



Exploring the Nexus of Digital Financial Services (DFS) and Financial Stability – The Use of Regulatory Diagnostic Toolkit and Sandbox

Never Stand Still

Law

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The Nexus of DFS and Financial Stability

- Linkage between DFS (digital financial inclusion) and financial stability is *intricate* and *under-researched*.
- Potential benefits to financial stability brought by DFS may include: credit risk diversification, increased trust in financial services providers, enhanced competition, reduced reliance on foreign financing, and increased stable source of funding.

The Nexus of DFS and Financial Stability

- New *suppliers and demanders of credit* as well as new *channels of accessing credit*, but not necessarily new financial stability risks or new ways of transmitting such risks.
- Need tools to help *explore* and *optimise* the linkage between digital financial inclusion and financial stability.

The Regulatory Diagnostic Toolkit (RDT)



Purpose of the RDT

- Provide regulators with a framework of analysis to **assess their regulatory regimes to remove barriers and identify gaps** in the adoption of DFS to advance financial inclusion.
- **Highlight gaps in the data/evidence** necessary for more informed policy decisions.
- **Improve capacity of regulators to promote optimal linkages** between financial inclusion, financial stability, financial integrity and consumer protection.
- **Support regulators to navigate towards compliance with international best practice** while seizing opportunities DFS present for financial inclusion and economic growth.

What RDT Is / Is Not Designed to Do

- **IS** designed to guide us in asking the regulator the right questions.
- **IS** designed to list the issues that should be thought about (many will be raised, not necessary to address all).
- **IS NOT** designed to lead to regulation in any specific area but to identify critical data gaps and inform policy making.
- **IS NOT** designed to burden the regulator but to assist in refining their focus and prioritising their objectives.

Sandbox as A Regulatory Approach

- Promoting *financial inclusion* and *innovation* through *fostering competition* and *ensuring consumer protection*.
- The process is all about achieving *stakeholder collaboration*, *compliance adaption*, *consumer protection*, *standards co-creation* and *interagency coordination*.
- The design of sandbox should be able to enhance *regulatory capacity*.

What Sandbox Is / Is Not ?

- It is not a *regulatory vacuum* but a *regulatory transition*.
- It is not a technical mechanism to relax *licensing and supervision* but a practical approach to *channel and regulate innovation*.
- It is not designed to *waive compliance requirements* but to *enhance compliance preparedness*.
- It might help manage *consumer protection risk*, but might not be effective in foreseeing or reducing *systemic risk*.

Concluding Thoughts

- ✓ ***Learning*** before regulating.
- ✓ Enhancing ***regulatory capacity*** as top priority.
- ✓ RDT as a tool for ***prioritising regulatory objectives*** and Sandbox as a tool for ***enhancing regulatory capacity***.
- ✓ Moving toward a ***data-driven, evidence-based proportionate approach*** to underpin the policy development process.