Barry Whiteside: Regulation and supervision of non-bank microfinance institutions

Opening speech by Mr Barry Whiteside, Acting Governor of the Reserve Bank of Fiji, at the Regional Off-site & On-site Technical Workshop on Non Bank Microfinance Institutions, Suva, 12–14 April 2011.

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My fellow Governors, Mr. Denton Rarawa (CBSI) and Mr. Loi Bakani (BPNG)
Central Bank representatives from the region
Mr. Tillman Bruett, Regional Financial Inclusion Advisor and Project Manager, Pacific Financial Inclusion Programme
Mr Deva De Silva, Senior Operations Officer, International Finance Corporation
Workshop Facilitators Mr. Mark Flaming and Dr. Mohamed Nasir
Fellow colleagues from the Reserve Bank of Fiji
Ladies and gentlemen

Introductory remarks

Bula vinaka to you all.

It is with great pleasure that I welcome you all to Suva for the first regional technical workshop on regulation and supervision of Non Bank Microfinance Institutions. It is an honor to help host this very important workshop that brings together regulators from around the region who are interested in the microfinance and financial inclusion agenda.

Microfinance and financial inclusion have become very topical issues on the global agenda, and a priority in many developing countries. It has been acknowledged that inclusive financial systems, where people regardless of income level, have easy access to various financial services, are critical for a country's sustainable long term economic growth. In the region and in our individual countries we can attest that there are still significant numbers of our people excluded from basic financial services.

In this regard, our active role in financial systems regulation, reform and policy development is important to set the scene and successfully implant the microfinance and financial inclusion agenda in our countries.

An important element of inclusive finance is the institutions directly involved in extending financial services to the financially excluded. Most of these institutions may operate outside the boundaries of Central Banks' regulatory and supervisory scope. In this workshop you will get to learn and devise practical approaches and methods that can be designed and adopted to effectively regulate such institutions.

I wish to acknowledge the support and funding of the Alliance for Financial Inclusion (AFI), the Pacific Financial Inclusion Programme (PFIP) and the International Finance Corporation (IFC), whose kind assistance have made this regional workshop possible.

Regulation and supervision of Fiji's financial system

In Fiji, the Reserve Bank is responsible for regulating and supervising the local financial system. This consists of the banking, insurance, superannuation and foreign exchange industries. In 2009, our role was extended to include the capital markets industry.

The Reserve Bank of Fiji's main role in this area is to maintain a stable and sound financial system that is fundamental to the country's wellbeing. Our major objective in this regard is the protection of the interests of depositors, creditors, members and policyholders, as well as maintaining confidence in the financial system by promoting its strength and integrity.

Interests in microfinance

In the last 2 years, after the global financial and economic crisis, our interest and focus on microfinance and financial inclusion has become more prominent and is now one of our main development priorities, in addition to our core central bank responsibilities.

We have come to realize that around 40 percent of our population may be excluded from any sort of financial services.

Also from a growing body of international research on policy implications and successes, it is widely acknowledged that the contribution of microfinance and inclusive finance is important for the sustained economic well being of a country in the long term. I believe we central bankers have critical decisions to make in our own countries. Our policy decisions should facilitate a pro-growth inclusive financial system.

In Fiji, a part of our wanting to have an inclusive financial system was to ensure that the under-served low income and poor people have reasonable and affordable access to finance from financial institutions. We took our first steps towards this objective in 2009 by encouraging regulated financial institutions to undertake and extend affordable microfinance services. A microfinance policy was subsequently issued to all banks to conduct microfinance activities. I am pleased to say that the banks have taken on these requirements really well and are in compliance in one form or another.

In terms of the affordability of microfinance services and financial services in general, we view technology as one means to address this issue, away from the traditional “bricks and mortar” setups. Specifically, electronic methods to conduct financial and payment services, such as Point of Sale (POS) devices using stored value cards, and mobile phones using communication networks, are innovations that were well adapted to microfinance. Some banks in Fiji have now introduced wireless Point of Sale devices with their agents, with both withdrawal and deposit capabilities, to be used with stored value cards. These initiatives are clearly suitable for clients in rural or remote locations.

Also, some non-regulated private sector players, such as Mobile Network Operators (MNO), have joined the financial inclusion effort in Fiji by introducing their mobile money services to facilitate payments services and cashing-in and cashing-out capabilities for clients, through agents. These activities by private sector stakeholders blend in well with the microfinance and financial inclusion drive that we have set out to do.

Regulation and supervision of non bank MFIs

During our work towards furthering the development of microfinance and financial inclusion in Fiji we realised that there were existing unregulated institutions already serving and targeting segments of the population for microfinance. These institutions and their clients existed outside the boundaries of the regulated financial system and have been operating “under the radar” for many years. Some of these institutions include NGO MFIs, Community or village MFIs, semi-Government MFIs, Cooperative Savings Societies and Credit Unions.

Most of these institutions operate informally or semi-formally. They have client bases that have generally stagnated over the years. Sustainability, scale and outreach are critical issues for some. Funding for their operations and survival is mostly dependant on Government, the private sector and donor grants, or sometimes sadly from the intermediation of members’ funds!

To ensure consolidation and development in this area it is necessary to bring these struggling, unregulated institutions under the central bank’s oversight role. This move, however, requires the development of a balanced regulatory and supervisory framework, tailored to the domestic market characteristics in which they operate.

Having a balanced regulatory and supervisory framework in place should facilitate the development of these institutions and their outreach to clients, and it is in the supervisor's interest that this is achieved. I hope that you will keep this in mind during this three day workshop, as you deliberate and develop your individual action plans, to regulate and supervise these types of institutions in your own countries.

I also note the greater participation of Mobile Network Operators (MNOs) in financial inclusion in our countries. I believe in some of your jurisdictions, MNOs are approaching and meeting with Central Banks to discuss their planned involvement in the financial and payment systems of your country, particularly on the mobile money front. Again we should facilitate such innovation and develop balanced regulatory frameworks relevant to our own domestic financial systems.

Benefits and challenges of regulation and supervision of non bank MFIs

Let me touch on some benefits when central banks exert some level of regulation and supervision on non bank micro finance institutions.

As we all know, most of these institutions are not commercially oriented. They serve mostly clients that may not be served by formal financial institutions. Through Central Bank intervention and oversight, it is possible for these institutions to become more sustainable and commercially oriented, while maintaining their social goal of providing financial services to the low income segments of society. They would improve their governance, comply with minimum prudential requirements set out by the regulator to improve their operations, as well as have more capacity to extend financial services outreach to more under-served people in the country.

Regulation and supervision also opens up commercial funding opportunities to institutions that are normally always at the mercy of limited grants and member funds. It attracts the caliber of management and employees needed to run their operations viably and to lift the quality and standard of their services. These have been the experiences of informal and semi-formal financial institutions in Africa and Asia that have gone through the transformation to become regulated entities.

Most importantly, appropriate regulation and supervision would minimize the susceptibility of these institutions and their clients to adverse systemic and prudential risks. It ensures the protection of the interests of depositors and creditors, and the maintenance of confidence in the overall financial system by promoting its strength and integrity.

From our side, there may of course be some reluctance on the part of regulators to take on the role, given that extra costs are incurred in supervising these institutions. Apart from the costs, the regulators may lack the immediate resources, knowledge, skills and awareness in these often uncharted areas.

As regulators, it is necessary that we improve our knowledge in this particular area, as it may be the key to unlocking a truly inclusive financial system for the sustainable development of our economies in the long term.

Conclusion

Ladies and gentlemen, this workshop is timely. It is certainly a great opportunity for us to effect the necessary policy changes to our regulatory and supervisory approach that would facilitate the development of non-bank microfinance institutions in our countries.

In these next three days you will get to learn from the facilitators, as well as from sharing amongst yourselves, what is involved in regulating and supervising microfinance and similar type institutions. I hope you will be able to come up with constructive action plans to address the specific issues that will be uncovered, as well as start conceptualizing the most relevant and effective framework for regulating microfinance activities in your own countries.

At the end of this workshop, when you return to your own desks, you should be able to help formulate the necessary policies and prudential techniques that would effectively regulate our non-bank microfinance institutions that are serving the low income and poor people in our countries.

I wish all of you a very productive workshop, and for our overseas colleagues and friends I trust that you will enjoy your stay in Suva.

Vinaka vaka levu