

# Risk-Based Supervision for Inclusive Digital Financial Services

## ASSIGNMENT 3 SCENARIO: Innovatia

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You are a senior supervisor at the National Financial Supervisory Authority (NFSA) in Innovatia, a country where the financial sector is undergoing rapid digital transformation.

### Innovatia's Current Challenges and Contextual Factors

The government has set ambitious goals for financial inclusion and digital inclusion, aiming to bring **20% of the unbanked population** into the formal financial system within five years, and ensure that **100% of the population** is **digitally included** with access to smartphones and the internet in the next five years.

Currently, NFSA in Innovatia faces several challenges:

- **Fragmented data infrastructure and manual processes:** Supervisory data is stored in multiple legacy systems with inconsistent formats, making integration difficult. Most supervisory activities rely on periodic, partially manual reporting, with manual data analysis, and a fixed schedule of on-site inspections, which are slow and resource-intensive.
- **Limited data quality:** Institutions submit aggregated data with minimal granularity, limiting NFSA's ability to detect emerging risks or inclusion gaps. Besides, data quality issues such as incorrect reporting are common, and the validation procedures used by NFSA are very basic.
- **Budget constraints:** NFSA feels the pressure to prioritise investments carefully to achieve maximum impact, due to the very limited budgeted, which is determined by the Ministry of Finance. NFSA does not charge any fee from supervised entities.
- **Pressure for proactive supervision:** Recent failures of two mid-sized banks due to liquidity issues and strong competition from new non-bank entrants have raised concerns about NFSA's ability to detect risks early.
- **Open finance ecosystem:** The country recently launched an open finance framework, increasing data flows across banks and non-banks, but also creating new risks related to competition, data privacy, and consumer protection.
- **SupTech ambitions:** NFSA wants to leapfrog into the future. It plans to implement AI-driven SupTech tools for predictive analytics and real-time monitoring. However, the authority lacks a comprehensive data strategy and faces resistance from some institutions concerned about intrusive supervision.

Additional contextual factors:

- **Regulatory coordination:** NFSA is required by law to collaborate with the Data Protection Authority and Competition Commission to ensure compliance and avoid duplication.
- **Cybersecurity risks:** NFSA does not have advanced tools to protect itself against cyber threats and protect the data it collects from supervised entities. This is one of the reasons for institutions to be resistant to NFSA's SupTech ambitions.
- **Human capacity gaps:** Supervisory staff have limited experience with advanced analytics and SupTech tools, and have only started to experience risk-based supervision. Their supervisory judgement is still quite limited and lacks sophistication. Overall, supervisors are still focusing their assessments on finding and penalising instances of non-compliance, rather than identifying emerging risks and requiring institutions to adopt corrective measures to avoid risk materialisation.
- **Stakeholder expectations:** The Ministry of Finance expects NFSA to demonstrate measurable progress on digital financial inclusion within two years and to become a model agency for other government entities.

## Your role

You have been asked to design a **roadmap for NFSA in Innovatia** to become a data-driven supervisory agency, leveraging SupTech for risk-based supervision, including DFS supervision.

The roadmap needs to address data infrastructure weaknesses and guide the implementation of an encompassing data strategy that prioritises financial inclusion and good data governance.

You are preparing to draft this roadmap. In your research, you found an online diagnostic tool containing key questions designed to help supervisory authorities think through some key aspects when preparing to become data-driven organisations.

You need to carefully consider and answer the questions before you can discuss your potential draft with your colleagues at the NFSA of Innovatia.