

## **Document 1:**

# **DIAGNOSIS FRAMEWORK FOR THE REGULATORY, LEGAL AND INFORMATION AREAS**

**I. Legal and Regulatory Diagnosis**

**II. Information Availability**

## **I. LEGAL AND REGULATORY FRAMEWORK**

### **a. MAIN AIM**

This diagnosis aims at determining the regulatory and legal framework's current situation having an impact over the financial inclusion of remittance clients in Latin America and the Caribbean as well as identifying barriers (from the supply and demand perspective) hindering access of such clients to financial products and services.

This will be an underlying study for promoting the implementation of improvements within the regulatory framework in order to foster a more inclusive remittance market as part of Component 1 of CEMLA's Program co-financed with FOMIN/IDB.

### **b. METHODOLOGY**

This assessment endeavors to disclose the information available with regards to the regulation's current status and influence thereof over the remittance clients' financial inclusion. With such purposes in mind:

- 1) Public information available in the bibliography section will be obtained related to legal frameworks that actually affect or may impinge upon the development of financial products adequate for remittance clients.
- 2) In parallel, the opinion of the public sector related to this matter will be obtained – regulators, supervisors among others – together with that of the private sector – financial institutions, money transfer, telecommunications and technology companies.
- 3) Additionally, the surveys and information gathered on the Program's Component 2 include questions allowing to test the validity of this diagnosis among clients making use of remittance services.

This information will be shared as a first approach to this issue and will be disclosed to other international organizations and institutions taking active part in the matter with the aim at obtaining both, their feedback and suggestions for the drafting of a final regional diagnosis.

#### **1. Detailed revision of secondary desk information (studies, legal framework, national surveys, etc.).**

The desk revision will be conducted by means of an external advisor engaged for such intention whose work will embrace the evaluation of 26 Latin American Countries member states to IDB/FOMIN looking to establish a comparative framework among the different countries under analysis, determining which of them maintain a better environment for the financial inclusion of remittance clients and which of them do not. It will also identify which of the current regulations promote or constitute barriers for a larger financial inclusion of remittance clients.

Sources to be included in this desk revision are:

From the offer standpoint

- ✓ Financial and currency exchange systems regulation
- ✓ Previous studies on the matter
- ✓ Statistics used to gauge the market (Ex. Official statistics on bancarization)

From the demand standpoint

- ✓ Previous studies on the matter
- ✓ Statistics (Ex. Home surveys and market studies) so as to get acquainted with the client profile and barriers hindering access to financial products and services.

Results of this study will be submitted within the seminar for the Launching of Remittances and Financial Inclusion Project and will eventually be put together with the participant's proposals and analysis (described in section 2 herein) coming from different countries in order to create an initial joint draft document on the matter.

## 2. Interviews and consultations

Consultations will be conducted by means of interviews or surveys carried out by RIWG (Remittance and Financial Inclusion Working Group) members among different remittance market actors in their countries including:

- **Government authorities** – Financial System Regulators and Supervisors among others
- **Market actors** - Financial institutions, money transfer, telecommunication and technology companies

In order to guide and harmonize the activities of RIWG members, the Questionnaire herein states the questions suggested for this analysis and makes up the basis for the RIWG members to prepare the results obtained from their investigation and consultation activities with all public and private actors taking part in it. The summary of their research may be submitted during the program's launching seminar.

The work of RIWG members will be gathered in a regional study aiming at identifying the principal barriers and good practices found at regional level.

**Questionnaire for:**

- a) *Public Sector Institutions: Regulators, Supervisors*
- b) *Private Sector institutions: Banks, money transfer operators, among others.*

**QUESTIONS UNDER ASSESSMENT**

**i. Market participants**

1. Do the regulatory and legal framework create uneven conditions among the three types of:
  - a. Market actors?
  - b. Distribution channels?
  - c. Suppliers of financial products and services?
2. Do the regulations hinder the establishment of new actors within:
  - a. The remittance payment market?
  - b. The distribution channels (ex. For telecommunication companies)

**ii. Barriers**

3. Are there regulatory and legal barriers affecting:
  - a. Access to payment systems supporting the remittance market?
  - b. Distribution and operation of distribution channels?
  - c. Product and services offered to remittance clients related to the payment system?
  - d. The offer of products and services – including remittance transfers – by means of the distribution channels (ex. Corresponding agents)?
4. Are there barriers for the development of financial products for remittance issuers and recipients?
  - ✓ Deposits (demand, savings and term)
  - ✓ Credit (mortgage, consumer)
  - ✓ Means of payment

**iii. Risk policies**

5. Are there risk policies influencing:
    - a. The remittance payment system?
    - b. The distribution channels?
    - c. The offer of financial products for remittance clients?
- Are these policies proportional to the risks inherent to the transactions?

**iv. Flexibility and innovation**

6. Is the regulation flexible enough so as to allow innovations with regards to financial products and their distribution channels?
7. Does the regulation hinder the provision and usage of telecommunications/internet services among others, deterring the payment of remittances by innovative means?

**v. Financial protection and education**

8. Is there a regulatory and legal framework demanding for the creation of fund protection schemes (ex. Deposit insurance)
9. Is there any financial education provided to the remittance clients? If so, what does it consist of?

**vi. Other questions**

10. Are remittance payment services affected by whatever restriction within the currency exchange market?
11. Are there other barriers of regulatory and legal nature for the offering of financial products and services to remittance clients?
12. Does the regulatory and legal framework promote interoperability?

**3. Surveys to clients (in coordination with Component 2)**

In surveys conducted over the remittance issuers visiting their countries of origin every year during holiday season, a few questions were included allowing to assess the usage of financial services and instruments that may facilitate their inclusion and that of their beneficiaries.

These surveys are inherent to instruments in the program's component number 2 and are mainly used to determine relevant information that may allow the authorities to conduct a better analysis on the remittance flows as well as to disclose publications that may improve knowledge on the market. The foregoing with the aim at promoting the development of new financial instruments and services within the private sector for remittance clients, thus fostering their financial inclusion.

The areas we look to assess by means of including these questions are:

- ✓ **Access to financial products and services:** Requirements and costs to have access to savings and credit products
- ✓ **Financial education:** Degree of knowledge of financial products and services (access and usage)
- ✓ **Usage of formal financial products:** The population's preference with regards to the usage of formal financial products and services compared to the usage of informal ones.

The information will be gathered during the program's implementation term during the holiday season at the end of the year, from surveys conducted in households or derived from program amendments and surveys conducted on a regular basis. Therefore, it will be used to assess improvements resulting from modifications made to component 1 as well as to permanently validate and improve the diagnosis coming from the regulatory and legal

framework in connection with its capacity to foster or hinder the financial inclusion of remittance clients.

This information will also be published on the documents corresponding to each and every country. Therefore, it will be taken as a basis to evaluate the private sector, thus fostering the development of new financial products based on the remittance client's demands and needs.

These surveys will be conducted along the whole program's implementation term. Therefore, they will provide information for the regional analysis validating its conclusions on a permanent basis, as it will be possible to embrace all answers and updates obtained.

#### **4. Consultation with other international organizations**

A document drafted with the desk research results together with the data and information obtained from the investigations conducted by each RIWG member will be sent to other international organizations working on similar subjects or related matters to those addressed on the document for feedback purposes.

This stage will allow to identify international actors looking for further coordination so as to establish common ground with the aim at using resources in the field in a more efficient manner so as to implement changes expected within the regulatory frameworks applicable to the countries within the region. It will also involve the experience and recommendations of other accomplished players holding also additional knowledge on the matter.