OPENING REMARKS

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"BUILDING FINTECH RESILIENCE AND SUPERVISORY CAPACITY IN WEST AFRICA"

JOINT AFW2/MCM VIRTUAL REGIONAL WORKSHOP

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The Centre Director and staff of the International Monetary Fund (IMF)'s AFRITAC West 2 Office based in Accra

Staff and Short-Term Experts from the IMF's Monetary and Capital Markets Department (MCM)

Colleagues from the Bank of Ghana and other AFRITAC West 2 Central Banks

Distinguished Participants, Ladies and Gentlemen,

I am honoured to join you at this virtual regional capacity building workshop organized jointly by IMF's AFRITAC West 2 and MCM colleagues. Permit me to express my profound gratitude to the IMF and AFRITAC West 2 for the enduring commitment to strengthening the capacity of Central Banks within the Anglophone West African sub-region in financial sector regulation and supervision.

The ongoing pandemic has underscored the need for agility and adaptability as we have all had to find new ways of living and doing business. This virtual workshop is one example of how the use of technology can transcend borders and restrictions in mobility, and allow us to achieve more than we had previously thought possible.

Likewise, in the world of financial services, the use of technology in the provision of financial services has now become a necessity rather than an option, driven to a large extent by consumer demand and the search for more efficiency and operational continuity by service providers. The dramatic increase in the use of digital financial services in the midst of the ongoing COVID-19 pandemic demonstrates their importance for promoting business continuity and for expanding access to much-needed financial services.

Technology has indeed become the biggest driver of change in the financial services sector and is fast disrupting traditional models of product and service delivery. With significant investments in technology, financial services providers are providing convenience and efficiency for customers and helping to expand access to finance for underserved and unserved segments of society such as the informal sector, women, youth and other typically underserved groups. Governments are not left out as they pursue digitization of economies, while regulators are increasingly relying on more regulatory and supervisory technology to improve effectiveness, and more and more Central Banks including the Bank of Ghana are exploring the launch of Central Bank Digital Currency to further support the orderly development of the digital financial services landscapes.

In Ghana, the digital financial services space has evolved from the early 2000s when banks began to roll out ATMs and a few web-based services. Over the years, electronic money (famously called mobile money) has emerged and grown exponentially not only in Ghana but in West Africa and across the entire region, paving the way for a wide variety of digital financial services including digital savings, credit, investment, micro insurance, informal sector pension products, and inward international remittance, bill payments, merchant payments, health care, and Government social interventions including Covid-19 relief cash transfers. Today, there are some 17.5 million active mobile money accounts in Ghana with GH¢ 571.8 billion (USD 99.67 billion) in mobile money transactions in 2020 alone, representing 84% growth from the value recorded in 2019, made possible with the help of some 344,000 active mobile money agents as at December 2020.

The widespread use of technology is also making financial services even riskier. Increased mobile money and ATM fraud and other cyber and AML/CFT risks could lead to service delivery disruptions and operational and financial losses as well as reputational damage for service providers, while leading to losses for users of these services and a loss of confidence in the financial system. These could erode gains made in financial stability, financial integrity, and financial inclusion in many countries.

These developments underscore the need for a coordinated approach to developing an orderly digital financial services ecosystem with innovations to better support the real sector on a sustainable basis. Such a coordinated approach will help various players in the ecosystem – policymakers, regulators, financial services providers, financial technology providers (FinTechs) and so-called BigTechs (such as Amazon, Apple, Google, and Facebook, to name a few) and consumers – to work together to harness the benefits of technology for the financial system while keeping risks to financial stability and financial integrity in check. Indeed, this is a key recommendation of the Bali FinTech Agenda launched by the International Monetary Fund and the World Bank in 2018.

It is against this background that I consider this workshop on the theme, "Building FinTech resilience and supervisory capacity in West Africa", timely. This workshop aims to provide an opportunity for policymakers, regulators, and other relevant actors within the financial services ecosystem to deliberate on how to create a conducive environment for FinTechs to foster an inclusive and resilient financial services industry within the sub-region.

Regulation and supervision of the digital financial services ecosystem is complex, given the multiple players in that space and the fast pace of technology-driven disruption to traditional models of banking and other financial services. Particularly, regulators all over the world are grappling with the best approaches to effectively regulate and supervise FinTechs in a manner that is consistent with multiple policy objectives (such as financial stability, financial integrity, consumer protection, and effective competition) without stifling the necessary innovation that FinTechs often bring. What is more, the boundaries around permissible activities of FinTechs are fast becoming blurred for example as payment solutions very easily transition into full-fledged financial services.

Key among policy questions that regulators face globally, is whether to regulate FinTechs under stand-alone regimes from an institutional standpoint or whether to regulate them on a functional basis such that their activities are regulated under existing regimes that regulate banks and other financial services providers, to the extent they provide at least some of the same services such as payments solutions. While some jurisdictions adopt the former approach, others prefer the latter approach to avoid regulatory arbitrage by providing a level playing field between banks and other financial services providers on the one hand and FinTech/BigTech on the other. For now, it seems that many jurisdictions are able to delineate boundaries around what are permissible activities of traditional financial services versus those permitted for FinTechs. As these fine lines become even more blurred with time, regulatory approaches will need to adapt to changing business models in order to remain effective. Whatever the approach, regulatory objectives for regulating FinTech/BigTech need to be clarified, specific risks to financial system stability, operational resilience, financial integrity, fair competition, and consumer protection clearly identified, and suitable regulatory and supervisory tools adopted to help mitigate those risks.

Ghana's regulatory framework for digital financial services has evolved over the last two decades and has supported the orderly development of the robust ecosystem we see today. Major milestones include:

- The introduction of the Real Time Gross Settlements (RTGS) in 2002;

- The establishment of the Ghana Interbank Payment and Settlement Systems Limited (GhIPSS) in 2007 by the Bank of Ghana to provide a centralised automated cheque-clearing and electronic payments platform. With recent enhancements to its infrastructure, GhIPSS now provides a fully interoperable payments platform that allows for seamless transactions across mobile phone networks, and movements from mobile money wallets to bank accounts and vice versa and supports payment solutions from retail to merchants for example through the national QR Code;

- The introduction of the Branchless Banking Guidelines in 2008 and the Electronic Money Issuers Guidelines in 2015 to pave the way for the emergence of mobile money and other innovative payments solutions;

- Introduction of the Cyber and Information Security Directive in 2018 to safeguard operational resilience, safety and soundness and integrity of the entire system while promoting confidence in the use of digital financial services;

- The introduction of a licensing regime under the Payment Systems and Services Act 2019 (Act 987), which has brought FinTechs under a formal regulatory regime that sets out capital, governance, and technical standards aimed at promoting their financial and operational resilience while ensuring that potential payment systems and financial integrity risks are contained. The regime provides for six different licence categories with proportional regulatory requirements to help promote a competitive, innovative, and inclusive digital financial service ecosystem. The regulatory burden for very small FinTechs is relatively low, but to avoid regulatory arbitrage, their access to the national payments infrastructure is indirect, through bigger and more endowed FinTechs;

- The launch of the Bank of Ghana's 5-year National Payments Strategy, among other things, helps to provide policy guidance for the orderly development of the FinTech sub-sector. This strategy is aligned with key policies and strategies recently launched by the Government of Ghana, namely, the National Financial Inclusion Development Strategy (NFIDS): 2018-2023, the Digital Financial Services Policy (2020-2023), and the Cash-Lite Ghana (Building an Inclusive Digital Payments Ecosystem), all of which support digitization of financial services as a key enabler of a digitized and inclusive economy under the cash-lite policy. The Ghana Digital Financial Services Policy particularly aims to improve governance of the digital financial services ecosystem through an enabling regulatory framework and active capacity-building of regulatory authorities to supervise the space;

- The establishment in April 2020 of the Bank of Ghana's FinTech and Innovation Office provides the needed regulatory and supervisory focus on FinTech operations and helps to promote the orderly development of the ever-expanding digital financial services landscape;

- The launch in February 25, 2021 of a Regulatory Sandbox regime by the Bank of Ghana helps financial services providers and FinTechs to test new innovative ideas in a controlled regulatory environment on a pilot basis for a specified period before formal licensing or product approval;

- The publication on February 18, 2021 of Crowd Funding Guidelines seeks to promote and guide the development of crowd funding products and services in Ghana, in line with the Bank of Ghana's commitment to promoting the modernisation of the banking industry in a manner that meets the needs of diverse groups of people and promotes financial inclusion.

In sum, the Bank of Ghana has taken a gradual approach at developing the regulatory regime for digital financial services. Our approach has required financial services (e.g. savings, credit, insurance, pensions, investments) to be provided by licensed traditional financial services providers irrespective of whether they are provided through physical or digital platforms powered by FinTechs, electronic money issuers, and BigTech providing back-end innovative technological solutions. Digital payment solutions such as mobile money and inward remittance services, to name a few, are however being provided directly by these technology firms, in partnership with banks who provide back-end settlement and custodial services. While the regulatory regime for the provision of financial services differs from that which regulates payment system service providers like FinTechs and electronic money issuers, there is an intersection in so far as financial services firms may operate in the FinTech and electronic money space through subsidiaries licensed separately under the Payment Systems and Services Act (Act 987).

The Bank of Ghana has also adopted an integrated risk-based supervisory approach for digital financial services that helps avoid blind spots as a result of undue focus on institutions rather than on functional areas of operation and systemic risks. In particular, approvals of products, services, and technology outsourcing arrangements proposed by banks and non-banks or FinTechs are reviewed in a holistic manner by relevant Departments from various perspectives including prudential, market conduct, financial integrity, and payment systems risk perspectives. The use of *Suptech to* automate data collection and analytics on a disaggregated basis first which was introduced in 2018 for electronic money issuers, has more recently been augmented under the artificial intelligence powered Online Regulatory and Analytics Surveillance System (ORASS) to cover all banks and other licensed financial services providers under the Bank of Ghana's regulatory perimeter. This is critical for supervisors in identifying trends and early warning signs for early supervisory interventions when necessary.

Strong cooperation with key stakeholders provides the Bank of Ghana with valuable insights and perspectives in its regulation and supervision of digital financial services. In particular, representation of banks and FinTechs on the Payment System Advisory Committee helps to facilitate open and transparent exchange of information without impairing the independence of the Bank of Ghana and helps to build consensus among key players on policies to help contain systemic risks, reduce costs, and encourage competition. The Bank of Ghana also maintains strong cooperation with key domestic policymakers and regulators bilaterally and at the level of the Financial Stability Council whose mandate is to promote regulatory cooperation, financial system-wide risk mitigation, and crisis preparedness.

Ghana's experience as I have summarized above, demonstrates some of the challenges that regulatory policy and supervision are called upon to address to help create an enabling environment that supports innovation in financial services delivery while containing systemic risks. The future of financial services is more digital than ever before, and policymakers and regulators must be able to anticipate and catch up with the rapid disruptions which continue to blur the fine lines between financial services and technology. Balancing the potential benefits and risks is a moving target and closer collaboration with domestic, regional, and international stakeholders is critical to ensuring that the right balance is achieved at all times.

This workshop is one way in which AFRITAC West 2 countries can build their regulatory and supervisory capacity in this area. Judging from the topics to be discussed and the caliber of resource persons assembled, I have no doubt that participants will be well equipped to address the regulatory and supervisory challenges they face in effectively supervising digital financial services in their respective countries. This workshop is also a good opportunity to strengthen cross-border cooperation in harmonizing approaches to regulating digital financial services, given the large number of financial institutions and FinTechs that operate in multiple jurisdictions in the sub-region.

On behalf of Governor Ernest Addison and the entire management team of the Bank of Ghana, I welcome all registered participants from the sub-region to this workshop. I encourage participants to get the most out of the presentations and discussions and to share their own experiences during the next few days.

I again thank the IMF and the AFRITAC West II Office for their long-standing generous support for the Bank of Ghana and sister Central Banks in the sub-region, and wish everyone a fruitful workshop.

Thank you for your attention!