¿Does regulation have an influence on microfinance and financial inclusion? Lessons from Bolivia, Ecuador and Peru

This Research Paper was written for the Master on Microfinance and Financial Inclusion at the Universidad Autónoma de Madrid, under the direction of Claudio González-Vega (Ph.D.). The research attempted to answer the following questions: How do regulation and public policies influence the pace and style of development of microfinance and its potential contributions to financial inclusion? To what extent and in what ways the different regulatory approaches adopted in Bolivia, Ecuador and Peru influenced the development of microfinance.

State regulation, a key component of the institutional base of the microfinance sector, may have a positive or a negative influence on the actors in the industry, facilitating or hindering the evolution of the supply and the demand of financial services. This research seeks to explain how Bolivia, Ecuador and Peru have adopted public policies directed at the financial system and at microfinance, with the ostensible goal of promoting them. However, the different public policies implemented in these countries show both favorable and unfavorable outcomes for the sector and, in some cases, have even inhibited its growth and ability to innovate.

This document includes a chronological history of microfinance and of the evaluation undertaken by Global Microscope Ranking 2011-2018 (The Economist Intelligence Unit), for the three countries, searching for factors that may explain the influence of facilitating or inhibiting institutions on the development of the microfinance sector. The study compares the evolution of the sector and its contribution to financial inclusion in each one of the three countries. It builds on a view of financial inclusion as a multidimensional process that seeks to improve the access, use and quality of financial services for vulnerable segments of the population and as a potential tool for the struggle against poverty.

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Amendment to the regulations governing the management of market behavior

In October the Banking, Insurance & Pension Fund Authority (SBS) published amendments to the Regulations governing how the financial system’s market behavior is managed, to the internal auditing regulations, to the credit and debit card regulations, to the Accounting Manual for companies in the financial system, and to Circular G-184-2015 on Customer Services. The changes add provisions and detailed specifications so that the financial product and service offering can be developed for the digital environment and adapt the scope of the current regulatory framework to the landscape of the products and services on the market, their size and their transaction volumes.

Security mechanisms

The amendments introduced into the regulations over the management of the financial system's market behavior seek to make companies in the financial system increase their security mechanisms, so that they use some sort of authentication to validate the client's identity and record their onboarding. In addition, companies will have to demonstrate that they gave the client, whatever medium is used, the SBS resolution number approving the general clauses of the contract being held.

Communicating with the client

The regulation authorizes companies to use physical or digital means of communication with the client; easily accessible channels must be available for clients to terminate the contract, at the very least the same channels as those available when onboarding.

Other amendments

The resolution also amends the Investment Banking Regulation, releasing them from the Regulations over the management of market behavior, in view of the nature of their products and their client profile. Furthermore, the publication of Circular G-184-2015 includes the Regulatory Report containing complaints received through direct channels and through the professional association.

Amendment to the Microcredit Regulation

On July 9 the Banking Authority published its approval of the Dominican Monetary Board's new Microcredit Regulation of May 17, 2018, as its First Resolution.

The regulation overhauls the 2014 Microcredit Regulation, aiming to bring the regulatory framework up to date, bringing it into line with the new provisions in the Asset Assessment Regulations (REA)*. Issues around the granting, assessment and management of microcredits will thus be standardized to prevent unjustified distortions in the methods by which credit risk is measured, but still conserving differential features to tackle specific aspects of a microcredit's lifecycle, as well as the various types of credit.

The most important changes in the Microcredit Regulation are listed below:

Definitions

Inclusion of formal units in the definition of "small-scale activity or business", in order to include those micro-enterprises that are in the formal sector.
Removal from the definition of microcredit of the phrase "*annual sales under RD 8 million*", to be replaced by "*consolidated debts in the financial system that are less than 50 MMWs*" (minimum

monthly wage); given that the Regulation sets out the specifications for the microcredit product and not the client type, since it does not specify that it is a micro-enterprise.
Amendment of the definition of “refinancing”, to reduce the importance of debt consolidation loans, bearing in mind that this may account for only a small proportion of the new loan and is not necessarily the main reason for the new application. The regulatory body grants greater importance to the punctual recovery of loans by financial intermediation entities (FIEs) within designated deadlines, placing particular emphasis on those cases where interest is paid before the principal.

Term extensions

The Regulation introduces innovations in the features needed to classify a credit transaction as a microcredit. Among others, it extends the term of the loan from 24 to 36 months, and in the case of fixed investments, from 60 to 72 months for greater consistency with the Asset Assessment Regulation (REA) and to give greater flexibility to repayment plans. It will take the increase in the amount as the cut-off point, equivalent to 50 MMWs.

Other important features

The amended regulation includes a series of documents that micro-entrepreneurs must submit in order to access loans. This means they must be duly registered and have properly organized accounts, while FIEs must make changes on their platforms from hard-copy files to electronic ones, as well as a few other updates.

The regulator has also stipulated that when assessing microcredit clients, their debts with FIEs must be consolidated. Nevertheless, another FIE that tries to weight a potential client may not be able tp view their credit rating.

Act 155-17, May 31, 2017, on Money laundering and Financing of Terrorism was taken into account for this new version of the Microcredit Regulation, given the importance of the documents it requires for the Due-Diligence process that FIEs are now obliged to conduct.

The updating of the Microcredit Regulation provides a positive instrument for the micro-entrepreneur, since the obligations inherent to entering the formal economy encourage entrepreneurs to grow, while the State gains better insight into the economic growth of the micro-entrepreneur segment.

* Approved as the Monetary Board’s Second Resolution, September 28, 2017, which came into force on January 2, 2018.

Financial conglomerates law

The Government passed Act 1870 on 21st September 2017, laying out rules for strengthening regulation and supervision over financial conglomerates. This text has not been altered from the version that was agreed prior to the president’s sanction, and was reviewed in issue 12 of Progreso.

The following are some of its most salient points:

1. A financial conglomerate is defined as a group of institutions with a single controlling body that includes two or more domestic or foreign institutions carrying out an activity that is regulated by the Colombian Financial Authority (SFC), provided that at least one of these institutions carries out these activities in Colombia.

Only those subsidiaries that are financial institutions will form part of the conglomerate.

2. A financial holding is defined as any legal person or investment vehicle exercising control over the institutions making up the financial conglomerate. These institutions will be subject to inspection and oversight from the SFC unless they demonstrate to the SFC that in their home jurisdiction they are subject to a regulatory and supervisory regime similar to that of Colombia.

3. The SFC will have the power to determine:

The capital adequacy required of conglomerates,
Corporate governance standards;
Framework for financial risk management and internal control;
Exemptions of legal persons or investment vehicles from supervision, depending on the scope of that supervision;
Criteria for defining the nature of linked parties to the conglomerate and to the holding;
Criteria for identifying, managing, monitoring and disclosing conflicts of interest;
Changes needed in the structure of the conglomerate (when the existing structure does not enable information to be disclosed appropriately, comprehensive and consolidated supervision and/nor identification of the real beneficiary and the institutions comprising it;
Information requirements and visits to be made to the entities in the conglomerate;
To revoke the regulated entity’s operating license when the information supplied by the foreign parent company is insufficient to carry out the supervision.

4. The law clarifies that holdings will not have to contribute to operating and investment costs that Colombia’s Financial Authority, the SFC, may incur.

5. It extends the SFC’s powers of supervision and sanction, to cover giving instructions to holdings on how to comply with the regulation, particularly in the areas of financial conglomerates’ risk management, internal monitoring, information disclosure and corporate governance.

6. Oversight of financial holdings set up outside Colombia.

7. The concept of “significant influence”, as a criterion for determining the existence of a financial conglomerate.

8. Three scenarios are described in which control and subordination are understood to exist, namely, i) when there is a majority shareholding, ii) when there is a decision-making majority on the company’s board of directors, and iii) when a shareholder pact exerts an overriding influence on the decisions taken in the company.

9. The regulations covering purchasing the assets and taking over the liabilities of a credit institution in compulsory liquidation are laid down; the Financial Institutions Guarantee Fund (FOGAFIN) is given the authority to transfer these assets and liabilities to other credit establishment(s) or to a bridge bank.

Furthermore, the Government will have six (6) months, from when the bill comes into law, to regulate for supervisory powers over conglomerates, to cover the structure, complexity and specific characteristics of financial conglomerates. Heading I of the law will come into effect six (6) months after these regulations are published.

Regulation about Financial Conglomerates

The House of Representatives has approved the bill to create the legal framework for regulating and supervising financial holdings on its fourth reading.

Because of the differences between the text passed in the Senate and that passed in the Chamber, the bill will be reviewed by an arbitration committee to define the definitive text, which will be submitted for presidential sanction.

The fourth version, which consolidates the three earlier versions passed of this bill, includes the following areas:

Financial conglomerates

The bill defines a financial conglomerate as a group of institutions with a shared controlling body that includes two or more domestic or foreign institutions carrying out an activity among those regulated by the Colombian Financial Authority, the SFC, provided that at least one of these carries out these activities in Colombia.

The bill also makes it clear that, with regard to financial conglomerates, for the purposes of this regulation only those subsidiaries that are financial institutions will form part of the conglomerate.

Financial holding

It defines "financial holding" as any legal person or investment vehicle exercising primary control over the institutions making up the financial conglomerate, defining primary control as that exercised by the legal person or investment vehicle closest to those institutions which are engaged in an activity overseen by the SFC and which has shared control over all the institutions of this nature that make up the conglomerate.

The three types of scenario in which control and subordination will be deemed to be present are:

When there is a shareholding majority,
When there is a decision-making majority in the company's board of directors, and
When there is an overriding influence over the decisions made in the company resulting from a shareholder pact.

The regulation lays down that financial holdings, including those set up abroad will be subject to inspection and oversight from the SFC, unless they demonstrate to the SFC that in their home jurisdiction they are subject to a regulation and supervisory regime similar to that of Colombia.

However, it also makes clear that holdings will not be required to make contributions to the SFC's running and investment expenses.

Supervisory powers

The bill will give the SFC the power to decide:

The capital adequacy required of conglomerates
Corporate governance standards
Financial risk and internal control management framework
Exemptions of legal persons or investment vehicles from supervision, depending on the scope of that supervision
Criteria for defining the nature of related-party links to the conglomerate and the holding
Criteria for identifying, managing, monitoring and disclosing conflicts of interest
Changes required in the structure of the conglomerate (when the existing structure does not enable information to be disclosed appropriately, comprehensive and consolidated supervision and/or identification of the real beneficiary of the institutions comprising it)
Information requirements and visits that are to be made to the entities forming part of the conglomerate
To revoke the regulated entity's operating licence when the information supplied by the foreign parent company is insufficient to carry out supervision.

It also establishes instruments for capital adequacy intervention, only in the case of those financial institutions, insurance companies and securities market firms that form part of the financial conglomerate, and not applicable to other institutions forming part of this conglomerate with different activities.

In this ambit of the SFC's supervision, the draft law clarifies that the instruments for intervention will only be directly applicable to the financial holding and to those institutions whose business activities entail being regulated by this Authority. For these purposes, the SFC will identify the institution that is to act as a holding in each financial conglomerate, although they may not set up sub-conglomerates for supervisory purposes inside a financial conglomerate.

Furthermore, the SFC may instruct holdings how to comply with regulation, particularly in the areas of risk management, internal control, information disclosure and corporate governance of the financial conglomerate.

National government

Lastly, the Bill stipulates that the national government will have six (6) months, from when the bill comes into law, to regulate the powers of oversight over conglomerates.

Voluntary code of corporate governance

A few months after the national financial system supervisory board, Conassif, published its Corporate Governance regulations containing the international principles and standards that regulated entities should incorporate into their strategies, Costa Rica's Corporate Governance Institute (IGC in the Spanish acronym), has taken the next step in the country's drive to promote best corporate governance practices throughout business with the publication of this code.

The Voluntary Code uses the OECD's Corporate Governance principles as its template, taking these to formulate specific good practice recommendations. It gives organisations greater flexibility to achieve compliance, so that each institution can adopt its own policies and practices, even if these are not covered in the code, to fulfil the same purpose.

The new edition contains the following general principles:

Shareholder rights

Equitable treatment. – Guarantee fair treatment for shareholders in the same category, and particularly minority shareholders.

Participation in meetings. – Ensure that shareholders can take part and vote in General Meetings, and have appropriate information channels for accessing the information they need to cast informed votes on the agenda motions (at least 15 calendar days before meetings).
Access to information. – Guarantee their right to receive and ask for timely, clear and accurate information, including mechanisms that enable them to express their opinion about the institution's activities.
Ownership. – Define procedures for filing share ownership securely and reliably and keeping these updated.
Information transparency. – Provide shareholders with sufficient information, which must be accurate, timely and given to all. Ensure there is an investor relations policy in place.

Board of Directors and its members' responsibilities

Composition. – The Board of Directors should be sufficiently numerous to enable directors to perform effectively and fully participate in meetings. Members of the Board will be appointed for a maximum term of three years, and at least two should be independent.

Integrity. – Directors should fulfil the requirements of probity, integrity, ethics, diligence and availability needed to perform their duties with an independent criterion, acting always in the interest of the institution and of its shareholders.

Duties and rights. – New directors should be given an induction course so that they can learn about the business, their powers and responsibilities.
Structure, operations and functions. – The institution must have procedures, work plans and regulations covering the Board of Directors, so that it can perform its duties properly. Committees can be constituted (at the very least, the Audit committee and the Remuneration & Compensation Committees will be mandatory) to support the Board in fulfilling its responsibilities. Every committee should have its own set of regulations, governing its composition and operations.
Management. – There should be a clear separation of powers between the board of directors and management. Management must implement the institution's internal control mechanisms, within the framework of the guidelines approved by the board, and report regularly to the board about the institution's financial and operating performance. Its performance will be assessed every year by the board.
Related parties. – Policies and procedures must be put together to evaluate, approve and disclose certain transactions between the institution and related parties.

Family companies

The Code dedicates an entire chapter to good practice recommendations for family firms. Specifically, they should have a defining framework (family protocol) for the relationship between the family and the company, set out in a formal document that states the family vision, values and principles.

It also recommends that governance bodies (Family Council and Family Meeting) be created, enabling the family and the company to communicate.

Other issues

The document contains a number of appendices with simple policies that can be adopted voluntarily. These include attachments on investor relations, buying and selling directors' and senior management's shares, what constitutes important information, audit committees and compensation & remuneration committees.

The audit committee, in particular, must comprise a majority of independent directors and the Chair of the board of directors may not sit on it.

Adopting the code

Institutions' boards of directors will have to adopt a resolution to uphold this voluntary code, and inform the General Meeting of the resolution. Adopting it will mean that the institution will have to write its own corporate governance code, taking as a reference the principles and practices recommended in this code.

Once adopted, if the institution decides not to apply the code, it must inform the General Meeting, indicating the reasons for this decision.

Annual Compliance Report

Every year, the institution must publish an Annual Compliance report, to consist of a review of compliance with the principles and practices in the voluntary code. The Report (Appendix 6 of the Code) must be made available to shareholders and other stakeholders, and should be signed off by the Board of Directors.

In the event of non-compliance with any of the principles in the code, the institution must explain the reasons it did not comply and the actions it intends to take to achieve compliance.

Regulating municipal savings and

loan unions

Municipal Savings and Loan Unions (MSLU) are currently regulated under Supreme Decree 157-90-EF, and the General Financial and Insurance System and Banking & Insurance Supervisory Authority Law 26702, with its subsequent amendments.

MSLUs are facing a modernisation process requiring them to:

Raise the level of profits that are reinvested by their shareholders (municipalities) and increase MSLU capital requirements, in order to maintain appropriate degrees of operating solvency and/or growth,
Put new mechanisms and incentives in place that ensure MSLUs are managed on a professional basis, strengthening their corporate governance,
Encourage the gradual incorporation of different shareholders other than their current shareholding body onto MSLUs, in order to strengthen their solvency and access to best practice in financial management,
Design and put corporate programmes in place, with the support and involvement of the Federation of Municipal Savings and Loan Unions (FEPCMAC), the Municipal Savings & Loan Union Fund (FOCMAC) and/or local and international bodies, to develop new technologies and management models, which work better with the innovations in the financial system or are designed to generate greater financial resources.

For this reason, the Banking, Insurance and Pension Fund Administrators' Authority wants to update current legislation to create mechanisms and conditions similar to those applicable to private microfinance institutions, thus consolidating the progress made by the MSLUs themselves. The following are some of the most important regulatory changes proposed:

a) Improving MSLUs' Corporate Governance, specifying the roles and powers of the Annual General Meeting in MSLUs,
b) Widening the range of transactions that MSLUs may conduct and, as a result, increasing the minimum capital requirement,
c) Enhancing the mechanisms that enable MSLUs to reinvest their profits so that they can shore up their asset base,
d) Creating mechanisms to protect the MSLU system to make it easier to inject capital into MSLUs that are subject to the supervisory regime,
e) Making it easier for third parties to become MSLU shareholders, setting standards for the composition of MSLU boards and for profit sharing,
f) Redefining the roles and powers of the FEPCMAC and FOCMAC.

New Regulation on Corporate

Governance and Integrated Risk Management

The banking, insurance and pension-fund supervisor (SBS) has put out its Regulation on Corporate Governance and Integrated Risk Management, under Resolution SBS 272/2017, analysed at its bill stage in Progreso 5.

The actual regulation contains matters not in the original bill. It establishes there must be at least one independent director on the boards of companies under its supervision and that companies with six or more board members should have at least two independent directors.

It also creates a mandatory board committee to deal with remuneration. The remuneration committee must pursue a remuneration policy that is in line with the company's business strategy and policies, avoiding potential conflicts of interest.

It also gives a more detailed description of the companies' obligation to identify potential conflicts of interest arising within the corporate governance and management bodies. Companies under SBS supervision must implement policies and procedures to deal with these, monitoring and controlling such potential conflicts.

Finally, it includes the updating of some concepts associated to risk management, such as risk capacity, risk appetite and risk ceilings. These are defined in line with the Principles for an Effective Risk Appetite Frameworks from the Financial Stability Forum.

This regulation will come into force on 1st April 2018.

Guidelines for effective banking supervision

The Basel Committee on Banking Supervision has published this report in order to set the direction that regulation and supervision should take with those institutions that offer financial inclusion services.

Guide for regulators and supervisors

The guidelines apply to a number of different types of institution (e-money issuers, financial cooperatives, microfinance institutions, deposit entities, non-banking institutions, etc) and cover a wide range of financial products and services, from traditional microloans to other types of innovative projects designed specifically for the most vulnerable. They represent a benchmark both for jurisdictions that are members of the Basel Committee and for those that are not.

Guidelines for 19 principles

Although the document uses the 29 Banking Supervision principles as revised in 2012, it pays particular attention to 19 of these, having resolved that the remaining 10 require no further redrafting.

These 19 principles can be divided into two main blocks:

Faculties, powers and functions (responsibilities, goals and powers; independence, accountability, supervisors' resources and legal protection; cooperation and collaboration; permissible activities; criteria for awarding licences; supervisory approach; supervisory techniques and tools; supervisory reports; supervisory powers of correction and sanction; and consolidated supervision).
Prudential requirements and regulations (corporate governance; risk management process; capital adequacy; credit, liquidity and operational risk; delinquent assets, provisions and reserves; and misuse of financial services.

Corporate governance

Principle 14 establishes that it is the supervisor's role to verify that institutions have robust corporate governance practices and processes in place that are consistent with the institution's risk profile and systemic relevance.

The document argues that corporate governance ensures sustainable and responsible financial inclusion, based on a culture that reinforces the values of solvent risk management and equitable treatment of customers.

As such, it requires supervisors to have a sound understanding of these practices and processes and of their impact on institutions' risk profile. To this end, they must carry out the following, which are applicable to both financial and non-financial companies, in both private and public sectors:

Provide guidance to institutions on the supervisor's expectations of corporate good governance, with the obligation of informing their Boards of these expectations
Set baseline requirements for the structure of Boards and for the criteria for vetting their members
Guide institutions in their self-assessments of how well they have complied with corporate governance principles and regulatory requirements, a task which requires a high degree of interaction between the supervisor and the institutions.
Check that Boards of Directors set up and divulge corporate culture and values throughout the institution and that, together with senior management, they understand, manage and mitigate risk effectively.
Ensure that responses to concerns arising in transactions with related parties are suitably transparent.

Traditional microcredit

There are five appendices to the document, that cover issues relating to financial consumer protection, anti-money laundering and the financing of terrorism. Certain terms are explicitly defined: financial cooperation, deposit institution, microfinancing institution, etc), while the distinguishing characteristics of traditional microcredit and its key specific risks are outlined.

Financial inclusion

The purpose of these guidelines is that the actions of regulators and supervisors should take into consideration the systemic importance and risk profile of regulated institutions. To do this, resources must be allocated effectively and specialised knowledge of the nature and level of risk associated with financial inclusion activity must be applied.

Tax concessions for SMEs

After passing Act 27,264 in July, the Argentine government, which set up the Productive Recovery Programme for micro, small and medium enterprises (MSMEs), by giving them fiscal advantages, has published Decree 1101/2016, exempting those MSMEs whose tax periods begin in January 2017 from the minimum notional income tax.

Furthermore, the sum they have paid in as tax on the credit and debit in their bank accounts (100% in the case of MSMEs and 50% for “bracket 1 medium” industries) will be considered as an interim payment on earnings, with the proviso that the remainder may not be carried forward to the next financial year. They may also defer the payment of the balance resulting from their sworn VAT statement (which still has to be submitted every month) and paying the balance 90 days after invoicing.

The decree also provides for tax concessions with a differential of between 5% and 15% for regional economies; on this the Ministry of Production has yet to prepare a detailed set of provisions.

In order to be eligible for these tax concessions, companies must register as SMEs and upload a sworn statement with a tax password onto the institution’s website (form 1272, applying for a category type and concessions), which must include the applicant’s sales volumes and staffing numbers.

The decree also provides for deducting up to 10% of productive investments paid out from taxable earnings and for reimbursing the VAT on capital goods investments and infrastructure through a tax credit coupon.

It also raises the VAT withholding-exemption threshold by 135%, the earnings threshold by 400%, and enables micro companies to receive their VAT no-withholding certificates automatically.

The concessions will lapse in the event of the company cutting its staff by 5% from the number stated in the previous tax period, in the tax period on which the concession is calculated.

Regulation of financial conglomerates

With the aim of making the regulation and supervision of financial conglomerates and the resolution mechanisms for financial institutions more robust, and of protecting the financial system's stability in general, the government has submitted for the Senate's consideration Bill 119/2016, which would set out the system for supervising and regulating financial conglomerates, and make new definitions that impinge upon financial entities' resolution mechanisms.

The Bill defines a financial conglomerate as a set of institutions with a shared parent company, that includes two or more domestic and/or foreign entities involved in an activity regulated by Colombia's supervisory body, the Superintendencia Financiera de Colombia (SFC), provided that at least one of them carries out said activity in Colombia. In addition, it also includes a definition of a financial holding as a legal person or investment vehicle that has control over the institutions making up a financial conglomerate.

Likewise, the Bill stipulates that even financial holdings based abroad will be subject to inspection and oversight from the SFC, unless they can prove to this body that in their original jurisdiction they are subject to a regulatory and supervisory regime similar to that in Colombia.

The bill makes provisions for the SFC to regulate and supervise financial conglomerates so that it can determine, among other matters:

That the conglomerates are sufficiently well capitalised.
Their corporate governance standards.
That there is an appropriate framework in place for financial risk management and internal control.
The exemption of legal persons or investment vehicles from the supervision, depending on the scope of the process.
The criteria to determine the type of links with the conglomerate and with the holding.
The criteria for identifying, administering, monitoring and revealing conflicts of interest.
The requirement that a conglomerate make structural changes (only when the existing structure does not make it possible to reveal sufficient information or to conduct a comprehensive and consolidated supervisory process and/or to identify the real beneficiary and the institutions involved).
The acceptance of demands for information and on-site visits to institutions forming part of the conglomerate.
The revocation of a supervised entity's operating license when the information provided by the foreign parent company is insufficient for carrying out the supervision.

This Bill seeks to regulate the purchase of assets and assumption of liabilities of a credit institution that is being compulsorily wound up. The Financial Institution Guarantee Fund (FOGAFIN) would be given powers to transfer these assets and liabilities to other credit establishment(s) or to a bridging bank, the creation of which would be authorised by the SFC, and would not be subject to minimum capital requirements, mandatory reserve regimes, mandatory investments or other reserve requirements.

Finally, the Bill gives FOGAFIN the mandate to oblige member institutions to provide information in order for it to comply with its functions.

This draft law would represent something new in the Colombian legal system, which to date has no regulations expressly covering financial conglomerates.

Financial Regulations for improving financial inclusion

This document from the *Center for Global Development* focuses on the role of regulation in the process of financial inclusion. It highlights the major milestones achieved, thanks mainly to the digital revolution – which has allowed new financial services and channels to be developed –and the adoption of appropriate regulation in line with the characteristics and needs of each country (along with other factors). Furthermore, it suggests that inadequate regulation is one of the major obstacles to financial inclusion.

The object of the report is to analyse regulatory factors that impact the effectiveness of inclusive financial regulation and it recommends certain practises for designing this.

The report considers that public policies and regulations have to be flexible enough to ensure that, on the one hand, the financial system is efficient, and on the other, that it protects the consumer. Designing effective regulation, especially for digital finances, is a challenge.

Three commonly-used guiding principles for designing inclusive regulation are the starting point for the recommendations:

"The same regulation for the same functions", in other words, financial services with the same functions are treated the same, irrespective of the legal form of the service provider.
"Risk-based regulation", in other words, the rigidity of legal requirements depends on the risk that it intends to covered, both for individuals and for the stability and integrity of the financial system.
"Balance between ex-ante and ex-post regulation", in other words, there has to be a balance between setting out certain rules beforehand (*ex-ante*) and resorting to regulating a given problem or market failure after the fact (*ex-post*).

26 recommendations come out of these principles, which are divided into the following three categories:

Foster competition: A market open to competition promotes a variety of products and services, greater efficiency, reduced costs, etc., which facilitates financial inclusion. The object of policies that regulate competition is to allow and provide incentive for new players to come into the market.
Levelling the playing field in financial services, in other words, financial services with the same functions are regulated in the same way, provided that they represent a similar risk for consumers or for the financial system. A level playing field is essential to ensure that all providers compete under equal conditions.
"Know Your Customer" rules (KYC): are necessary to preserve the integrity of the financial system and in particular to fight money laundering and financing of terrorism. KYC standards are important for financial inclusion because when institutions know who their customers are, they can adapt the products and services they offer them to their characteristics and needs.

Finally, the report makes 5 other recommendations that concern new payment systems for paying small amounts, such as mobile money for instance.

Investor protection and information transparency

The Stock Exchange Supervisor (Superintendencia del Mercado de Valores or SMV) has modified the regulations governing relevant events and confidential information, passed in SMV Resolution 005-2014-SMV/01, which became law on publication in the official state gazette, *El Peruano* on 18th June 2016.

The Relevant Events & Confidential Information Regulations, among other things, set out the body of rules that must be applied by issuers when disclosing relevant events or maintaining confidentiality, as well as a list of some of the events that should be taken by issuers as triggers for submitting information to the SMV, to stock markets and to the officer in charge of the central trading mechanism where the securities are listed.

This modification to the earlier Regulation has the following aims:

To give issuers greater flexibility to approve internal guidelines for effective compliance with the regulations;
To acknowledge that the general manager *(gerente general)* of the issuers will take the role of the designated or acting stock exchange representative in the event of the temporary or permanent absence of the same,
To incorporate the obligation for issuers to disclose their monthly positions in financial derivatives contracts, since this information is useful for tracking companies' currency hedging.

The regulation came into force on 19th June 2016.

Global Microscope 2015: the enabling environment for financial inclusion

The Economist Intelligence Unit has published the 2015 Global Microscope, with the support of the Multilateral Investment Fund (MIF), CAF, the Latin American Development Bank, the Center for Financial Inclusion at Accion and the MetLife Foundation.

The document analyses the regulatory framework for financial inclusion and the introduction of relevant public policies in 55 countries all over the world*, using 12 indicators** that measure regulations, public policies, supervisory systems, governmental capacity, infrastructure and economic stability, among others.

The Microscope first, presents the ranking of the countries analysed (0-100 points), together with data about how they have performed relative to 2014. The country with the top score this year is Peru (90 points), followed by Colombia (86 points) and the Philippines (81 points). It then goes on to give a general overview of financial inclusion world-wide, before focusing on the country-by-country breakdown.

Some of the most interesting conclusions at this global level:

(i) Financial inclusion across the world is experiencing a "slight positive drift"; favourable public policies have been adopted and existing ones are being applied with more rigour.

(ii) Not enough attention has been paid to regulating the insurance market targeting low-income population groups, even though this is essential to achieve full financial inclusion.

(iii) The whole consumer protection is weak and insufficient attention is paid to over-indebtedness.

(iv)   Financial literacy has still not been tackled.

* East and South Asia, Eastern Europe and Central Asia, Latin America and the Caribbean, Middle East and Northern Africa and Sub-Saharan Africa.

** Government support for financial inclusion, regulatory and supervisory capacity for financial inclusion, prudential regulation, regulation and supervision of credit portfolios, regulation and supervision of deposit-taking activities, regulation of insurance targeting low-income populations, regulation and supervision of branches and agents, requirements for non-regulated lenders, electronic payments, credit-reporting systems, market-conduct rules, grievance redress and operation of dispute-resolution mechanisms.

Corporate Governance in Basel III

This Circular on supervision and solvency came into force on 10th February, approved by the Bank of Spain as the final tranche of the adaptation of Spain's legal framework to the European regulation generated by the Basel III agreement.

The Circular has nine chapters, containing innovations such as the introduction of additional permanent regulatory options for the Bank of Spain, the implementing standards on capital buffer requirements and the regulations applicable to the differential treatment accorded to certain risk categories. It also sets forth the statutory regimes applicable to bank branches and to free service provision in Spain and to credit entities headquartered in non-EU member states. In addition, certain aspects of the additional supervision applicable to financial holdings have now been regulated.

With regard to the information about the supervision and solvency of credit institutions, chapters 4 and 8 are particularly important, addressing key issues of corporate governance such as new provisions for the internal organisation of institutions and remunerations policy. They also set out the regulations on transparency and requirements to inform the market.

Chapter 4, internal organisation, regulates areas that were introduced in Act 10/2014 on organisation and supervision and Royal Decree 84/2015 with measures implementing the Act. It determinates thus that institutions will have to create an Appointments Committee and a Remunerations Committee, which may be one single Committee in the case of those institutions with a total asset volume in their own right of less than EUR 10 million at the close of the two preceding financial years.

The legislation requires institutions to have a dedicated risk management unit or organ. Entities must therefore create a risks committee or, in the case of those with a total asset volume in their own right of less than EUR 10 million at the close of the two preceding financial years, their audit committee may take on the risk management role.

In any event, all the committees cited must comprise at least three non-executive members, while at least a third of these must be independent, including the chairperson.

Furthermore, entities must have regulatory compliance and internal audit departments and should define robust and appropriate procedures for fulfilling these functions.

The chapter also defines the suitability and evaluation requirements for board members, CEOs and similar posts in credit institutions and financial holding companies, both mixed and otherwise. To this end, institutions and companies must apply specific and appropriate internal procedures for the selection and continuous assessment of these positions. In all cases they should ensure that their members have recognised commercial and professional probity, together with the necessary know-how and experience to carry out their roles. Furthermore, in the case of board members, they are to ensure that they behave honourably, with integrity and independent criteria, such that they are in a position to exercise good governance.

As a novelty, all this information must be disclosed to the relevant authorities, which will assess, before the member is included in the Senior Officers' Register, whether the suitability requirements for the position have been satisfied.

Finally, there is a section in the Circular covering remuneration for board members, senior management and employees whose professional activities have a significant impact on the entity's risk profile, according to the criteria laid down in articles 3 and 4 of the Delegated regulation (EU) 604/2014. Regulations 37 and 39 of this section set the specifications for institutions' remuneration policy, and establish their obligation to carry out an annual internal assessment of the policy and to report it to the relevant authority.

Chapter 8 gives the market disclosure requirements incumbent on credit institutions, specifically with regard to the information their websites must include regarding corporate governance and their remuneration policy. This information must be comprehensive, clear, comparable and up to date, as well as accessible from the website's homepage in a section titled "Corporate governance and remunerations policy". The contents should be structured and hierarchical; headings should be clear, concise and meaningful; the tone should be appropriate, avoiding as far as possible the use of industry jargon and abbreviations.

Entities will have three months grace in which to publish this information on their websites, as specified in the Circular's Seventh Transitional Provision.

Microinsurance: protecting entrepreneurs

The Banking, Insurance and Pension-Fund Supervisor (SBS) has published this bill to improve the current definition of “microinsurance” contained in the Microinsurance Policy Regulation approved under SBS Resolution 14283/2009. The new definition is *“insurance accessible to low-income individuals and small traders to cover personal and/or material risks to which they may be subject, by proportional payments of the premium in line with the risks covered by the policy (…)”*

The bill makes the definition of the sales channels more flexible, in order to increase the availability of microinsurance products. It eliminates the requirement to provide a list of establishments where microinsurance policies can be taken out.

Sale of policies

The main changes proposed by the SBS for the sales and marketing of microinsurance products are: *

(i) The companies may use remote sales channels to promote, offer and sell microinsurance. In such cases, the person taking out the insurance or the insured party must be informed of their right to change their mind and retract the microinsurance contract under the legally allowed conditions.

(ii) Companies must implement policies and procedures to select their sales agents.

(iii) Microinsurance can be sold over ATMs belonging to correspondents in the financial system and e-money issuers.

(iv) Training must be given to sales agents every year, or whenever they start to sell a new microinsurance product.

(v) The deadline for reporting the problem and payment of indemnity will be shorter than for conventional insurance.

(vi) Companies are given 90 days once the Bill is enacted, to bring their microinsurance policies into compliance.

Developments in corporate governance in the Dominican Republic

Paloma del Val Tolosana,
Secretary of the Board of Trustees of FMBBVA

On 14th September, the Monetary Board of the Dominican Republic published the new Corporate Governance regulation, amending the earlier Corporate Governance regulation that dated back to 2007. The second issue of *Progreso* discussed various aspects of the draft of this regulation.

It clearly represents progress, as from now on the minimum principles and guidelines are based on international standards and will serve to support financial intermediaries in their plans to adopt sounder corporate governance practices. The

implementation of such practices, however, will depend on the nature, size, complexity and risk profile of each business.

The Regulation is applicable to entities reporting as Multiple Banks, Savings & Loans Banks, Credit Corporations, Savings & Loans Associations, and also the Banco Nacional de Fomento para la Vivienda y la Producción, a state-run bank for housing and production.

It defines corporate governance as a set of minimum standards and principles regulating the design, integration and interaction between the Board of Directors and the Senior Management, shareholders, employees, related parties and other stakeholders. Good governance provides conflict management, management-risk mitigation and helps companies to achieve a more robust organisational system.

Compared to the previous regime, it establishes tougher rules for board members to be considered independent, requiring minimum proof of non-involvement with the institution and its shareholders over at least two years, during which such directors may not have received any remuneration from the institution. It also says that independent directors may be elected from among shareholders with less than 3% of the total share capital. However, it increases the maximum number of internal directors from one (in the earlier regulation) to two.

It introduces two best practices from international corporate governance standards, namely: (i) training programmes for directors, in order to keep their skills up to date so that they can meet the demands of their position, and; (ii) an assessment of the Board of Directors' performance.

The regulation is strict about the training programmes, requiring that the Board approve and submit their director-training plan to the supervisor each year. This plan must deal with subject matter regarding risks associated to financial activity, the mechanisms for assessing the results obtained and a preliminary timeline for the training sessions.

It incorporates criteria such as time of service, the committees on which each director sits and their contribution to board business in the now mandatory assessment of the board's performance. However, it does not include other matters recommended from international best practices, such as the methodology to be applied, the engagement of independent experts every few years to perform an external assessment, or the action plan that should ensue from the assessment, which should be approved and monitored by the Board itself.

The new regulation contains significant improvements in business transparency. It defines a Code of Conduct and Ethics which must be widely disseminated throughout the institution, and which must contain a clear description of the corporate values and rules with respect to conflicts of interest, the prohibition against working with competing companies, etc.

It does not regulate directors' remuneration, but simply establishes that this should reflect best international practices, and be adjusted to reduce unreasonable incentives to take risks that are not in the interest of the institution.

Another important development is considering the risk function as an essential area of control over the risk appetite and tolerance level approved by the Board, and of mitigation for the risks inherent to the institution's activity. This function must now always be headed by a chief risk officer (CRO).

In line with this, it establishes that an Integrated Risk Management Committee should be set up to ensure that the institution is aligned to the targets and strategies it has defined for itself.

The document gives detailed descriptions of the functions of the Audit Committee and the Appointments & Remuneration Committee, thereby making it mandatory for them to provide the three control functions in the institutions according to the principles of good governance.

It devotes an entire chapter to the regulation of the Senior Management. The most important change in that it requires internal management committees be set up: the Executive Committee, the Compliance Committee, and the Credit and Technology Committees.

The new regulation represents a substantial step forward, both in the terminology used and in the inclusion of practices in line with the latest corporate governance recommendations emanating from international circles over recent years (some of them already analysed in Progreso, such as the colombian New Country Code, the Code of good governance for publicly traded companies of Spain or the japanese Code of Corporate Governance). The financial institutions now face some hard work as they use the 90-day transition period to ensure that their rules are mainstreamed down throughout the entire organisation so that good governance becomes embedded in their culture.