

# Risk-Based Supervision for Inclusive Digital Financial Services

## TRANSCRIPT: Prudential Supervision of Agents

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Having a physical presence remains important for digital financial service providers, because cash will remain dominant in most countries for the foreseeable future. Agents, therefore, are a powerful enabler of financial inclusion.

Agents are also significantly less costly than other types of brick-and-mortar infrastructure, and play a crucial role in lowering the cost of delivery to reach unbanked and underbanked populations. They provide access for these populations to a wide range of financial services and products.

Agents play a critical role for DFS providers. The larger the agent network, the more useful agents become, and the more providers invest in their expansion. The more investment and expansion, the more useful agents become for providers and customers, and so on.

To sustain this cycle, supervision of the use of these agents by DFS providers needs to be proportional and effective.

This can be achieved through four key areas.

1. Regulation
2. Authorisation
3. Supervisory approach
4. Supervisory tools and procedures.

### 1. Regulation

Proportional supervision is not possible if the underlying **regulation** is disproportionate. It is essential to harmonise the regulatory treatments of agents used by banks and non-bank financial services providers, such as non-bank e-money issuers. Such harmonization should be regardless of which department at the supervisory agency is acting in a supervisory role.

It is common for countries to have stringent agent regulations for banks and lighter regulations for non-bank digital financial services providers. The increasing convergence of bank and non-bank distribution networks makes the disparity in regulatory treatments problematic. Regulatory harmonisation works and facilitates effective supervision, as demonstrated in countries like Brazil, Colombia, and Peru.

### 2. Authorisation

**Authorisation** of individual agents should not be a hurdle for the managed growth of agent networks. In countries with more experienced agents, such as Brazil and Colombia, there is no authorisation of individual agents. In Colombia, as well as Mexico and Peru, digital financial services providers need



only to obtain a one-time authorisation to use agents as a distribution channel. In Brazil, even this step is not needed.

In all cases, digital financial services providers need to keep the supervisor updated on their agent networks. In Brazil, this is done through a web-based agent database built by the central bank. In Mexico, the pensions regulator has an agent database as well. One of the challenges of agent databases is the elimination of duplicate entries across providers using the same agent, especially when the providers do not use the same agent identifier. Many countries require providers to publish an updated list of all agents on their websites for the public.

### 3. Supervisory approach

**Supervision** should focus on the management of agents by digital financial services providers, and not the agents themselves. Providers should conduct proper due diligence when onboarding agents and maintain ongoing monitoring. Providers need to demonstrate to supervisors that they effectively manage risks related to the use of agents.

Here, supervision relies on the concept of third-party outsourcing, where digital financial services providers are responsible for the actions of agents acting on their behalf. Supervisors may inspect agents or do mystery shopping, but only when there is a specific reason to do so; for example, in the case of a sharp increase in complaints about agents charging unauthorised fees to consumers.

Overall, visiting agents should be a small part of any supervisory approach. The focus should be on how digital financial services providers manage their agents, including when they use agent network managers or other third parties to do so. However, a supervisory approach should not be limited to institution-focused analysis. It should include a market-level focus. Continuous monitoring of data about agents and agent networks will help supervisors understand the broader context in which individual digital financial services providers operate and manage their agents.

### 4. Supervisory tools and procedures

Supervisors need to use a mix of **supervisory tools and procedures** in their risk-based approach to supervising agents. Such tools include off-site market monitoring and thematic reviews—both focused on the whole market—as well as off-site examinations and on-site inspections—both focused on individual digital financial services providers.

The key to effectiveness and efficiency is data quality. High-quality data enables rich off-site monitoring, which will inform the other supervisory activities. The better the monitoring, the better the results of on-site inspections and thematic reviews.

Up-to-date, high-quality, and standardised, granular data on agent gender, locations, transactions, and consumer complaints about agents, enables detailed analysis.

Supervisory analysis of agents should include the following data:

- types and gender of agents and locations that are growing faster in number and transaction volume,
- digital financial services providers investing heavily in agent networks,
- shared agents that have higher or lower transaction volumes,
- the distribution of transaction types by location and agent type and gender,

- average transaction value per location and agent type and gender, and
- underserved locations and their socio-economic profile.

Analysing agents as part of supervisory activities is necessary across market and provider levels, but it requires reliable, and ideally granulated, data to be effective and provide actionable insights for supervisors.

