Financial regulations need to adapt to digital finance

Digital financial services are being used to draw more people into the global financial system. Digital financial services must therefore be developed and regulated to safeguard against risk and to secure consumer protection.

Different approaches to regulation, as in Cambodia and in the Philippines, show how regulations can hinder or spur growth.

In Cambodia, a single digital financial services provider, Wing, covers 80% of the market, while other banking and financial institutions also provide mobile banking, online banking, and agent banking services. It is difficult to enter the digital financial services market because the company needs to find a partner bank that meets compliance rules.

The Philippines has more than 100 banks offering e-banking facilities and 30 e-money issuers. 2009 regulations list specific prohibited activities and have allowed banks to outsource a wider range of activities without prior approval from the regulator. This has enabled even rural banks to link up with different partners. Cloud computing was also allowed and enabled medium-sized banks to gain access to infrastructure and computational resources; for protection, a public cloud is prohibited for core operations.

But even with regulations that allow growth, the same environment can constrain development of digital financial services. The UN-based Better Than Cash Alliance, which partners with government, companies, and international organizations to promote the shift from cash to digital transactions, says only 1% of the 2.5 billion transactions per month in the Philippines are made electronically because there is little or no interaction between banks and major payment providers operate within their own system.

From Financial Inclusion in the Digital Age, by Shawn Hunter, manager, Inclusive Finance, The Foundation for Development Cooperation; Valdimir dela Cruz, ADBI associate; and David Dole, ADBI senior economist.