



Implementing A Proportionate Approach to Balance Financial Inclusion Benefits and Stability Risks

Never Stand Still

Law

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Key Challenges Facing Regulators

- ***Non-financial firms*** providing financial services presents challenges to regulators in ***almost every aspect of supervisory activities*** and significantly affects how the Guidance will be implemented.
- The use of technology and digital platforms in providing and delivering financial services makes the financial system ***more susceptible to consumer protection risk and operational risk.***
- ***How to bring into reality*** the proportionate approach in financial regulation and supervision.

Proportionate in What Sense?

- Proportionate regulatory requirements (reporting, risk management and governance structure)
- Proportionate assessment
- Proportionate licensing regime
- Proportionate input in supervisory resources
- Proportionate sanctioning
- Proportionate supervisory expectation

Proportionate at What Level?

- **Policymaking Level:**
 - Main Objective: achieving data-driven and evidence-based policymaking to ensure a risk-based regulatory regime.
 - Tools: CGAP's I-SIP Methodology and UNSW's Regulatory Diagnostic Toolkit
- **Regulatory Approach Level:**
 - Main Objective: aligning regulatory capacity with the evolving market and technological changes.
 - Tools: Regulatory Sandbox
- **Supervisory Approach Level:**
 - Main Objectives:
 - ✓ optimizing allocation of supervisory resources commensurate with an institution's risk profile, complexity of operations and systemic importance.
 - ✓ Ensuring the firm has a tailor-made risk management framework based on its risk appetite, risk profile and macroeconomic conditions.
 - Tools: Umbrella Organisations, RegTech.

Main Observations

- ✓ Proportionality issue should be addressed at all three levels. However, the Guidance mainly focuses on the supervision approach level.
- ✓ Need to explore further how RegTech can be used to facilitate proportionate supervision.
- ✓ In general the Guidance is very idealistic in what it expects from regulators of emerging or less developed countries.
- ✓ The Guidance still largely reflects a very traditional approach to regulation – this approach is likely to become ineffective due to market and technological developments.