

POSITION PAPER



CGAP draft Guide on the regulation and supervision of microfinance

WSBI views

May 2011



CGAP draft Guide on the regulation and supervision of microfinance

WSBI views and proposals for adjustment

General comments

WSBI welcomes CGAP's draft Guide on the regulation and supervision of microfinance. The document provides a useful overview of the different discussion points around the topic of regulation and supervision of microfinance. It is an interesting input for regulators and supervisors around the world for reviewing their regulatory frameworks, but also for market players to get an up-to-date view on the regulatory and supervisory issues around microfinance.

WSBI understands that CGAP wants to encourage national authorities to develop their own regulatory principles specifically tailored to their own national context. However, the Guide would benefit from some country-specific regulatory success stories, which would illustrate the translation of some of the theoretical principles developed in the document.

WSBI would like to remind the principles along which it believes that the establishment of appropriate regulatory and supervisory frameworks should be defined, to facilitate the development of socially-driven, sustainable and efficient microfinance markets¹:

- Microfinance regulation should be approached as an enabler to building inclusive financial sectors. It should therefore embrace supportive conditions to increase the level of access to finance, but it should not necessarily call for the establishment of a dedicated regulatory framework.
- Regulation is welcome if it can help overcome some of the existing barriers to achieve full financial inclusion or fill some gaps, in particular strengthening the soundness of the deposit-taking microfinance institutions and fostering consumers' confidence in the formal financial sector.
- Calibrated, proportionate and cost-effective regulation is needed, balanced between the need to support the enlargement of access to finance, the risks to mitigate and the protection of all microfinance clients.
- Where envisaged, microfinance frameworks should be tailored to the national or regional context.
- Regulation for deposit-taking activities is absolutely necessary. Prudential measures to protect voluntary savings taken from the public are indeed a fundamental pillar of a strong and secure formal financial sector. Gaining trust of small scale savers for the development of a long term banking or financial relationship with a formal institution requires unconditional confidence that assets are placed securely.
- Appropriate capacities and resources are required to ensure efficient regulation and supervision, particularly crucial given the impact that the supervision of microfinance players could have on the level of trust and confidence of the public. It is a question of credibility for the whole financial sector.

WSBI is pleased that the CGAP's document broadly supports this approach.

¹ See [WSBI contribution to the Consultation of the Basel Committee on "Microfinance activities and the Core Principles for Effective Banking Supervision" \(BCBS 167\)](#) and [WSBI Position Paper on the Regulation of Microfinance Services](#)

About the scope of the Guidelines

WSBI welcomes the recognition that savings banks and postal banks are microfinance service providers. This reflects a broad understanding of microfinance, which not only includes supporting the socially vulnerable people and microentrepreneurs through *ad hoc* microfinance vehicles or programmes², but also extends to the ability to accommodate the needs of small scale savers or giving access to small credits as part of the regular banking offer³.

Indeed, WSBI members are important microfinance providers. Research work has shown that of the approximately 1.4 billion accounts existing at institutions across developing and transition economies of the world with an explicit mission to foster access to finance, some 1.1 billion of the total are provided by savings banks. WSBI members are also significant providers of loan accounts (30+ million)⁴.

WSBI takes note that the CGAP Guidelines would not be applicable neither to savings banks, nor to state-owned institutions or programmes, which we understand would include postal savings institutions and banks, a large part of WSBI membership in Africa. In order to assess the exact impact of this exclusion and given the wide diversity of the saving bank model across the world, WSBI would welcome clarification on what CGAP's definition of a savings bank is.

In this respect, WSBI would like to underline the diversity of its membership. Following national restructuring processes to strengthen the efficiency and quality of the services offered, a number of member institutions, although all coming from a savings bank's background, have adapted their institutional and legal status. A substantial number of them are now operating through a banking license and are regulated and supervised by central banks⁵. It would therefore make sense to submit them to the same regulatory and supervisory regime as the other banking institutions, commercial banks or microfinance banks, for their microfinance operations.

Besides, the proposed CGAP approach might be confusing in a number of cases, as the public ownership and postal/savings bank institutional status do not necessarily exclude the institution from being regulated and supervised by banking authorities, like for example in the cases of Bank Simpanan Nasional, Malaysia, Caja de Ahorros de Panama or Tanzania Postal bank. They should therefore follow the same regulatory/supervisory approaches as other banks, included in the scope of the Guide, for their microfinance activities.

Finally, WSBI believes that the level playing level on the microfinance market which is called for by CGAP requires that all microfinance providers, whatever their legal status, ownership structure, mission, methodology etc, operate along similar regulatory and supervisory principles. This will guarantee that all microfinance consumers, including microenterprises, will benefit from the same level of protection and that all public's deposits will be protected, whatever the type of MFI involved. The scope of the CGAP Guide should therefore be all-encompassing from this perspective, to prevent any market disruption.

² as WSBI members HFC Ghana Ltd through HFC Bofo Microfinance Services Ltd or BancoEstado in Chile through Banco MicroEmpresas

³ e.g. the minimum deposit balance is below 15 USD for more than 3/4 of savings accounts with Tanzania Postal Bank

⁴ See WSBI Perspectives 49, [Access to Finance – What does it mean and how do savings banks foster access](#), and 59 [Beyond Microcredit: The Role of Savings banks in Microfinance](#)

⁵ See Table in Annex with an overview of institutional status of WSBI members from Latin America, Africa, Asia

Specific comments

Preliminary issues

- p. 8: WSBI welcomes the reference to the microfinance work of the Basel Committee on Banking Supervision (BCBS) in this Guide⁶. Given the central role it plays in the microfinance regulatory and supervisory international landscape, it would be good to give it a more prominent place in the list of standard setting bodies working on financial inclusion, and to add a few words on the specific initiatives they have developed on microfinance.
- p. 11, also box 2 p. 19: The proposed regulatory guidelines for lending activities is based on current market practices, i.e. the incentive for borrowers to repay their loans is to get another loan. Although WSBI welcomes the fact that CGAP bases its analysis on market reality, we nevertheless think that the Guide should indicate clearly that the objective of micro-credit should be to help low income people to invest in income-generating activities and get out of poverty. The Guide should not give the impression that the risks attached to repayments of loans by taking other loans and over-indebtedness should not be taken very seriously and combated.
- p.19: WSBI understands the position regarding the lack of relevance for prudential regulation of lending-only MFIs. However, and especially in today market's context, it would like to call the attention on the potential need to introduce some regulatory measures to prevent the overindebtedness of MFIs themselves, and not only of their clients.

Prudential regulation of deposit-taking microfinance

- p. 23: The introduction to this section should include a reference to the microfinance initiative of the BCBS. This would highlight the central role it plays in the microfinance regulatory and supervisory international landscape, and it would also clarify that the CGAP Guidelines are fully in line with the microfinance recommendation of the BCBS.
- WSBI would suggest adding one major issue to the prudential regulatory items: the governance of microfinance institutions, which is a major issue in a number of countries and one of the main reasons for MFI failures. The basic principles of good corporate governance should be organised around the issues of⁷:
 - ✓ the independence of the Board and management, appointed for a fixed term, with clear lines of accountability and responsibility
 - ✓ a periodical assessment of the Board and management, possibly through performance contract that sets quantitative and precise objectives (like a certain increase in the deposit base, in the number of customers' accounts or in the establishment of point of sales)
 - ✓ financial or banking background and expertise of a minimum number of Board and management team members
- WSBI welcomes that the reference set of rules for microfinance prudential requirements is the Core Principles on Effective Banking Supervision, as suggested by the BCBS in its 2010 microfinance initiative. WSBI acknowledges the need for a proportionate approach and agrees that the level of the microfinance standards should not be strictly identical to those imposed

⁶ <http://www.bis.org/publ/bcbs175.pdf>

⁷ See WSBI Perspectives 62 [Corporate Governance and Access to Finance](#)

to banking institutions for their operations. The amount and volume of the transactions involved, the risk environment and the profile of the microfinance clients will have an impact on the calibration of the requirements imposed on the MFIs. WSBI would nevertheless like to ensure that, although the financial stability is not endangered by MFIs, their activities and the way they are conducted and supervised, do not disrupt the fair and loyal competition which should govern the microfinance market.

Prudential supervision issues in deposit-taking microfinance

- p. 41: CGAP mentions the alternative models of delegated supervision and self-supervision, which have proved difficult to implement and whose effectiveness is limited. Could a tiered regulatory/supervisory system or a progressive approach be also envisaged: ie ranging from a mere registration system, with basic reporting obligations monitored by the competent authority (possibly through delegated supervision to an apex body or a microfinance association) to a full licensing approach with oversight from a dedicated supervisory body? Can common criteria be set to define the level of supervision? Should the type of institution, its size, its market weight, the complexity of its activities be taken into account? Have any experiences be implemented, successfully or not?

Non prudential regulatory issues

- p. 46: WSBI supports the application of identical non prudential requirements to all types of microfinance providers, irrespective of their status, as suggested in box 4 p. 48. WSBI also agrees with the proposed list of issues which should form the market conduct set of rules, especially consumer protection and anti-money laundering. WSBI would also like to suggest integrating a “general interest” dimension in the regulatory framework, to support the social impact of microfinance. Although it would be difficult to capture this in a regulatory framework, it would be useful that CGAP refers to this aspect of microfinance in the document.
- p.48: The consumer protection developments could also mention the opportunity to encourage the improvement of business practices through self regulation and codes of conducts. Without ignoring concerns regarding the effectiveness of voluntary commitments, it could be pointed out that industry self regulation is a positive approach to build capacity and commitment of financial services providers towards consumer protection. It should also be considered in the light of regulatory limited resources and the importance of cost efficient regulatory frameworks.
- p. 49: Regarding the adequacy and transparency of information, WSBI agrees that clear and understandable information should be provided to the clients. It could be useful to make a reference here to the need to combine the disclosure of this quality information with mechanisms to ensure that clients properly understand the information provided and their impact on their personal financial situation. In this respect, initiatives such as a comparative review of credit costs through a website or sensitisation through the media could help. WSBI would also like to mention that the standardisation of contract clauses would not sound like a right approach. This could prevent innovation, which is good for consumers, and competition between financial services providers, again for the benefit of clients.
- p.60: WSBI agrees with the importance of calling the attention of regulators on the opportunity they have to use the flexibility of the FATF Recommendations to tailor the AML/CFT requirements to the specific context of low income and vulnerable client groups, through a risk-based approach. WSBI welcomes the FATF initiative to develop a Guidance on

AML/CFT provisions and financial inclusion, which should be referred to in the CGAP document, although still in the process of development.

WSBI would also suggest highlighting the value of applying a progressive KYC/CDD approach whereby the transaction/payment limits vary based on the extent of the CDD process conducted at the initial stage of the relationship: the access would be limited to very basic functionalities when identification is only minimal, and a broader range of services or higher limits would be allowed only when proofs of identity and address can be provided. Besides, there is room for simplified CDD measures on the front end to facilitate first-time access of people with limited identification support, possibly with monetary thresholds, provided that strong back office control and monitoring are requested. Hence the need to support financial inclusion through regulated and formal institutions and in the case of branchless banking, the importance of holding the principal fully accountable with respect to compliance with AML/CFT rules, and responsible for the part of the process possibly outsourced to its agents.

Regulating the use of branchless banking to serve the poor

- WSBI shares the view that innovative distribution channels, involving technology or/and non bank intermediaries, could be a significant enabler for much wider and deeper financial inclusion. To reach this objective, WSBI would propose to strengthen some major regulatory principles:
 - ✓ while intended to protect consumers and reduce risk of robbery, regulations that prevent for-profit companies from acting as agents or that require agents to operate near bank branches may limit outreach and prevent agent banking from achieving its potential;
 - ✓ given that one of the main objectives of working through non bank agents is to bank people and to integrate them into the formal banking system, the scope of services to be delivered by the agents should extend to the collection of deposits. They should not be restricted to transactional operations such as withdrawals or payments;
 - ✓ the regulatory approach of branchless banking should be based on the functions that are being exerted in the financial services chain, and not on the type of institution which performs them. This involves two main requirements: on the one side, adequate supervision and regulation of this function and the entities which deliver the related services (at least for the part supporting the said services), and on the other side a level playing field guaranteed between entities, according to the risk profile of the service(s) they deliver;
 - ✓ the status of the agent (be it a lottery kiosk, a pharmacy, a newsagent or any other kind of retailer) vis-à-vis the microfinance provider has to be unambiguously disclosed to the clients, as well as the scope of the activities undertaken on behalf of the financial institution;
 - ✓ the outsourcer always remains fully accountable towards supervisors, regulators, and customers or the provision of the service(s) in general, and in particular with respect to compliance with AML/CFT obligations;
 - ✓ regulation should be technology neutral to the greatest extent possible.
- ✓ p. 68: On payment systems, further guidance would be needed on how to reduce/mitigate the additional risks generated by the access to payment systems for non banks.

Regulating microfinance providers in microinsurance

- WSBI supports the positions developed, especially the fact that insurance underwriting is a specific business and should be done by specialized institutions. Institutions providing microfinance services can create specialized subsidiaries if they want to underwrite insurance services. They may then distribute insurance products with the distribution network of other microfinance products.

ANNEX – Overview of institutional status of WSBI members in Latin America, Africa and Asia

Members of WSBI have been classified in three main categories:

- Division of Post: regulated under *ad hoc* legislation act, supervised by the banking supervisor or the Ministry of Finance. The difference with Postal / Savings bank is that Division of Post is not a separate legal entity from the Post.
- Commercial bank: regulated under commercial banking act and supervised by the central bank.
- Postal / Savings bank: regulated under *ad hoc* legislation act, supervised by the banking supervisor or the Ministry of Finance. The *ad hoc* legislation act can vary from country to country as well as the product range, i.e. savings only to broader range of products (lending, insurance, international banking, etc.).

WSBI Latin America members and their institutional status			
Country	Institution	Institutional status	Ownership
Bolivia	UNIVIV – Union Bolivariana de Entidades Financieras de Ahorro y Préstamo	Non-profit association of mutual savings and loan institutions.	Privately-owned.
Brasil	Caixa Economica Federal do Brasil	Universal bank operating under a savings bank status.	State-owned company.
Chile	BancoEstado	Commercial bank.	State-owned company.
Colombia	Banco BCSC - Banco Caja Social y Colmena	Commercial bank in the form of a joint-stock company.	Joint stock company. Privately owned.
Costa Rica	Federacion de Mutuales de Ahorro y Prestamo de costa Rica	Non-profit association of mutuals.	Privately-owned.
Cuba	Banco Popular de Ahorro	Commercial bank.	State-owned company.
El Salvador	Fedecrédito – Federación de cajas de Crédito y Bancos de los Trabajadores.	Association and 2nd tier intermediary for the savings and credit organizations,	State-owned company.
Guatemala	BanRural	Commercial bank	Joint stock company. Mixed private and public capital.
México	BANSEFI – Banco del Ahorro Nacional y Servicios Financieros	Development savings bank and 2nd tier intermediary for the savings and credit organizations.	State-owned company.
Panamá	Caja de Ahorros de Panama	Universal bank operating under a savings bank status.	State-owned company.
Perú	FEPCMAC - Federacion Peruana de Cajas Municipales de Ahorros y Crédito	Municipal federation of savings banks.	State-owned company.
República Dominicana	ALNAP – Asociación La Nacional de Ahorros y Préstamos.	Universal bank operating under a savings bank status.	Privately-owned mutual.
	APAP – Asociacion Popular de Ahorros y Préstamos	Universal bank operating under a savings bank status.	Privately-owned mutual.
	BNV - Banco Nacional de Fomento de la Vivienda y la Producción.	Development bank and 2nd tier financial intermediary.	Mixed private and public capital.

WSBI Africa members and their institutional status			
Country	Institution	Institutional status	Ownership
Algeria	CNEP	Commercial bank	State-owned company
Angola	BPC	Commercial bank	State-owned company
Benin	La Poste	Division of the Post	State-owned company
Botswana	Savings Bank	Savings bank	Subsidiary of the Post + State-owned company
Burkina Faso	Sonapost	Division of the Post	State-owned company
Cameroun	Campost	Division of the Post	State-owned company
Cape Verde	CECV	Commercial bank	State-owned company
	CCV	Division of the Post	State-owned company
Comores	SNPSF	Commercial bank	State-owned company
Côte d'Ivoire	CNCE	Commercial bank	State-owned company
Egypt	PBDAC	Commercial bank	State-owned company
Ethiopia	CBB	Commercial bank	State-owned company
Gabon	La Poste	Division of the Post	State-owned company
Ghana	HFC Bank	Commercial bank	Private company
Guinée	OPG	Division of the Post	State-owned company
Kenya	KPOSB	Postal bank	Subsidiary of the Post + State-owned company
Lesotho	Postbank	Postal bank	State-owned company
Madagascar	Caisse d'Epargne	Postal bank	State-owned company
Mali	Banque de l'Habitat	Commercial bank	State-owned company
Mauritanie	Mauripost	Division of the Post	State-owned company
Maroc	AlBarid Bank	Commercial bank	Subsidiary of the Post + State-owned company
	CDG Maroc	Institutional investor	State-owned company
Mozambique	CCDR		
Namibia	Nampost SB	Division of the Post	State-owned company
Nigeria	Nipost	Division of the Post	State-owned company
Sénégal	CDC Sénégal	Institutional investor	State-owned company
	PosteFinances	Postal bank	Subsidiary of the Post + State-owned company
	FIFM	Institutional investor	State-owned company
South Africa	Postbank	Postal bank	Subsidiary of the Post + State-owned company
Sudan	SSDB	Commercial bank	State-owned company
Tanzania	Postbank	Postal bank	Subsidiary of the Post + State-owned company
Togo	BPEC	Commercial bank	Private company
Tunisie	La Poste	Division of the Post	State-owned company
Uganda	Postbank	Commercial bank	Subsidiary of the Post + State-owned company
	Pride Microfinance	Deposit-taking MFI	State-owned company
	Finance Trust	Deposit-taking MFI	Private company
Zambia	Natsave	Commercial bank	State-owned company
Zimbabwe	POSB	Commercial bank	State-owned company

WSBI Asia members and their institutional status			
Country	Institution	Institutional type	Ownership
India	National Bank for Agriculture and Rural Development (NABARD)	Apex development bank	State-owned company
India	National Savings Institute (NSI)	Government savings program	Public organization under Ministry of Finance
Pakistan	Central Directorate of National Savings in Pakistan (CDNS)	Government savings program	Public organization under Ministry of Finance
Korea	Korea Federation of Savings Banks (KFSB)	Association of savings banks	Non-profit special corporation
China	Industrial and Commercial Bank of China (ICBC)	Commercial bank	Joint-stock company, the biggest shareholder is the National Social Security Fund (a wholly state-owned company, authorized by the Chinese State Council to invest in commercial banks)
Indonesia	PT. Bank Tabungan Negara (Persero) (BTN)	Commercial bank	Joint-stock company, the biggest shareholder is the Indonesian government.
Kazakhstan	Halyk Savings Bank of Kazakhstan (HSBK)	Commercial bank	Joint-stock company, shareholders: JSC Holding Group Almex, 54.37%; GDR Holders, 20.04%, "Sovereign Wealth Fund " (state owned) 20.91%; Others: 4.69%
Mongolia	The Savings Bank, Mongolia	Commercial bank	Private company
Vietnam	Vietnam Bank for Agriculture and Rural Development (VBARD)	Commercial bank	State-owned company
Uzbekistan	The State Commercial People Bank of the Republic of Uzbekistan (Xalq Bank)	Commercial bank	Joint-stock company
Korea	Postal Savings, Insurance and Finance Bureau	Division of Post	Korea Post is a government-owned enterprise
Macau	Caixa Económica Postal	Division of Post	Public sector, government-run
Vietnam	Vietnam Postal Savings Service Company (VPSC)	Division of Post, will soon become commercial bank	A unit of Vietnam Post (state-owned company)
China	Postal Savings Bank of China (PSBC)	Commercial bank	Subsidiary of China Post, state-owned company
Iran	Postbank Company	Postal savings bank	State-owned company under the Ministry of Information and Communication Technology
The Philippines	Philippine Postal Savings Bank (PPSB)	Postal savings bank	Subsidiary of Philippine Postal Corporation, state-owned company
Korea	Dongbu Savings Bank (DSB)	Savings bank	Private company
Korea	Korean Savings Banks Group	Savings bank	Private company
Malaysia	Bank Simpanan Nasional (BSN)	Savings bank	State-owned company
Sri Lanka	National Savings Bank (NSB)	Savings bank	State-owned company
Tajikistan	Amonatbank	Savings bank	State-owned company
Thailand	Government Savings Bank of Thailand (GSB)	Savings bank	State-owned company



About WSBI (World Savings Banks Institute)

WSBI (World Savings Banks Institute) is one of the largest international banking associations and the only global representative of savings and retail banking. Founded in 1924, it represents savings and retail banks and associations thereof in 90 countries of the world (Asia-Pacific, the Americas, Africa and Europe - via ESG, the European Savings Banks Group). WSBI works closely with international financial institutions and donor agencies and facilitates the provision of access to financial sectors worldwide – be it in developing or developed regions. At the start of 2009, assets of member banks amounted to almost € 9,000 billion, non-bank loans to € 4,300 billion and non-bank deposits to 4,600 billion. Together the member banks conducted operations through 160,000 outlets.

WSBI members are typically savings and *retail* banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their *region*. WSBI member banks have reinvested *responsibly* in their region for many decades and are a distinct benchmark for corporate social responsibility activities throughout the world.



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