The Role of Regulators in Advancing Financial Inclusion and Innovations

Speaking Notes

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Kempinski Hotel Gold Coast Accra

March 10-11, 2020

All protocol observed.

Introduction

Thank you very much for the invitation to this maiden MT4D event. Let me also use this opportunity to congratulate the Ghana Chamber of Telecommunications and its partners for the foresight in organizing this conference.

Ladies and Gentlemen, the importance of financial inclusion for growth and development cannot be overemphasized. It is generally accepted that financial inclusion boosts economic growth and poverty reduction through channels such as savings mobilization and resource allocation. Most importantly to central bankers, financial inclusion supports our efforts to maintain price stability. This is because, advancing financial inclusion strengthens the monetary policy transmission channel. Simply put, when a greater share of the economy is formalized, the interest rate channel becomes more effective to achieve the desired objective of price stability.

In recent times, the financial inclusive agenda has received a major boost from digital transformation which through cost savings, wider network, and efficiency gains. The current digital transformation however has created the phenomena where traditional institutions such as the formal banking sector have reinvented themselves to respond to the emergence of agile and equally responsive competitors, such as the financial technology companies. Currently both the traditional and the new players in the financial sector have increased their technological platforms to make financial products and services more flexible, competitive and accessible, and by so doing promoting the financial inclusive agenda.

Legal and Regulatory Reforms

The stability of any financial sector is broadly anchored on strong legal and regulatory frameworks. With the recent rise in technological advancements, updates to the financial sector regulatory frameworks have even become more urgent. Over the years, Bank of Ghana, as a regulator, has undertaken several legal and regulatory reforms to cover emerging digitization of financial services. These reforms hold great potential for leveraging digital finance to scale up financial services, enhance competition, address consumer demand, and engender greater financial inclusion.

- **Payment Systems Act 2003 (Act 662)**

The Ghanaian journey on leveraging technology for increased financial inclusion was given a major boost with the passage of the repealed Payment Systems Act 2003 (Act 662). The key achievements under this Act were:

- Establishment of GhIPSS, RTGS, and ACH
- GHIPSS Instant Pay, and the
- Provision of the needed framework for regulating the payment ecosystem.

- **Branchless Banking Guidelines 2008**

To encourage banks open agent points to mobilize low value deposits, the Bank of Ghana passed the Branchless Banking Guidelines in 2008. Not much was achieved under this Guidelines on account of the following:

  - Limited participation of banks in the agent network concept
  - Liquidity management challenges
  - Issues on roles and responsibilities of banks and mobile money operators.

- **Electronic Money Issuers and Agents Guidelines 2015**

In 2015, the Bank passed the Electronic Money Issuers and Agents Guidelines with the broad objective of widening the scope of financial services delivery. The key initiatives under these Guidelines were to:

  - Grant permission to the Mobile Network Operators to set up subsidiaries to be licensed as Dedicated Electronic Money Issuers
  - Ensure payment of interest on float balances and distribution of the interest to e-money account holders
  - Promote tiered Know-Your-Customer accounts (minimum, medium and enhanced) to foster financial inclusion
  - Ensure the principles of consumer protection in the digital finance space, and
  - Encourage partnerships between Mobile Money Operators partnership and banks, to offer savings, credit and investment products.

To all intents and purposes, the strong regulatory support for the mobile money enterprise in Ghana has proved to be highly successful in protecting the integrity of financial transactions, and at the same time fostered financial inclusion.

- **Payment System and Services Act 2019 (Act 987)**

The Bank of Ghana moved a step further to consolidate all the guidelines on payment systems to provide a comprehensive legal framework for electronic money issuance and ensure that non-banks, including Fintechs, are licensed to provide digital financial services. The Bank of Ghana facilitated the process which led to the passage of the Payment Systems and Services Act 2019 (Act 987). Among others, the Act provides for:

  - Licensing regime for non-bank entities
  - Governance arrangements
  - Oversight and reporting requirements
  - Technology, security and controls
  - Permission to use Agents
  - Electronic float management

The Act is technology neutral, outcome focused, proportionate to risks and harmonized across various payment streams.

Just last week the Bank of Ghana launched the Payment Systems Advisory Committee with several working groups to provide another critical supportive governance structure to promote orderly development of a safe and efficient payment ecosystem.

The Payment Systems Advisory Committee under the Chairmanship of the Governor, as stated under Section 4(2) of Act 987, is required to advise the Bank on regulation and oversight of the payment systems, operational and technical stands of the payment systems, and any other matters affecting payment services clearing and settlement of payments.

- **Licensing and Authorization of Payment Service Providers**

The Bank of Ghana, in furtherance of its objectives of fostering financial innovation, has also taken into consideration the size, nature and characteristics of each financial technology company in prescribing the required minimum capital, governance, and systems requirements for all fintechs operating in Ghana. Additionally, the Bank has also permitted fifty (50) percent of the prescribed minimum capital required for existing Fintechs to be held in non-current assets, and the remaining fifty (50) percent to be deposited in a designated account at the Bank of Ghana.

- **Cyber Security Directive**

Globally, the quest for cashless payments is gradually shifting consumer interfaces from the manual environment to cyber space. This transition is however being threatened by the increased spate of complex cyber security threats which poses systems risks to the financial sector and also to the financial inclusiveness agenda through its technological underpinnings. To counter these threats to ensure the integrity and operational security of the financial system, the Bank of Ghana issued the Cyber Security Directive for compliance by banks and payment service providers to build a robust and resilient digital ecosystem.

Payment Systems Strategy (2019 – 2024)

Ghana's Payment systems infrastructure is undergoing significant changes on account of technological advancement and widening scope of innovative financial products. Electronic payments are also steadily pushing out paper-based instruments on account of their relative efficiency.

Currently, the increasing mobile phone usage has enhanced the appeal of mobile money for payment services and holds prospects for eliminating constraints to financial inclusion. To meet the myriad needs of consumers of such products and widen the scope for financial technology firms and other non-bank entities in the payment ecosystem, the Bank in collaboration with stakeholders has developed a 5-year strategic plan (2019-2024).

The key objects of the strategic plan are as follows:

- Develop and implement comprehensive and clear regulatory and governance framework;
- Promote free, competitive and orderly development of the payments eco-system to encourage innovation;
- Deepen financial inclusion; and
- Promote financial technologies.

The strategy plan also provides for leveraging Ghana's Fintech capacity to lower barriers to the entry for non-traditional players through the strict implementation of the laws and regulations that support the development of the sector. The Bank of Ghana's policy responses to emerging financial technologies will continue to be driven by the inherent risks they pose to the financial stability and ultimately to protect the consumer. In this direction, the Bank will fully engage all stakeholders and experts in the digital ecosystem to strike the right balance in the supervisory and regulatory frameworks.