Examples of impact indicators

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.

The purpose of impact indicators. When supervisors set up a risk-based supervisory approach (RBA), they use impact indicators to prioritize which digital financial services (DFS) providers and which DFS risks the initial risk assessment will include. After assessment, an annual supervisory workplan is updated according to a combination of the indicators and other information. Using impact indicators is common practice in any type of supervision and is not restricted to DFS providers.

Details. Impact indicators indicate the potential **severity of consequences** in the event of **materialization of the risks** posed by DFS providers. A parallel example in prudential banking supervision would be how the failure of a bank that holds the majority of a total loan portfolio would have a more severe impact on the industry and consumers than a smaller bank's failure. In such a case, "share of total loan portfolio" would be the impact indicator. Impact indicators are not the only method an RBA uses to prioritize DFS providers. In the next steps of RBA implementation, impact indicators are used alongside probability indicators that point to the likelihood of risks materializing, for instance, a provider offering complex products to unsophisticated customers. Impact indicators are simple, and are often the first type of indicator an RBA uses as they draw upon whichever data is already available in the early stages of RBA implementation. Later, when the risk assessment and scoring methodology are built (see the Technical Guide, Section 3.1.3, Step 3: Develop a risk assessment methodology), supervisors end up combining impact and probability indicators in the same framework.

How impact indicator identification works. Supervisors answer the following key question for each risk identified in the mapping exercise (see the Technical Guide, *Additional Examples and Guidance 1: Supervisory objectives and risks mapped to policy goals*):

- Which factors would lead to worse consequences in the event of risk materialization?

Frequency. Impact indicator identification is to be carried out prior to the initial risk assessment in the process of building an RBA to DFS supervision. The indicators can later be adjusted in the process of continuously improving the risk-based methodology.

What this document offers. This document offers examples of impact indicators linked to several supervisory objectives and risks. These examples are not exhaustive, nor are they a recipe that will work for every country. Each jurisdiction needs to identify its own policy goals, supervisory objectives, risks, and impact indicators according to the local context. The aim here is to illustrate the concept of impact indicators and the process of identifying them, which helps determine the data needs and the reporting regime put in place.

Supervisors using impact indicators for prioritization purposes for the first time may choose to focus on collecting indicators that already have underlying data. There is no need to use a perfect set of impact indicators from the start. It is possible that the available data will not allow the use of important impact indicators for each risk. It is also important to note that a single indicator can be relevant to multiple risks. Each policy goal may have many more supervisory objectives, risks, and impact indicators than those listed below.

Example A

Policy goal: Ensure national payments system safety

- **Supervisory objective:** Ensure reliability
  - Risk 1. Poor telecommunication services
    - *Impact indicator 1.* Number of customers in areas with patchy telco services

Example B

Policy goal: Increase national payments system efficiency

- **Supervisory objective:** Achieve interoperability
  - Risk 1. Resistance to interconnect or interoperate
    - *Impact indicator 1.* Number of exclusive agents
    - *Impact indicator 2.* Number of merchants
    - *Impact indicator 3.* Number of customers

Example C

Policy goal: Foster competition

- **Supervisory objective:** Curb anticompetitive practices
    - Risk 1. Predatory pricing
        - *Impact indicator 1.* Value of agent commissions/fees
        - *Impact indicator 2.* Value of transaction fees
        - *Impact indicator 3.* Transaction fee revenue to total revenue

Example D

Policy goal: Protect financial consumers

- **Supervisory objective 1:** Ensure effective disclosure
    - Risk 1. Point-of-sale disclosures not adjusted to the digital environment
        - *Impact indicator 1.* Number of new digital loans
        - *Impact indicator 2.* Number of new e-money accounts
- **Supervisory objective 2:** Ensure fair business practices
    - Risk 1. Abusive contractual clauses
        - *Impact indicator 1.* Number of customers
    - Risk 2. Unfair treatment of unauthorized transactions
        - *Impact indicator 1.* Number of digital payments transactions
        - *Impact indicator 2.* Number of digital payments customers
- **Supervisory objective 3:** Ensure effective redress
    - Risk 1. Ineffective internal complaints handling
        - *Impact indicator 1.* Number of customers
        - *Impact indicator 2.* Number of transactions
        - *Impact indicator 3.* Number of outstanding digital loans
        - *Impact indicator 4.* Value of outstanding digital loans
    - Risk 2. Discrimination against women
        - *Impact indicator 1.* Number of female customers

Example E

Policy goal: Expand financial inclusion

- **Supervisory objective 1**: Expand physical outreach of financial services outlets
  - Risk 1. Weak agent network management
    - *Impact indicator 1.* Number of agents
    - *Impact indicator 2.* Number of merchants

- **Supervisory objective 2:** Reduce the gender gap in financial services usage
  - Risk 1. Persistent algorithmic biases against women
    - *Impact indicator 1.* Number of algorithm-enabled products in the market
  - Risk 2. Gender gap in mobile phone ownership
    - *Impact indicator 1.* Number of mobile-enabled products
    - *Impact indicator 2.* Number of mobile transactions