Supervisory objectives and risks mapped to policy goals

This additional example is part of the CGAP Technical Guide, *Digital Financial Services for Financial Inclusion: Tools for Supervisors*. It provides a practical illustration produced during CGAP's work with several country supervisors on DFS supervisory frameworks. This document is part of the Technical Guide's collection of *Additional Examples and Guidance*. Its utility and applicability to specific country contexts depends on factors such as the availability of data and other resources, the stage of development of DFS markets, experience with risk-based supervision, and institutional arrangements for supervision.

Purpose of a mapping exercise. Undertaking a mapping exercise is useful for informing an overall supervisory approach to DFS, including choice of organizational structure. It is also useful for building a comprehensive view of the main DFS risks to help identify data needs and design reporting requirements. A mapping exercise assists authorities in identifying areas where interagency coordination is needed. Ideally, mapping is performed during the early stages of DFS supervision design. However, it is also useful to supervisors who have already undertaken DFS supervision. For instance, mapping could be carried out prior to the beginning of their next supervisory cycle to adjust the annual supervision plan and identify gaps in current activities or reporting requirements. As a practice, this type of mapping is relevant to supervision of any type of entity. It is not solely restricted to DFS providers.

How it works. Mapping supervisory objectives and risks to policy goals requires answering the following questions:

1. What are your policy goals (based on your statutory mandates)?
2. What is the priority level of each policy goal?
3. Which specific supervisory objectives will allow you to attain your priority goals?
4. What risks are involved in achieving your supervisory objectives?

Note that risks can be posed not only by individual providers, but also by market conditions and dynamics in regulated financial industries—and by unregulated institutions and third parties working with regulated providers.

Frequency. Mapping can be conducted periodically, during the annual supervisory planning process, or at the end of each supervisory cycle to inform the next period.

What this document offers. This document provides five examples of policy goals, supervisory objectives, and risks mapped to those goals. It is not exhaustive and is not a "recipe." Its intent is merely to illustrate the mapping process and to help supervisors set up or improve their risk-based approach to supervision. Supervisors may have other policy goals (e.g., ensure financial stability, curb financial crime) and may have other supervisory objectives under each policy goal than the ones noted below. Moreover, in an actual scenario, each supervisory objective would certainly include more than the two sample risks listed.

Example A

Policy goal: Ensure safety of the national payment system

- **Supervisory objective 1:** Ensure reliability
  - Risk 1. Poor telecommunication services
  - Risk 2. Poor operational risk management at providers
- **Supervisory objective 2:** Ensure resilience of the national payment system
  - Risk 1. Ineffective continuity and contingency arrangements at providers
  - Risk 2. Obstacles to cross-border data flows
- **Supervisory objective 3:** Foster cyber security collaboration
  - Risk 1. Resistance to data sharing
  - Risk 2. Lack of data security standards

Example B

Policy goal: Increase efficiency of the national payment system

- **Supervisory objective 1:** Achieve interoperability
  - Risk 1. Lack of technical standards
  - Risk 2. Resistance to interconnect or interoperate
- **Supervisory objective 2:** Achieve cost-effectiveness
  - Risk 1. Excessive interchange fees
  - Risk 2. Overlapping installed capacity

Example C

Policy goal: Foster competition

- **Supervisory objective 1:** Curb anticompetitive practices
  - Risk 1. Predatory pricing
  - Risk 2. Contractual clauses/practices that bind merchants
- **Supervisory objective 2:** Foster innovation
  - Risk 1. Unbalanced entry or operating requirements
  - Risk 2. Challenges posed by incumbents on innovators

Example D

Policy goal: Protect financial consumers

- **Supervisory objective 1:** Ensure effective disclosure
  - Risk 1. Disclosures not adjusted to the digital environment
  - Risk 2. Misleading advertising
- **Supervisory objective 2:** Ensure fair business practices
  - Risk 1. Abusive contractual clauses
  - Risk 2. Unfair treatment of unauthorized transactions
- **Supervisory objective 3:** Ensure effective redress
  - Risk 1. Ineffective internal complaints handling
  - Risk 2. Discrimination against women

Example E

Policy goal: Expand financial inclusion

- **Supervisory objective 1:** Increase transaction account ownership
  - Risk 1. Burdensome account opening procedures and requirements
  - Risk 2. Prohibition of account opening through digital means
- **Supervisory objective 2:** Expand physical outreach of financial services outlets
  - Risk 1. Weak agent network management
  - Risk 2. Exclusivity agreements
- **Supervisory objective 3:** Reduce the gender gap in financial services usage
  - Risk 1. Persistent algorithmic bias against women
  - Risk 2. Gender gap in mobile phone ownership