

# Risk-Based Supervision for Inclusive Digital Financial Services

## ASSIGNMENT 4 SCENARIO: Technologia

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You are a mid-level supervisor at the **Central Bank of Technologia** (CBT). CBT has recently decided to modernise its supervisory approach due to the rapid expansion of Digital Financial Services (DFS) in the country.

**Technologia**, a lower-middle-income country, is experiencing rapid digital transformation in its financial sector. Mobile phone penetration has surpassed 82%, and DFS usage has expanded dramatically across urban and rural regions. Nearly all low-income households now rely on at least one DFS provider for payments, transfers, or digital credit.

The Central Bank of Technologia (CBT) board has expressed concern that while the DFS market is expanding, supervisory capacity, tools, and regulatory frameworks are not keeping pace. The governor has tasked your department with identifying reforms needed to ensure a safe, stable, and inclusive DFS ecosystem.

## Recent Developments across DFS in Technologia

### 1. Rising Systemic Importance of Non-Bank EMIs

Non-bank e-money issuers (EMIs) have grown into major players in Technologia's retail payment ecosystem. The largest EMI, PayKwik, now handles 65% of all low-value retail transactions and stores float balances equal to 22% of all domestic digital payment value.

Recent supervisory findings include:

- Delayed reconciliation of trust (float) accounts, sometimes by up to 96 hours
- Weak segregation and ring-fencing documentation
- High concentration risk at the single commercial bank holding the float
- Rapid customer growth without commensurate internal system upgrades
- Insufficient cybersecurity controls and weak access-control mechanisms despite several minor fraud incidents.

Because EMIs have grown into major players, the public increasingly asks whether "their money is safe", prompting CBT to consider stronger fund safeguarding rules, auditing requirements, operational resilience standards, and enhanced oversight of the banks holding float accounts. Note that non-bank EMIs can only issue e-money in domestic currency. Also, the float can only be maintained in domestic currency in one or more domestic banks.

### 2. Digital Credit Boom and Risks

Fintech lenders are aggressively expanding in Technologia. FlashLoan advertises "loans in 30 seconds" and uses behavioural data from smartphones and e-commerce platforms for credit scoring. LumaCredit partners with an EMI to offer overdrafts and nano-loans.

This has highlighted key supervisory concerns:

- Default rates rising as users take multiple overlapping loans.
- Aggressive debt collection practices, including threatening messages and public shaming via social media.
- Consumer complaints about misleading loan terms.
- Automated credit scoring systems that lack transparency, raising concerns about fairness and bias.

Supervisors suspect that, without stronger oversight, credit concentration and consumer harm may escalate outside the banking sector.

### 3. Agent Network Fragility

Over 120,000 agents operate nationwide, many serving multiple providers simultaneously.

Supervision has uncovered several concerns:

- Frequent agent liquidity shortages, causing transaction delays.
- Fraud complaints related to SIM swaps, fake confirmations, and cash theft.
- Weak training and ongoing monitoring by DFS providers.
- Agents sharing login credentials with shop assistants or unregistered helpers so they can process transactions during busy periods.

Because agents are the public's main touchpoint with DFS, these operational weaknesses risk undermining consumer trust and amplifying systemic reputational risk.

### 4. Cybersecurity and Technological Risks

The central bank's cyber-incident registry shows a 40% increase in DFS-related fraud, including:

- phishing attacks targeting mobile wallet users
- ransomware incidents at two EMLs
- unauthorised API access at a digital lender
- compromise of an agent network management system.

Many providers rely heavily on cloud computing, often using CSPs located in foreign jurisdictions.

Supervisors face challenges, such as:

- lack of direct access to logs and system information
- ambiguous data sovereignty arrangements
- limited ability to conduct on-site inspections at CSP facilities
- dependence on a few large global CSPs, creating potential concentration risk.

### 5. AML/CFT and De-Risking Challenges

Due to increasing ML/TF risks, CTL recently instructed all DFS providers to strengthen their transaction monitoring systems.

However:

- Some providers responded by conducting mass account closures for low-income customers.

- Suspicious transaction reports (STRs) have declined, not increased.
- Over-reliance on automated systems has led to underreporting.
- Many digital lenders have no meaningful AML/CFT frameworks, claiming they are “credit-only” as an excuse.

These developments risk pushing vulnerable customers back into informal financial channels—contradicting financial inclusion goals.

## Your role

You have been asked to provide clarity for some key questions from senior members of the CBT based on your knowledge of prudential supervision and risks, including market conduct, operational risk, AML/CFT, data and cybersecurity, cloud computing, and digital credit.

You need to carefully consider and answer the questions that follow to help guide the CBT to best manage the growth of DFS in Technologia, while still fostering financial inclusion and ensuring the financial integrity of the system.