can be developed, leveraging such other emerging technologies as digital identification and biometrics.[30] These measures must be developed and implemented in accordance with international human rights law and data protection obligations.[31] They also should prioritize financial access for underserved and vulnerable groups, such as women and the forcibly displaced.
7. **Consumer protection.** Adequate consumer protection measures generate confidence in the use of digital financial products and services. Consumer protection laws related to digital financial services should focus on requiring providers to offer responsible finance and implement systemic and procedural controls to protect consumers against fraud and cybercrime and ensure adequate data protection mechanisms. Consumer awareness and sensitization campaigns would help address consumer concerns about the safety and security of these new services.
8. **Unfair market practices regulation.** Regulators and supervisors should implement measures to curb unfair market practices and pricing wars whose end is to disadvantage the user. Such measures could include the enactment of comprehensive competition laws and pricing transparency

29 "Identifying, assessing, and understanding [money laundering and terrorism financing] risks [are] an essential part of the implementation and development of a national [AML/CFT] regime, which includes laws, regulations, enforcement and other measures to mitigate [money laundering and terrorism financing] risks." FATF, *National Money Laundering and Terrorist Financing Risk Assessment: FATF Guidance*, February 2013, p. 4, https://www.fatf-gafi.org/media/fatf/content/images/National_ML_TF_Risk_Assessment.pdf.

30 In this regard, the World Bank and the Global Partnership for Financial Inclusion place particular focus on digital identification and emerging areas in the financial sector where identity systems can be leveraged to increase efficiency, enhance effectiveness, and enable innovative ways of conducting existing business processes. World Bank Group, *G20 Digital Identity Onboarding*, 2020, p. xiv, https://www.gpfi.org/sites/gpfi/files/documents/G20_Digital_Identity_Onboarding.pdf. See also FATF, *Digital Identity*, March 2020, https://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/Guidance-on-Digital-Identity-report.pdf.

31 For example, bank regulators in Kenya and Tanzania approved a tiered threshold of KYC measures for the M-Shwari and M-Pawa digital banking savings and credit products, which are pegged to the M-PESA mobile money transfer service. The thresholds are based on the amount saved, with enhanced KYC measures, such as submission of copies of identification, required for amounts in excess of $2,500. Mexico also has approved a simplified due diligence structure for account openings pegged to low transactional volumes, for example, no physical identification card copies are required for accounts with transactions of less than $1,150 per month. Xavier Faz and Denise Dias, "A Bold Move Toward Simplifying AML/CFT: Lessons From Mexico," CGAP, 19 May 2011, https://www.cgap.org/blog/bold-move-toward-simplifying-amlcft-lessons-mexico.

requirements, including a requirement to seek regulatory approval for a tariff increase, and disclosure of transaction fees upfront. Regulators can liaise with relevant domestic authorities, including telecommunications and national registration authorities, local authorities, and the judiciary, to ensure coherent interpretation of legal requirements and promote a level playing field by preparing joint guidance.

9. **Avoidance of predatory practices in targeted marketing campaigns.** Financial inclusion and financial literacy campaigns should ensure broad and diverse participation of all population segments, including rural communities and other disadvantaged segments. Regulators and supervisors should monitor market developments and work with providers to ensure that marketing campaigns for products are carried out in a transparent manner and avoid predatory practices. Such oversight is especially critical for products designed specifically for unbanked segments, such as women and the financially disadvantaged, because they may be more vulnerable to exploitation.

10. **Removal of gender barriers.** Regulators and supervisors should work with the financial sector to remove any gender-specific barriers, for example, removing the legal provisions that prevent women from registering a business, opening a bank account or mobile wallet, or owning property or that require women to borrow jointly with their husbands or to have their husbands cosign charge and guarantee documentation.[32] Regulators and financial service providers should address social and cultural constraints that discourage women from using financial services, in line with the World Bank's gender strategy for the removal of social barriers to women's ownership and control of productive physical and financial assets, including land, housing, technology, and deposits and savings.[33] Such measures, however, must consider people's beliefs and the contextual constraints that shape those norms. Regulators and supervisors therefore need to undertake comprehensive research into these social norms to gain a deep understanding of how they impact the attitudes and behaviors of society toward women's financial inclusion. This may necessitate programs that provide financial education to women to enable them to benefit from financial inclusion initiatives and reduce vulnerabilities to fraud and predatory practices.

CONCLUSION

Improving access to financial products and services is critical to addressing the current pressing global issues of poverty and inequality while enabling the achievement of diverse national development goals. In this regard, the World Bank recognized the importance of financial inclusion by setting a goal of reaching 1 billion financially excluded individuals by 2020, in line with the SDGs and the World Bank's twin goals to end poverty and build shared prosperity in a sustainable manner.[34]

Digital financial services are the primary delivery channel for financial inclusion in excluded areas, and accordingly, favorable regulatory environments are critical for the facilitation of digital financial inclusion in these areas. This inclusion will be achieved through the implementation of enabling financial services regulation and risk-based supervision, which will allow for innovation backed by the necessary consumer

32 For example, Zambia has put in place a task force to advance women's financial inclusion initiatives, among which are ensuring countrywide awareness of the importance of opening savings accounts and reviewing KYC laws to make it easier for women to open accounts. Carol Schmidt, "Policy Into Practice: Zambia Advances Women's Financial Inclusion," CGAP, 15 February 2016, https://www.cgap.org/blog/policy-practice-zambia-advances-womens-financial-inclusion.

33 World Bank, *Gender Equality, Poverty Reduction, and Inclusive Growth: 2016–2023 Gender Strategy*, n.d., https://openknowledge.worldbank.org/bitstream/handle/10986/23425/102114.pdf (released 16 December 2015).

34 The percentage of banked adults globally was 69 percent in 2017, an increase from 51 percent in 2011. World Bank, "UFA2020 Overview: Universal Financial Access by 2020," 1 October 2018, https://www.worldbank.org/en/topic/financialinclusion/brief/achieving-universal-financial-access-by-2020. See United Nations, "Sustainable Development Goals Progress Chart 2020," n.d., https://sustainabledevelopment.un.org/content/documents/26727SDG_Chart_2020.pdf.

protection safeguards to ensure the provision of responsible financial services to all. Such regulation also should ensure the removal of gender barriers to guarantee the targeting of financial inclusion for women as a distinct unbanked segment.

Financial service providers will need to develop affordable and accessible products such as digital credit and savings accounts, which are essential for moving low-income customers from reliance on basic cash transactions to the adoption of a savings culture and financial security. Such products should match customers' levels of financial literacy, be easy to understand, and have favorable terms such as tiered CDD requirements and low interest rates to encourage borrowing.

Regulators and supervisors must be cognizant of the current barriers to financial inclusion in their countries and focus on ways to reduce them, taking into account disadvantaged population segments, for example, rural communities, women, and elderly persons. Collaboration by different stakeholders, including financial services providers and regulators, will be an essential part of this process.

Finally, it is vital that jurisdictions enact the necessary measures to combat terrorism financing and money laundering in compliance with international regulatory requirements, but such measures should not stifle financial inclusion initiatives. Instead, regulators should adopt a risk-based approach to achieve an acceptable balance between financial inclusion and financial integrity.

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