

Cenfri

The Centre for Financial
Regulation and Inclusion

Corporate profile

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1. Introduction

This document provides a basic profile of the Centre for Financial Regulation and Inclusion (Cenfri).

Cenfri is non-profit think tank, established in March 2008 with support of the FinMark Trust (www.finmark.org.za) and based in Johannesburg. Cenfri's mission is to support financial sector development and financial inclusion through facilitating better regulation and market provision of financial services. We do this by conducting research, providing advice and developing capacity building programmes for regulators, market players and other parties operating in the low-income market.

2. The need for support

Harnessing regulation for development. Regulators in developing countries face significant challenges which they have to meet with limited resources. More so than in developed countries the cost of regulation impacts significantly on financial sector development and regulators need to strike a careful balance between maintaining appropriate regulatory standards and facilitating financial sector development and inclusion. Efficient regulatory design is, therefore, called for. Some of the challenges include:

- *Limited domestic policy framework.* Limited domestic policy capacity means that a comprehensive financial sector policy framework is often absent. This in turn means that it is difficult to prioritise the limited resources to areas of highest importance.
- *International standards.* Regulators are increasingly under pressure to comply with a growing body of international standards and best practices. These standards are often led by developed country experience with limited input from the developing world. As result, best practice templates are often weak in balancing the trade-offs between regulation and development as well as dealing with limited capacity and resources. Furthermore, little support is available to regulators to develop and implement an overall regulatory strategy and framework that could guide consistent regulations across all financial sectors and that recognises financial sector development and inclusion as an explicit policy objective.
- *Limited and transient skills base.* Regulatory capacity is also continuously undermined 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. This means that regulators typically find it difficult to attract and retain talent capable of executing their regulatory objectives. This is particularly the case for the non-bank regulators.
- *Changing regulatory role and mandate.* The regulator's role has been expanded to not only monitor compliance with legislation and ensure stability of the sector but also to ensure consumer protection and facilitate development of the financial sector and financial inclusion. These added dimensions present new challenges and require different regulatory models. The market development objective also means that conservatism is no longer an unmitigated blessing and the cost of this in terms of market development needs to be carefully weighed.
- *Extension of scope to non-financial objectives.* The new role of the regulator also includes non-financial objectives such as the control of crime conducted through the financial sector. An example is found in the requirement on countries to adopt AML/CFT

regulation, which seeks to use the regulated financial sector to support its criminal investigations. There is great pressure on countries to adopt this regulation, which usually leaves little time to adjust it to domestic circumstances and can impact dramatically on the development of the financial sector.

- *Increasing pace of change.* 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 the regulator to be able to manage these developments in a way that facilitate innovation and competition but also ensures that it meets its regulatory objectives.

Need for support and capacity building. As a result of these dynamics, there is an increasing demand for policy makers and regulators who are not only technically proficient, but are also able to navigate the numerous objectives noted above and can regulate their industries in a manner that keeps pace with the changing markets and facilitates and encourages development. Few institutions exist to provide the consistent and on-going support required to build the capacity of regulators over time. It is these regulators and policy makers that the Cenfri is aiming to support and capacitate.

Market impact. The regulatory challenges mentioned above also create problems for market players. Inconsistent and inappropriate regulation across various jurisdictions makes it difficult to navigate this environment and obtain reasonable regulatory certainty when investing into a particular jurisdiction. Where regulatory regimes are unable to keep up with the pace of change this leaves new models in uncharted territory. In such environment of uncertainty, entry of new models is often discouraged as regulators tend to opt for a conservative approach. In this environment support for both regulator and regulated will be critical.

3. Focus areas and scope of activities

Cenfri was created in response to the above and seeks to attract available expertise in Africa and globally to develop a deeper understanding of the challenges and solutions. The centre will undertake research and provide training to support the relevant policymakers, regulators and the regulated to meet these challenges.

Scope of activities. To meet these needs Cenfri will target both policy and regulatory debates allowing it to support the full process from defining the policy framework and objectives, to drafting the legislation and subordinate regulation, to finally also the implementation of these regulations. In addition, the centre should keep abreast of innovative new business models and their regulation. More specifically, it is proposed that the centre should focus on a number of inter-related and complementary activities:

- *Education programmes for regulators, regulated and developers of financial markets:* Developing training courses for regulators ranging from short interventions to full diploma and potentially post-graduate qualifications.
- *Regulatory and institutional design:* Actively supporting regulators (on a consultancy basis) to research and design proposed regulatory frameworks in a manner that develops a consistent and integrated financial sector regulatory framework and is in line with the capacity and constraints of the regulator and market. The regulatory challenges

noted above also relate to the structure and design of regulatory institutions and mechanisms. This is a key area that would require support.

- *Compliance support and training.* In support of market players and to gain an understanding of the compliance burden and challenges, centre activities will include providing compliance support to regulated entities.
- *Support for implementation of new regulation, including strategies to cope with new market challenges as regulation adjusts:* Hands-on analysis and support that will allow us to gain first-hand insight into the challenges faced.
- *Regulatory impact assessment:* This will include both conducting regulatory impact assessments as well as providing training to regulatory staff tasked with such assessments. In addition, it is critical to embed the concepts of regulatory impact assessments in all other aspects of regulatory design and implementation.
- *Pro-active research and publication:* In addition to being client-led in the consulting work we also propose that the centre should take a leading role in publishing cutting edge material to guide international thinking on this topic. This will require a careful balance in activities and purposefully selected skills set and staffing, but will be a major advantage of the centre.
- *Inputting into the international debate on regulatory design and standards presenting a consistent voice of Sub-Saharan countries in the development of international regulatory standards:* It is also a strategic aim of the centre to be involved in activities of the international bodies setting the standards for different aspects of financial regulation. These are religiously followed and imposed on developing country regulators and it is critical that the standards developed take account of the practical challenges and constraints faced by developing country regulators.

Focus areas. Recognising that the above activities are wide ranging, the skills and operational demands of such a centre will be significant. To ensure that it is viable to manage, the Centre will initially focus on a smaller set of target areas, which can then be expanded over time to cover other areas as the priorities demand. The focus will initially be on the training and consulting arms and specifically on five inter-related content themes:

- *Micro-insurance (including health insurance):* Insurance could play a critical role in supporting risk management for the poor. Regulatory frameworks for insurance, however, tend to be conservative and underdeveloped.
- *Remittances:* Remittances is a critical financial service to many low-income households relying on transfers from family members abroad. Although much work has been done on this, the regulatory environments in most developing countries remain weak and unsupportive. The focus of our support will be to facilitate regulation that manages the risks of remittances but facilitate the introduction of new models and technologies in support of financial inclusion.
- *New technologies in distribution:* Technology is playing an increasing role across all financial services opening up new opportunities but also creating challenges. In particular, technology is opening up opportunities for lower-cost service models targeting the poor. This includes current developments around branchless and mobile banking. Kenya, Zambia, Philippines and South Africa are leading examples in this regard.
- *Anti-money laundering/Combating of financing of terrorists (AML/CFT):* This is one of the most pressing areas of support. Whereas the other areas of development is often at the discretion of the regulator without immediate demands for action, regulators are placed under substantial pressure to implement AML/CFT measures or face exclusion from the

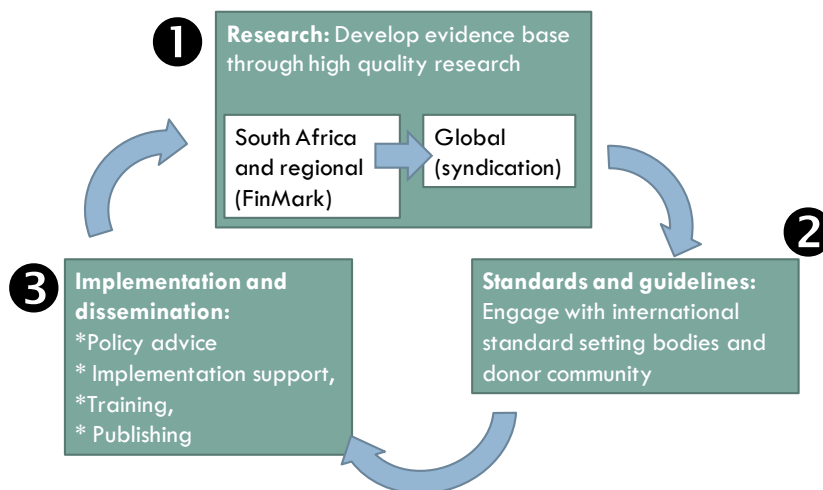
international financial sector as well as other sanctions (e.g. conditional funding from donor and other multi-lateral agencies). Regulators, therefore, have very little choice to implement these regulations and do so quickly. Experience has shown that this often comes at great cost in terms of development.

- **Policy and regulatory frameworks and strategy:** In addition to the above themes, a central component of training will focus on the development of coherent and development-orientated policy and regulatory frameworks. This will include research tools, impact assessments and basis processes in policy/regulatory design. In particular, this area will consider the role of financial sector policy and regulation in financial sector development and inclusion.

With these focus areas we are not making a value judgment on the importance of other areas, but simply utilising the fact that these are currently prominent themes in which Cenfri has build up significant experience and that can easily be used to attract our target market.

Geographical focus. The centre will focus its activities on the African continent, but draw from lessons and experience across developing countries globally.

We believe that the above focus areas and activities will provide a powerful mutual reinforcing project cycle as illustrated below.



4. Operational structure and governance

Operational structure. Cenfri's operational structure seeks to leverage the training infrastructure and accreditation of a university but retain the structure, agility and pragmatic focus of a consulting firm. This will allow the centre to draw on expertise inside and outside the university (especially first-hand and cutting edge practical experience) and offer competitive advisory services as well as comprehensive training programmes. Key features of Cenfri's design include:

- An independent, non-profit entity. Surpluses are re-invested in the work of the centre (particularly public interest projects, for which funding may not be available).
- Associated with a suitable university. We are in advanced stages of negotiations with two South African universities.
- Independent budget and resources allowing us to pursue our proposed research agenda.
- Drawing on skills and resources from various universities and centres of expertise in the region, in Africa and abroad.
- Staffed by a small core group of people, drawing on academic staff of partner university(s) and/or external consultants where relevant.

Governance. As a Section 21 company, Cenfri is governed by a board of directors. The directors are Doubell Chamberlain, Prof Louis de Koker, Anne-Marie Chidzero (non-executive, as representative of the FinMark Trust). Another non-executive director will be appointed to represent the partner university once the negotiations have been finalised.

5. Core team

The core Cenfri team consists of four individuals:

Doubell Chamberlain is the founder and managing director Cenfri and consulting director to the FinMark Trust (www.finmark.org.za) responsible for their work in micro-insurance and health insurance.

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 Cenfri, Doubell was employed for 6 years (from 2001-2007) at Genesis Analytics progressing to Engagement Manager and setting up the financial inclusion practice area, which he headed for the last two years. Over his period of employment he has worked on several projects relating to the provision of financial services to the poor (covering Botswana, Colombia, Lesotho, Indonesia, India, Kenya, Mexico, Namibia, Pakistan, South Africa, Swaziland and Uganda), the review and assessment (including cost-benefit analyses) of regulatory impact on various components of the financial sector in South Africa and Namibia, economic sector review and development strategies including the impact of regulation on non-financial markets (including the forestry value chain and business process outsourcing).

Anja Smith is the deputy director of Cenfri. Her responsibilities include supporting the FinMark Trust in its work on micro-insurance and other areas of financial inclusion. She is also managing the development of new areas of research in remittances and health financing.

Anja is a development economist by training, with experience in financial sector policy and regulatory strategy for development, 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.

Prior to Cenfri, Anja was employed for almost 3 years at Genesis Analytics where she progressed to Associate level in the financial inclusion practice area. Over this period she worked on several projects related to the provision of financial services to the poor in South Africa, Mexico and Uganda. She was actively involved in a number of areas that form part of the research and strategy process, including data and information gathering, analysis of FinScope™, an annual financial services usage survey; managing client relationships through active communication on project progress, obtaining client input into the research product; and managing project processes and timelines and creating and managing budgets.

She was also involved in various projects on micro-insurance, including studies on the intermediation and retail distribution of micro-insurance in South Africa and studies on the regulation of micro-insurance in both South African and Uganda. Anja also participated in a multi-country study (focusing on South Africa, Mexico, Pakistan, Indonesia and Kenya) to determine the impact of anti-money laundering and combating the financing of terrorism (AML/CFT) legislation on financial inclusion. As part of this study, she was responsible for the market analysis of both South African and Mexico.

Prof Louis de Koker is a Professor of Mercantile Law at the University of Johannesburg. Louis is a commercial lawyer and an expert in AML/CFT. He holds a doctorate in Corporate Law (The University of the Free State, South Africa) and two master degrees in Company law (one of which was awarded by The University of Cambridge, UK). He is the director of the Centre for the Study for Economic Crime and a director of Cenfri with specific responsibility for research on AML/CFT and the manner in which these affect financial inclusion.

Hennie Bester is an independent consultant with Cenfri and an expert in financial sector policy and regulation. This follows 6 years as a Director of Genesis Analytics, and economics consultancy based in Johannesburg, South Africa. He holds an LL. M (University of Cambridge, UK) and an Honours in Economics (University of Stellenbosch, South Africa).

At Genesis, 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. Over his period of employment he has worked on several projects relating to the provision of financial services to the poor (covering Botswana, Colombia, Lesotho, Indonesia, India, Kenya, Mexico, Pakistan, South Africa, Swaziland and Uganda).

Prior to joining Genesis as director, Hennie spent 11 years in representative politics, and later as a cabinet member in the Western Cape government (holding positions as MEC for Business Development and Tourism, MEC for Community Safety).

Through the network of the core team, Cenfri has relationships with various entities and individuals across the globe, which could be drawn on to support Cenfri work. These include various international consultants in Botswana, Colombia, Chile, India, Indonesia, Mexico, Namibia, Pakistan, Philippines, South Africa, Tanzania, Uganda and Zambia

Key recent projects undertaken by the core team:

- *AML/CFT and financial inclusion*: Doubell Chamberlain, Louis de Koker and Hennie Bester were at the head of a research team conducting research in Indonesia, Kenya, Mexico, Pakistan and South Africa to develop the principles for implementing AML/CFT regulations in a manner that does not undermine financial inclusion. This project was sponsored by the FIRST Initiative and led by steering committee consisting of CGAP, FinMark Trust, World Bank, IMF and DFID. These principles are likely to shape the nature of implementation and assessment of the FATF principles in developing countries going forward.
- *IAIS micro-insurance principles*: Doubell Chamberlain and Hennie Bester are leading a team of consultants reviewing developing country experience with micro-insurance and micro-insurance regulation in order to develop principles that will guide the regulation of micro-insurance internationally. This will be based on reviews of Colombia, India, Philippines, South Africa and Uganda and will involve visits to all of these countries.
- *SA micro-insurance discussion paper and regulatory framework*: Doubell Chamberlain and Hennie Bester led the team of Genesis consultants who drafted the recently published National Treasury discussion paper on regulating micro-insurance in South Africa. This builds on a number of projects in the area of funeral insurance regulation and intermediation in South Africa.
- *New technologies*: Hennie Bester participated in a CGAP research project on the regulation of new branchless banking and led the country studies for Brazil, Philippines and South Africa.
- *Remittances*: Hennie Bester was responsible for the regulatory analysis of the only comprehensive study of remittances within the SADC region, undertaken by Genesis Analytics for CGAP.

6. Target market

The target audience for Cenfri includes:

- Policymakers;
- Regulators;
- Supervisors;
- Academics;
- Consultants; and
- Donor staff.