

Impact
through
financial
inclusion



The Centre for Financial Regulation & Inclusion

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Contact details

The Centre for Financial Regulation
and Inclusion

USB Bellville Park Campus,

Carl Cronje Drive

Bellville 7530

South Africa

+27 21 918 4390

info@cenfri.org

www.cenfri.org

Cenfri is an independent, non-profit think-tank whose mission is to promote financial inclusion in Africa. It does this by supporting the development of financial systems that allow consumers, particularly low-income consumers, to access and use appropriate financial services.

Cenfri works at the policy and regulatory level as well as the market development level. Its work complements the efforts of government and the private sector, with the aim of facilitating better regulation to enable the market provision of financial services. The centre does this by conducting research, providing advice, developing capacity-building programmes for regulators, market players and other parties operating in the low-income market, and supporting market innovation.

Cenfri - the institution

The centre was established in March 2008 with support from FinMark Trust. It is registered in South Africa as a non-profit (section 21) company and is based in Cape Town at the University of Stellenbosch's Business School (USB) Campus. Cenfri has a teaming agreement with USB Executive Development (ED) Ltd. This partnership aims to combine the training infrastructure and accreditation of a university with the flexibility of a research firm. This will allow the centre to draw on

expertise inside and outside the university to offer advisory services as well as niche training programmes around inclusion-friendly policy, regulation and supervision.

Cenfri, however, remains an independent legal entity with a separate management, board and operations. It has an independent budget and surpluses are reinvested in the work of the centre, particularly in public interest projects and academic research for which funding may not be available.

The centre also manages FinMark Trust's microinsurance, health financing, retail payment systems (including mobile banking and cross-border money transfers) and Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) portfolios (www.finmarktrust.org.za).

Cenfri is governed by a board of directors comprising chairperson Anne-Marie Chidzero (consultant sitting as an independent member), Doubell Chamberlain (Cenfri managing director), Frik Landman (USB-ED), Maya Makanjee (FinMark Trust CEO) and Craig Churchill (International Labour Organisation (ILO) staffer sitting as an independent member).

A members' advisory committee meets once a year to provide governance and strategic guidance. The members comprise the founding staff and a number of external advisers.



Project cycle of our focus areas and activities

Develop evidence base through high-quality research

Understanding the issues and problems in one market: for Cenfri, this market is often South Africa, where the centre is based, which has a complex and information-rich environment with a sophisticated first-world financial sector sitting side-by-side with poverty, unemployment and the general features of a Third World environment. Much of this work was catalysed under the banner of FinMark Trust, which has taken the findings into the broader African region in which it operates. To deepen our understanding of a specific issue, Cenfri actively seeks to extend its analysis across multiple countries often using syndicated funds to allow multiple country case studies.

Engage with international standard-setting bodies and donor community

Cross-country studies benefit from co-ordination with other funders and multilateral organisations. This is key to securing resources but more importantly to linking with institutions that have relationships with the countries and are interested in implementing the findings in those countries. Depending on the issues being investigated, there is usually a global forum where the work of organisations is shared and co-ordinated, such as the Microinsurance Network. Linking our work with international standard-setting bodies has been powerful as these organisations drive the design and implementation of regulation and can guide countries to tailor compliance with standards to their domestic environment.

Implementation and dissemination

Research that has been adopted by international standard-setting bodies and the donor community benefits from the powerful distribution and credibility of these networks. Cenfri also disseminates research at international conferences and workshops and the material is used for practical and academic capacity-building programmes for regulators.

The multi-country results are also used when doing further research on individual countries. Taking the evidence back to the country level allows the centre to test and extend the findings. It allows developing countries to learn from the experience of other developing countries instead of merely copying the developed countries.



Global network

Cenfri is staffed by a small core group of people who have been working together in the area of financial inclusion for between five and eight years. The centre also draws on the skills and resources of various universities and centres of expertise in the region, in Africa and abroad, bringing in academic staff and external consultants.

Through the network of the core team, Cenfri has relationships with a growing network of entities and individuals across the globe, including international bodies such as the Consultative Group to Assist the Poor (CGAP), International Association of Insurance Supervisors (IAIS), World Bank, the UK's Department for International Development (DFID), GTZ (German Agency for Technical Co-operation) and the Microinsurance Network. Cenfri has also worked with a wide range of consultants in countries including Botswana, Brazil, Colombia, Chile, India, Indonesia, Ethiopia, Kenya, Mexico, Namibia, Pakistan, Philippines, South Africa, Tanzania, Uganda and Zambia.

Although Cenfri's main focus for capacity-building is the African continent, the centre draws on lessons and experience across developing countries around the world.

The environment in which we work

Regulators, particularly in developing countries, need to strike a careful balance between maintaining appropriate regulatory standards and facilitating financial sector development and inclusion. In many countries, regulatory frameworks are still young. Coupled with limited domestic policy capacity, this often means that a comprehensive financial sector policy framework is absent. In turn, this means that it is difficult to prioritise limited resources to areas of highest domestic priority.

Some of the challenges that regulators face include:

- ▶ Regulators are increasingly under pressure to comply with a growing body of international standards. These standards are often led by the experiences in developed countries, with limited input from the developing world.
- ▶ Regulatory capacity is often hampered by the recruitment demands of the domestic private sector and other international players. The pool of skilled people in developing countries tends to be small and the demand for their services high.
- ▶ The regulatory role and mandate is changing. The regulator's role has been expanded not only to monitor compliance with legislation and ensure the stability of the sector, but also to ensure consumer protection and facilitate financial sector development and inclusion.





These added dimensions present new challenges and require different regulatory models.

- ▶ The regulator's new role includes non-financial objectives such as controlling crime conducted through the financial sector. An example is the requirement to adopt AML/CFT regulation, which seeks to use the regulated financial sector to support criminal investigations. Pressure on countries to adopt this regulation is great.
- ▶ The pace of change in the financial sector is increasing. New technology and business models as well as more complex business structures and cross-market operations are placing increasing demands on regulators to manage these developments in a way that facilitates innovation and competition but also ensures that regulatory objectives are met.
- ▶ These regulatory challenges also create problems for market players. Inconsistent and inappropriate regulation across jurisdictions can make it difficult for companies to navigate this environment and obtain reasonable regulatory certainty when investing.

As a result of these dynamics, more policymakers and regulators are needed who are not only technically proficient but are also able to balance numerous objectives to regulate their industries in a way that keeps pace with changing markets and encourages development. Supporting and building the capacity of these regulators and policymakers is a main focus of Cenfri's work.

Methods of engagement

Policy and regulation need to be based on a sound understanding of the market and country context. Cenfri's research aims to build an understanding of the driving forces in financial market development and to use these to guide policymakers, regulators, supervisors and market players. This research is also used to shape current international debates around policy and regulatory issues. In this way, Cenfri considers the full process: understanding the basic problems, defining the policy framework and objectives, drafting legislation and subordinate regulation, implementing supervision, and feeding this experience into international standards and best practices.

In doing this the centre is developing a range of interrelated and complementary competencies:

Education programmes: Constructing training courses for regulators, starting with short interventions and aiming to develop more comprehensive academic qualifications in the area of financial inclusion.

Regulatory design: Actively supporting regulators to research and design regulatory frameworks in line with the capacity and constraints of the regulator and market.

Donor programmes and fund design:

Supporting donors to design programmes based on a thorough understanding of the relevant sector and what this implies for their strategy, as well as assisting in fund design, including challenge funds that build in optimal governance and impact.

Compliance support and training: Providing compliance support for regulated entities.

Regulatory impact assessment: Conducting such assessments as well as providing training for regulatory staff tasked with such assessments. The centre also aims to promote the routine use of regulatory impact assessments in all aspects of regulatory design and implementation.

Proactive research and publication: Publishing cutting-edge material to guide international thinking around its focus areas.

International debate on regulatory design and standards: Presenting a consistent voice for developing countries in the arena of international regulatory standards. Cenfri does this by becoming involved in the activities of international bodies setting the standards for different aspects of financial regulation. It is crucial that the standards developed take into account the practical challenges and constraints that developing country regulators face.

Focus areas

Microinsurance and health financing

Microinsurance refers to insurance for lower-income households. If appropriately designed and distributed, such products can be important in reducing the vulnerability of low-income people as well as being a profitable market for commercial insurers. Cenfri's work in this area includes health financing and insurance. Cenfri staff has done extensive work on the regulation and development of microinsurance markets in South Africa and also globally, covering Botswana, Brazil, Colombia, Ethiopia, Namibia, India, Philippines, Swaziland, Uganda and Zambia.

Alternative distribution models and technologies

Distribution of financial services is a key constraint in extending services to low-income markets. As a result, much emphasis is increasingly placed on the use of new technologies (e.g. mobile phones) and business models (e.g. retailer-based distribution) and on creating the regulatory space for these models to develop. This will benefit the extension of banking networks and also the distribution of all other non-bank financial services. Cenfri sees this as a key focus area of financial inclusion.



Services offered

Cenfri seeks to support financial sector development and inclusion through:

- ▶ Bringing different perspectives: an inclusion state of mind
- ▶ Understanding market dynamics from an inclusion perspective
- ▶ Regulatory and market development strategies tailored to local conditions and priorities
- ▶ Knowledge-sharing and training for policymakers, regulators and supervisors

Our focus sectors are:

- ▶ Microinsurance
- ▶ Health financing
- ▶ Alternative distribution models
- ▶ Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)
- ▶ Retail payment systems and cross-border money transfers
- ▶ Financial policy and regulatory strategy

We offer the following services in these areas:

- ▶ Project-based research and advisory services
- ▶ Technical assistance to policymakers and regulators looking to implement inclusion-friendly regulatory frameworks
- ▶ Market diagnostics
- ▶ Industry strategy development and facilitation
- ▶ Donor strategy and programme design
- ▶ Knowledge-sharing through workshops and capacity building
- ▶ Project design and management



Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)

While the other areas of development are often at the discretion of the regulator without immediate demands for action, regulators are placed under immense pressure to implement AML/CFT measures or face exclusion from the international financial sector as well as other sanctions (such as conditional funding from donor and other multi-lateral agencies). Regulators, therefore, have little choice but to implement these regulations and to do so quickly. However, if not carefully implemented, AML/CFT regulation may affect financial inclusion. Cenfri seeks to support compliance with international standards such as AML/CFT in a way that does not limit financial sector development and inclusion. Similar issues arise in other categories of international standards such as Basel II for banking and Solvency II for insurance.

Retail payment systems and cross-border money transfers

Cross-border and domestic money transfers and payment systems can have a major impact on the livelihoods of low-income households. Remittances specifically present many opportunities to extend financial inclusion. Cenfri's focus is to facilitate regulation that manages the payment system risks but also facilitates the introduction of new models and technologies that could facilitate inclusion.

Financial policy and regulatory strategy

Regulatory and market development strategy tailored to local conditions and priorities is core to Cenfri's work. While much of the work focuses on policy and regulatory outcomes, this is done to leverage the potential of the private financial sector to serve low-income households. The aim of this focus area is to develop inclusion-friendly financial sector policy and regulation. This includes research tools, impact assessments and policy and regulatory design.

Some recent projects

International guidelines for microinsurance regulation: As part of a team of consultants,¹ Cenfri staff, on behalf of FinMark Trust, managed an IAIS-CGAP² Joint Working Group on Microinsurance project to develop principles for the regulation of microinsurance. The in-country work was conducted in Colombia, India, the Philippines, South Africa and Uganda during 2007, and the general principles and findings are being drafted. Cenfri staff was also part of the team responsible for managing and mentoring the various in-country consultants; was part of the consulting teams for South Africa and Uganda;

¹ Under consulting firm Genesis Analytics.

² Note that the CGAP Working Group on Microinsurance has since been renamed the Microinsurance Network.

and was also responsible for developing the synthesis findings and guidelines.

Brazil microinsurance review and strategy: A review of the opportunities and challenges for microinsurance in Brazil that considered demand, supply and regulatory aspects. This was funded by the industry association and institute as part of their input into the development of a new regulatory framework for microinsurance.

Ethiopia microinsurance review and strategy: Cenfri led a review of the opportunities and challenges for microinsurance development in Ethiopia, considering demand, supply and regulatory aspects. This was funded by the United Nations Capital Development Fund (UNCDF) and the ILO.

Zambia microinsurance review and strategy: A review on the opportunities and challenges for microinsurance development in Zambia considering demand, supply and regulatory aspects. This was funded by the UNCDF, the ILO and FinMark Trust Zambia.

Microinsurance regulation in South Africa: Cenfri has been contracted by the South African National Treasury to support the development of a new regulatory framework for microinsurance. As part of a team of consultants³, Cenfri staff

³ Under consulting firm Genesis Analytics.



supported the development of the first South African National Treasury discussion paper *The future of microinsurance regulation in South Africa*. The discussion paper suggested a regulatory definition for microinsurance in South Africa as well as the parameters of a dedicated microinsurance regulatory framework, based on an assessment of the market. This was the culmination of five years of work for the FinMark Trust covering various aspects of insurance markets in Southern Africa, which included a review of the regulation of formal and informal funeral insurance markets, research into the regulatory and market challenges for the intermediation of microinsurance, research into retailer distribution of microinsurance, and research into the emerging new microinsurance intermediary models and the reasons for varying success. Cenfri has been appointed to develop the second version of this discussion paper for the National Treasury.

SADC AML/CFT: Supporting the Southern African Development Community (SADC) to draft an AML/CFT annex to the Finance and Investment Protocol, and hosting a workshop where this was assessed with member jurisdictions.

AML risk of low-income financial products: A review of AML/CFT risk management of low-income financial products and services in South Africa, conducted for the FinMark Trust.

AML risk model: The centre participated in a CGAP project to design a model to determine AML risk in the financial sector.

Namibian AML/CFT regulation: Supporting the design and drafting of access-friendly AML/CFT regulation for the Namibian government.

Complying with FATF recommendations on AML/CFT while ensuring inclusion: Cenfri staff⁴ participated in a project to design guidelines for implementing Financial Action Task Force (FATF) Recommendations in developing countries so that they did not impact negatively on access to financial services. This involved a cross-country analysis of conditions in Indonesia, Kenya, Mexico, Pakistan and South Africa and was done for a steering committee consisting of the World Bank, International Monetary Fund, CGAP, DFID, FinMark Trust and the South African National Treasury.

Experience and knowledge sharing: Facilitating the sharing of knowledge and experience among the pioneering countries in microinsurance. Cenfri facilitated a study tour to South Africa for a delegation consisting of the Brazilian insurance supervisor and market players as well as the Mexican insurance supervisor. This exchange was funded by the World Bank.

4 Under consulting firm Genesis Analytics.

International scan of passive distribution models in insurance.

One of the alternative distribution models emerging in microinsurance distributes insurance through different retailer, utility and services networks without active sales like other commodities. This innovation may open up new markets but also risks the mis-selling of products to low-income households. Cenfri is conducting a global scan on the experience with such models to inform the strategy of the ILO Microinsurance Innovation Facility and the broader microinsurance community.

Health insurance: Cenfri managed a study on the demand side of the market for medical schemes in South Africa as well as a study for FinMark Trust on making health insurance work for the low-income market in South Africa.

Designing a regulatory framework for electronic money/m-payments in Kenya:

Cenfri is part of a consulting team, led by the Boston-based Bankable Frontier Associates, to redesign the regulatory framework for m-payments in Kenya. The need for such a framework arose out of the success of M-Pesa, a domestic m-payments service based on an electronic money platform.

Regulation of branchless banking: During 2007, Cenfri staff⁵ participated in a country policy

and regulatory analysis undertaken by CGAP to understand the policy and regulatory environment for branchless banking. This work is part of the CGAP Technology Program's broader initiative to pioneer new uses of technology to bank the unbanked poor.

Mobile phone banking: The work of Cenfri staff in the area of AML/CFT also seeks to support the use of new models and technologies. Cenfri is providing AML/CFT expertise on mobile phone banking and the development of a regulatory system to support mobile phone banking in the Maldives.

Donor strategy development in Nigeria:

Cenfri, in partnership with Bankable Frontier Associates, was contracted to support the development of strategies for the Enhancing Financial Innovation and Access (EFInA) initiative in Nigeria in 2008.

Zambia remittances landscape: A scoping study on the landscape of remittances in Zambia was conducted for FinMark Trust Zambia to inform the market debate and its strategy in this sector.

Zimbabwe remittance corridor: This study was managed by Cenfri on behalf of FinMark Trust. It analyses the size and dynamics of the Johannesburg-Zimbabwe remittance corridor to gauge the scope for formalising it.

5 In their previous capacities.



Future growth

Cenfri's main focus at present is to develop project-based research and advisory services. Over time, the centre aims to build on this to develop training and academic education programmes.

The research conducted by Cenfri and its partners is already feeding into short capacity-building programmes conducted on an ad hoc and project basis. The aim is to build an annual capacity-building programme with financial inclusion as the main theme and several modules focusing on specific sectors or themes.

As a next step, Cenfri will seek to deepen the academic grounding of its work and develop academic publications that draw on its research. Building on this, the centre proposes to gradually extend into more formal academic training programmes. The ultimate aim is to grow these programmes into a dedicated post-graduate programme.

Core team

Doubell Chamberlain

Founder and managing director

Doubell Chamberlain is the founder and managing director of Cenfri and theme co-ordinator for FinMark Trust.

Doubell is a development economist by training, specialising in financial sector policy and regulatory strategy for development, access to financial services and supporting governments on making markets work for the poor. He holds a Masters in economics (cum laude) from the University of Stellenbosch.

Prior to founding Cenfri, Doubell was employed for six years (from 2001-2007) at Genesis Analytics, an economics consultancy based in Johannesburg, South Africa, where he set up the financial inclusion practice area, which he headed for the final two years. He has worked on several projects relating to the provision of financial services for poor people, covering Botswana, Brazil, Colombia, Ethiopia, Lesotho, Indonesia, India, Kenya, Mexico, Namibia, Pakistan, South Africa, Swaziland, Uganda and Zambia. He was involved in the review and assessment (including cost-benefit analyses) of regulatory impact on various components of the financial sector in South Africa and Namibia, and the impact of regulation on non-financial markets, including the forestry value chain and business process outsourcing. Doubell and

Hennie Bester led the team of consultants who drafted the National Treasury discussion paper on regulating microinsurance in South Africa. This builds on a number of projects in the area of funeral insurance regulation and intermediation.

Anja Smith

Deputy director

Anja Smith is the deputy director of Cenfri. She is a development economist, specialising in financial sector policy and regulatory strategy, access to financial services and supporting governments on making markets work for the poor. She holds a Masters in economics (cum laude) from the University of Stellenbosch.

Since joining Cenfri in January 2008, before it was officially established, Anja has worked on various financial inclusion studies, including projects in the areas of microinsurance and donor strategy in financial inclusion in Ethiopia, South Africa and Nigeria. She has also been responsible for developing and managing the health financing theme area for the FinMark Trust.

Before joining Cenfri, Anja was employed for almost three years at Genesis Analytics where she progressed to associate level in the financial inclusion practice area. She worked on projects related to the provision of financial services to poor people in South Africa, Mexico and Uganda. She was involved in projects on microinsurance, including studies on intermediation and retail

distribution in South Africa, and studies on the regulation of microinsurance in both South African and Uganda. Anja also participated in a multi-country study to determine the impact of anti-AML/CFT legislation on financial inclusion.

Christine Hougaard

Consultant

Christine is an economist and has been with Cenfri since mid-2008. She has conducted a study on the landscape of remittances and money transfers in Zambia; managed a sub-contracted study on the South Africa-Zimbabwe remittance corridor; was the main author of a scoping and strategy document for developing the microinsurance market in Zambia; and helped develop a three-year strategy for EFINA in Nigeria. She also co-authored the synthesis report for a cross-country study on international guidelines for microinsurance policy, regulation and supervision; worked on an internal strategy for a bilateral client on microinsurance development as well as the second phase of a policy paper on microinsurance regulation for the South African National Treasury; and is part of a team conducting a microinsurance review in Brazil.

Before joining Cenfri, Christine worked as an analyst and later associate at consulting firm Genesis Analytics. Key financial inclusion projects included the fund management team of the DFID Financial Education Fund; the South African component of the five-country study to develop



guidelines for microinsurance policy, regulation and supervision; a study on the scope for old-age savings in the South African low-income market; a discussion paper for National Treasury on the future of microinsurance regulation in South Africa; the design of the African Enterprise Challenge Fund for DFID; and the Indonesian country study for an international study to develop tools for the access-friendly implementation of AML/CFT regulations in developing countries.

Hennie Bester

Consultant

Hennie Bester is an independent consultant with Cenfri and an expert in financial sector policy and regulation. This follows six years as a director of Genesis Analytics. He holds an LLM (University of Cambridge, UK) and an honours degree in Economics (University of Stellenbosch, South Africa).

At Genesis Analytics, Hennie was the director responsible for the public interest strategy and access to financial services work. This included work on institutional design, investment climate facilitation, market regulation, access to financial services, regional market integration, and economic sector development. He worked on several projects relating to the provision of financial services to poor people, covering Botswana, Colombia, Lesotho, Indonesia, India, Kenya, Mexico, Pakistan, South Africa, Swaziland and Uganda. Before that Hennie spent 11 years in representative politics, and

was a cabinet member in the Western Cape government (holding positions as MEC for Business Development and Tourism, and MEC for Community Safety). Hennie was responsible for the regulatory analysis of the only comprehensive study of remittances within the SADC region, undertaken by Genesis Analytics for CGAP. He also participated in a CGAP research project on the regulation of new branchless banking and led the country studies for Brazil, the Philippines and South Africa.

Herman Smit

Economic researcher

Herman Smit joined Cenfri as a full-time researcher at the beginning of 2009. He holds an MSc in economics (Tilburg University, Netherlands) specialising in competition and regulation, and a BCom honours specialising in econometrics (University of Pretoria, South Africa)

Before joining Cenfri, Herman worked as a part-time researcher for the African Institute for Econometric Modeling (AFRINEM, South Africa), completed an internship at Advisory Economics (PriceWaterhouseCoopers, Amsterdam) and briefly lectured at an undergraduate level (London Varsity, Cape Town).

As part of the Cenfri team Herman has mainly worked in the microinsurance area, specifically focusing on innovative distribution models within the South African and global context.



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