

# 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.

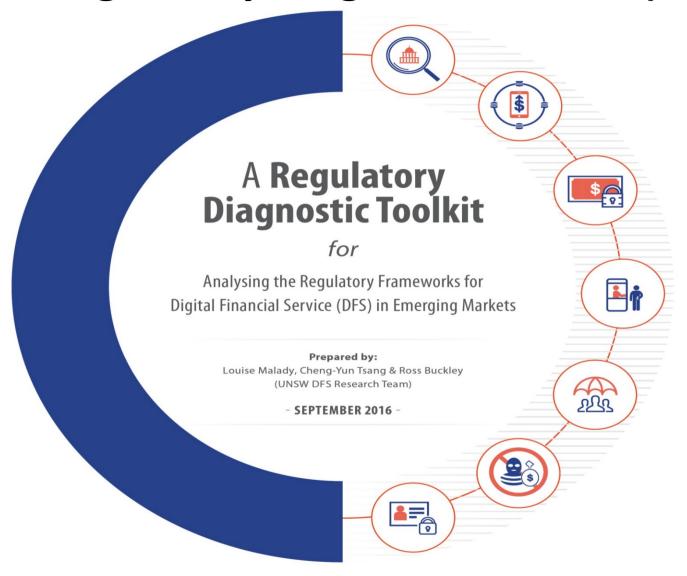


#### The Nexus of DFS and Financial Stability

- 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 cocreation 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.

