Supervision of Banks and Nonbanks Operating through Agents

Practice in Nine Countries and Insights for Supervisors

2015

CGAP

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The authors would like to thank CGAP colleagues Juan Carlos Izaguirre, Kate Lauer, Timothy Lyman, and Kate McKee for offering useful comments to the publication, and Anna Nunan for review and editing. We would also like to thank John Owens (then at the Alliance for Financial Inclusion) for offering his insightful expert comments. This paper would not have been possible without the tremendous cooperation and support we received from the Supervisors interviewed representing nine countries. They are the Comisión Nacional Bancaria y de Valores (CNBV), Mexico; Superintendencia Financiera de Colombia (SFC), Colombia; Superintendencia de Banca, Seguros y AFP (SBS), Peru; Banco Central do Brasil, Brazil; Central Bank of Kenya (CBK), Kenya; Bank of Tanzania (BOT), Tanzania; Bank of Uganda (BOU), Uganda; Bangko Sentral Ng Pilipinas (BSP), Philippines and State Bank of Pakistan (SBP), Pakistan.

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1 Introduction

Retail agents—defined in this paper as individuals or commercial establishments contracted by a provider of financial services to act as the principal customer interface[1]—are deployed by banks and nonbanks in developing countries and emerging economies in increasingly greater numbers to extend an expanding range of financial services, from simple person-to-person transfers, to payroll lending in Brazil, to hybrid products such as M-Shwari in Kenya.[2] Until recently agents had been used mostly by banks in Latin America and some Asian countries, such as Bangladesh, India, and Pakistan, and by nonbanks in Africa. However, the landscape is changing—nonbanks are now entering the Latin American and Asian markets and banks are ramping up their agent businesses in Africa.[3]

Globally, at least six countries[4] have more than 100,000 agents, with the highest number in Brazil (377,275 in January 2015). Table 1 provides a snapshot on the nine countries included in this research.

Table 1. Bank and nonbank agents in the sample countries (date in brackets)

	Tanzania	Kenya	Uganda	Brazil	Pakistan	Colombia	Peru	Philippines	Mexico
No. of bank agents	600 [05/14]	24,000 [03/14]	0	377,300 [01/15]	204,100 [12/14]	49,100 [12/13]	20,900 [06/14]	0	25,600 [09/13]
No. of nonbank agents	157,000 [05/14]	125,000 [08/14]	63,000 [06/14]	0	0	0	0	24,000 [12/13]	0
Total no. of agents	157,600	149,000	63,000	377,300	204,100	49,100	20,900	24,000	25,600
Total no. of agents per 100,000 adults (15+)	580	580	325	248	170	140	97	37	30

Source: Data provided by supervisory authorities in the respective countries, country population data from World Bank.

[1] This paper focuses on agents that have a direct contractual relationship with a provider (a bank or nonbank) regardless of whether the individual agent serves customers at one or multiple agent points (sometimes also referred to as agent outlets or customer service points), or if it uses subagents.

[2] M-Shwari is an electronic bank account through which CBA (a bank) offers savings and lending facilities. M-Shwari can be served only by moving money from an M-PESA account (a mobile money account offered by a nonbank, Safaricom) to the M-Shwari account and vice-versa. Cash-out can be done only through the M-PESA account, at M-PESA agents (there are no M-Shwari or CBA agents).

[3] This paper focuses on a particular type of agents: those hired to be the customer interface and deliver basic financial services, as defined in, for example, Lyman et al. (2006), Lauer et al. (2011), Tarazi and Breloff (2011), and CGAP (2012, p. 72). Sales agents, such as insurance agents, are not addressed in this publication.

[4] These countries are Bangladesh, Brazil, India, Kenya, Pakistan, and Tanzania.

While supervisors[5] have long been scrutinizing outsourcing arrangements, they have only recently started to pay close attention to the risks (see Box 1)—and benefits—associated with the use of retail agents, and how they may affect several financial sector policy objectives. Supervisors more generally are struggling to build regulatory and supervisory frameworks that maintain financial stability and reduce the risk of money laundering and financing of terrorism across bank and nonbank providers that use agents, while protecting consumers and pursuing the objective of financial inclusion.[6]

[5] In this paper "supervisor" refers to the authority (or authorities) in charge of supervising banks and nonbanks that operate through agents. In the countries researched, this is the banking supervisory authority, either the central bank or an independent supervisory authority. For simplicity purposes only, this paper also assumes that the supervisory authority is responsible for regulation, although this is not true for all countries.

[6] The four main policy objectives of financial **I**nclusion, **S**tability, **I**ntegrity, and consumer **P**rotection are known as I-SIP. See CGAP (2011) and GPFI (2012a and 2012b), for information on the linkages between these policy objectives and http://bit.ly/1DMn9ql for the results of I-SIP research exercises in South Africa, Pakistan, and Russia.

Box 1. Outsourcing and agent-related risks

Outsourcing is widely used in financial services, by both large, internationally active banks and nonbanks, and smaller, less complicated bank and nonbank institutions, to reduce costs or achieve strategic goals. High-level principles for supervision of outsourcing in financial services are provided by BIS (2005). A key principle is for supervisors to ensure the supervised provider has strong corporate governance. According to the principles, outsourcing may transfer risks, management, and compliance to third parties, who can be related firms within a corporate group (or not) and who may not be regulated. Outsourcing affects the level of operational risk faced by a provider and can potentially reduce its ability to monitor compliance with regulatory requirements.

Using agents at the retail level, that is, for the main purpose of delivering a service to the end user, is a special type of outsourcing. It is special because agents are being used in increasingly larger numbers to serve low-income and poor customers who have no access to other formal financial services. Also, these customers often interact exclusively with agents and rarely visit provider branches or talk to staff members. These conditions introduce risks that were not the focus of BIS (2005).

Many risks are related to the agents' actual interaction with customers, but risks are also present before and after this interaction. Dias and McKee (2010) and Lauer et al. (2011) give examples of potential risk events, which could be classified as operational, legal (a subset of operational risk according to the Basel Core Principles), reputational, and consumer risks:

- Agent fraud or theft
- Unauthorized fees charged by the agent
- Abusive practices by agents (e.g., misrepresenting agent's role and status, requiring clients to buy a product—such as airtime or a bag of rice—to conduct a financial transaction)
- Loss of customer assets and records, as a consequence of agent's actions, including "fake agents" (retail establishments or individuals who pretend to be acting on behalf of a regulated provider)
- Transaction data entry errors, by agents
- Poor cash management by the agent, resulting in lack of liquidity necessary for customers to make withdrawals
- Agent failure to resolve or forward complaints
- Violation of data privacy rules, by the agent
- Violation of anti-money laundering rules, by the agent
- Steering of customers to certain financial services or providers, by the agent

Although all the above could arguably be present when services are delivered through branches and by the provider's own staff, the supervisors interviewed for this research seem to be of the opinion that these potential risks are more acute when agents are involved, mainly because the provider is not able to monitor a widely dispersed network of agents the same way it is able to monitor its own staff at headquarters and branches. Also, there is limited knowledge of how risks may change as more layers of third parties—terms for such third parties vary widely across and within countries and include "agent network managers", "master agents", "super agents", and "agent aggregators"—are used by providers for a range of functions, such as agent selection, training, and management. Conceivably, the aforementioned risks could be heightened since the provider may face even greater challenges with monitoring third parties in addition to agents. Use of third parties to manage agents is not new; it is commonplace in Latin America and East Africa. However, the role of third parties in market development seems to be expanding and evolving, which could have deeper implications for supervision and policymaking.

Some supervisors, even without having comprehensively revised their regulations to keep up with the pace of change in the use of agents, are trying to ramp up their supervisory activities. However, they may face challenges such as differentiating and understanding the risks that are specifically related to the use of agents from product-related risks that would exist regardless of the delivery channel used—e.g., credit risk in loan products delivered digitally.[7]

Yet to date, limited research has been undertaken about how providers identify, classify, and manage risks related to the use of agents and how supervisors assess providers for that matter. Further, this is an area that continues to develop rapidly alongside the dynamic path of evolution of financial inclusion through digital means and the increasing types of institutions for which supervisors are becoming responsible. At the same time, supervisory resources are a constraint in many developing countries where agents are being used in increasing scale. This paper therefore provides an early attempt to help supervisors implement an effective risk-based approach to agent supervision that considers the linkages among the main policy objectives of financial inclusion, stability, integrity, and consumer protection.[8]

This paper draws from research conducted on a sample of nine "leading" countries, defined as having large, diverse agent networks that continue to grow rapidly and where business models are evolving fast (Brazil, Colombia, Kenya, Mexico, Pakistan, Peru, the Philippines, Tanzania, and Uganda). While the paper describes aspects of the supervisory practices in these countries, it also draws from review of literature about other markets (including developed economies when relevant), international guidance, and standards for financial supervision (e.g., those set forth by the Basel Committee on Banking Supervision, the Joint Forum, the Financial Stability Board, and the Committee on Payments and Market Infrastructures).[9]

The following is based on a discussion of agent-relevant practices in the researched countries as well as supervisory concerns expressed through this research; authors' observations are provided in the form of "insights for supervisors" that comprise approaches and measures that are general enough to be useful in a variety of contexts. Still, some country practices and authors' normative insights may not be applicable to all supervisors.

Generally speaking, supervisors in researched countries grouped what is perceived to be the major agent-related risks under consumer, operational, and money-laundering/terrorist-financing (ML/TF) risk. Consumer risk appears to be one of two key concerns of researched supervisors and is gaining increased attention. Issues such as fraud, unauthorized fees, lack of receipts, inadequate dispute resolution procedures, and insufficient liquidity at agent premises all impact consumers. The other key concern is that agents, as a new channel of the financial institution, may introduce new operational risk events, associated for example with IT continuity, contingency planning, and the

[7] This paper, although recognizing the risks introduced by an array of new digital financial services that often rely on agents for cash-in and cash-out functions, does not focus on such product-related risks. It focuses on the risks that are directly attributed to the use of agents as a delivery channel (though sometimes it is difficult to separate these types of risks). For a discussion on digital financial services, as well as their implications for regulators, supervisors, consumers, and standard-setting bodies, see GPFI (2014).
[8] On proportionality when implementing international standards relevant to supervisors, see GPFI (2012b).
[9] The sources of international guidance and standards, as well as other references, are found in the Bibliography.

internal controls of the financial institution. ML/TF risk was also raised as an issue, but was far more country-specific relative to the other risks. Existing country practices to mitigate risks are described for information purposes only; the authors are explicit on specific country practices that may not necessarily be considered “good practice.”

The paper is organized as follows:

- Section 2 discusses aspects of the legal and regulatory framework underpinning the use of agents in the researched countries and how it may determine the supervisory approach for banks and nonbanks using agents.
- Sections 3 to 5 focus on the overall supervisory approach relevant to agents (fundamentals of risk-based supervision, internal organization, and supervisory staff qualification).
- Sections 6 to 9 summarize the current supervisory process with respect to agents in the researched countries, from licensing to enforcement.[10]
- Annex 1 provides Comparative Tables that describe in additional detail the practices of the researched countries on authorization of agents, internal organization for supervision, reporting requirements with regard to agents, and examples of information reviewed during offsite supervision, in so far as agents are concerned.
- A Glossary of the main terms used in this publication is found in Annex 2.

2 The underpinning legal and regulatory framework

2.1 Regulatory and supervisory powers

In the countries researched, the responsibility for issuing regulations[11] and for supervising agents ultimately falls on the “supervisor”—whether the central bank or a separate supervisory agency—which has jurisdiction over banks and nonbanks that hire agents. With regard to banking agents, the general powers of such supervisors are usually based on banking or other similar laws and include the prerogative to require regular reporting from banks and impose corrective measures and sanctions on banks that are either financially weak or engage in practices that hurt consumers or the integrity or stability of the financial sector. According to well-established international standards (BIS 2005), the supervisor’s powers extend to outsourcing arrangements.

Many bank supervisors are also responsible for regulating and overseeing the national payment system in which banks and nonbanks participate. Most often, such powers derive from a payments law. Some countries (e.g., Uganda) still lack such a dedicated national payment system law and rely instead on the central bank (or similar) law to give broad authority to oversee the payment system and its participants.[12] Hence, depending on the

[10] While in some countries the licensing/authorization procedures are not considered part of the supervision process and are conducted by different departments or even different authorities, this paper has done otherwise, for simplicity purposes only.

[11] As noted in footnote 5 and for simplicity purposes only, this paper assumes that the supervisory authority is responsible for regulation, although this is not true for all countries. Due to the diversity of terms and types of legal instruments used across countries, the term “regulations” is used broadly in this document to refer to regulations and guidelines regarding the use of agents by regulated banks and nonbanks.

[12] In Uganda, the central bank law does not provide sufficient authority to supervise nonbank e-money issuers. Instead, the Bank of Uganda decided to allow mobile network operators to launch e-money services in partnership with commercial banks.

text of the relevant laws, the supervisor's powers may be weaker or even unclear or absent with regard to, for instance, nonbank e-money issuers. This situation impacts outsourcing arrangements of nonbanks, including agents.

A legal or regulatory framework that does not give clear authority to the supervisor to oversee a certain type of entity such as nonbank e-money issuers leaves room for internal (e.g., legal departments) and external stakeholders (e.g., industry associations, the media, other government agencies) to question the supervisor's actions, hampering the implementation of an effective supervisory scheme with regard to the use of agents by such nonbanks. The need for strong legal powers to support the supervisor's work is emphasized in the Basel Core Principle 1, for instance (BCBS 2012, pp. 22–23).

In Tanzania, the lack of a payments law until recently and regulations covering nonbank e-money issuers contributed to a dual approach: agents hired by banks are subject to stricter regulation and supervision, while those used by nonbanks are subject to a lighter framework—with nonbanks largely acting on "letters of no objection" rather than clearly enforceable regulatory provisions.[13] This not only creates an uneven playing field that could stifle competition between banks and nonbanks, but also a situation where an agent providing services to both a bank and a nonbank is subject to two very different frameworks, even if the services it provides on behalf of the bank and the nonbank are similar or the same.

Ideally, the supervisor will have sufficient and clear powers, based on laws, to scrutinize banks and nonbanks delivering their services through agents, as well as to apply corrective and enforcement actions when providers become noncompliant or engage in unsound practices (see examples in Box 1).

2.2 Dealing with different sets of agent regulations

As noted, the supervisor's powers may have origins in different laws or regulations. For several reasons, including legal, regulatory, and supervisory tradition, supervisors may have to refer to a different set of laws and regulations governing different provider types offering the same or similar activities. Regulators have chosen the following general approaches when it comes to agent regulation:

1) Issue one agent regulation for banks and one regulation for nonbanks. Example: Kenya.

    The 2014 National Payment System Regulations has specific rules for the use of agents by nonbank e-money issuers (such providers have been using agents since at least 2007 based on letters of no objection) and other nonbank payment service providers. Banks using agents in Kenya are subject to the Guideline on Agent Banking (CBK/PG/15) issued in 2010 and revised in 2013. The rules for bank agents are stricter than the rules imposed on nonbank payment service providers.

[13] A letter of no objection was issued to allow the operation of nonbank e-money issuers in Kenya (before the passing of the payment regulations in 2014) and is still in issuance in Tanzania, by the respective central banks. The letter usually states, in broad terms, minimum requirements for the safe operation of the e-money business. If the Bank of Tanzania, for example, were to face serious situations that would require, say, imposing a fine on the nonbank provider, it is legally left only with the option to withdraw the letter of no objection, which would prohibit continuation of the e-money business altogether.

2) Issue one agent regulation that is applicable to banks and nonbanks. Examples: Bangladesh, Bolivia, Brazil, Colombia, Paraguay, Peru, and the Philippines.

   In Bangladesh, Bolivia, Brazil, Colombia, Paraguay, and Peru, a single regulation applies to all regulated providers allowed to hire agents. This includes nonbank e-money issuers that were introduced by laws issued after the agent regulation was already in place.

   The Philippines is an exception because Circular 704/2010 permits both banks and nonbanks to use agent networks (referred to as Electronic Money Network Service Providers), but only for serving e-money accounts. Banks are not allowed to outsource "inherent banking functions," including conducting know-your-customer checks and transactions based on deposit accounts. While two banks have started using agent networks for their e-money business, these are not banking agents in the sense of customers being able to use their bank accounts through agents.

3) Issue one agent regulation applicable only to banks. Examples: Mexico, Pakistan, and Tanzania.

   Similar to the previous situation in Kenya, the Bank of Tanzania has allowed the operation of nonbank e-money issuers before issuing supporting regulations (in Tanzania, they are still pending). In 2013, Bank of Tanzania issued agent regulations applicable to banks only. Such regulations set a stricter framework for banks than what is in practice permitted for nonbanks.

   In Mexico and Pakistan, nonbanks are not allowed to issue e-money. In Pakistan, some mobile network operators (MNOs) own microfinance banks that offer transaction accounts operated through the MNO's airtime agents.[14] In Mexico, MNOs are allowed to manage e-money accounts issued by banks or niche banks[15] and operated through the MNO's agent network. Mexico is a special case as it has an agent regulation for banks using retail agents (e.g., convenience stores and pharmacy chains) and a separate regulation setting different rules for banks using agents managed by MNOs.

4) Issue one regulation applicable only to nonbanks. Example: Uganda.

   As in the case of Kenya and Tanzania, the Bank of Uganda allowed nonbank e-money issuers to operate before the issuance of the Mobile Money Guidelines in 2013. The Guidelines, which do not have the power of a formal regulatory statute, are considered to be an interim measure until Uganda passes a payments law.

   The Bank of Uganda interprets the Ugandan banking law as not permitting banks to use agents.[16]

The regulatory framework directly conditions the supervisory approaches adopted in the researched countries. For instance, the Bank of Tanzania, which lacks nonbank agent

[14] See Pakistan's Branchless Banking Regulations (2011).
[15] Niche banks in the Mexican context are banks specialized in payments or other services.
[16] Proposed amendments to the banking law have been drafted, but the respective Amendment Bill has not yet been introduced to Parliament.

regulations, performs a much less strict supervision on nonbanks using agents than on banks (e.g., there are no onsite visits to nonbank agents while there are visits to bank agents). This is also the case of the Central Bank of Kenya, as the rules applicable to nonbank agents are less strict than those imposed on banking agents. In the researched countries where the regulatory requirements do not vary materially for banks and nonbanks, the supervisory approach also does not vary materially.

Having similar requirements for banks and nonbanks—even if regulations are separate—makes sense, as the risks posed by agents are theoretically the same, regardless of whether the provider is a bank or a nonbank. The risks vary according to risk factors that impact the quality of the provider's operational risk management and that are not necessarily higher or lower only because the provider is a bank or a nonbank:

1. Potentially less effective risk management by new bank and nonbank providers who have no or little previous experience with financial services or with financial regulation and supervision[17]
2. The type of services provided through agents (e.g., transactional services such as payments and transfers may require less training of agents than opening of accounts and selling of loans)
3. The location of the agents (some locations are more susceptible to money laundering risks or robberies, for instance)
4. The technologies used to conduct agent transactions and manage customer accounts
5. The rate at which the provider grows its operations and customer base
6. The legal structure of the provider (e.g., MNOs or other nonfinancial firms directly issuing e-money without creating a separate, dedicated legal entity may increase complexity of supervision and limit the use of corrective measures by the supervisor)

One may argue that bank agents will always do more and handle more complex products than nonbank agents and therefore need stricter regulation and supervision. However, some banks may use agents exclusively to offer payments services (as is the case of several banks in Brazil), and some nonbanks may use agents to offer e-money accounts where low-income customers store value. When the regulation is provider-neutral, it is more likely to give the supervisor a basis for a consistent supervisory approach across different provider types, while exercising discretion to be more or less strict in the supervision of each provider according to its risk profile. Being able to identify risk factors and how they vary across providers is at the core of risk-based supervision (see 3.1). Provider neutrality in the regulation also reduces the risk of regulatory arbitrage (whereby potential providers choose an institutional type because of more lenient regulatory requirements) and creates the foundation for a level-playing field (whereby providers of a similar range of services are regulated in a similar manner and can compete on the same grounds). Such an approach would be in line with the call for proportionality

[17] Newly formed banks and nonbanks may, in theory, be less capable of identifying and managing risks in financial services, and of complying with requirements of financial regulations, when compared to a provider that has been in operation for many years. However, this is not necessarily true in all cases. A newly formed bank or nonbank may very well have good expertise, high-quality risk management, and strong governance structure from the start, by hiring qualified, experienced professionals and having shareholder support.

in the Basel Core Principles (BCBS 2012), as well as with the G20's Principles for Innovative Financial Inclusion.[18]

Insights for supervisors

1. The supervisor should have clear and sufficient legal powers to issue regulations regarding agents hired by banks and nonbanks under its jurisdiction, and to monitor and enforce regulatory compliance.

2. There should be no material differences between regulations applying to agents of banks and agents of nonbanks, so as to allow a consistent supervisory framework, avoid regulatory arbitrage, and create a level playing field that fosters competition and innovation.

3 Supervisory approach[19]

3.1 The risk-based approach applied to agent supervision

The central goal of risk-based supervision is to optimize the use of scarce supervisory resources and increase effectiveness of supervision by focusing on issues and providers that pose higher threats to supervisory and policy objectives. In a risk-based approach, not necessarily all providers or issues receive the same level of attention. Also, the risk-based methodology focuses on the role of the supervisor as an assessor of the effectiveness of the provider's risk management process.

All sampled supervisors claim to have a risk-based approach to supervision. Their experience indicates that applying risk-based supervision to the supervision of bank and nonbank agents is not conceptually different and is part of what they are already doing to implement broader risk-based prudential supervision. At the time of this research, the use (or not) of clear criteria for prioritizing issues and providers with respect to agents and the application (or not) of the risk-based concept at the systemic level and the provider level (see next item on materiality tests) differed from country to country.

All researched supervisors, except the State Bank of Pakistan, do not attempt to assess the risk of each individual agent. Rather, they focus on assessing the strength of the controls and risk mitigation tools put in place by the bank or nonbank to manage its agents, and on identifying and assessing emerging consumer, ML/TF, and operational risks, at the market level, related to the use of agents.[20] The State Bank of Pakistan stands out as it is collecting information about each agent used by banks (all agents in Pakistan are bank agents) through a web-based system (called AgentChex) that is currently being populated with data. This system will contain data on all agent transactions in the country and a wealth of other information on each agent. The objective is to map agent transactions, build an "agent blacklist" to help banks identify agents who have caused

[18] See the G20's Innovative Principles for Financial Inclusion at http://www.gpfi.org/.
[19] This and the next sections describe supervisory approaches and practices. Since the Bank of Uganda has not yet started actual supervision of nonbank e-money issuers and there is no bank use of agents, Uganda is often omitted from the description of practices adopted.
[20] Lauer, et al. (2011) also supports this finding.

problems in the past (e.g., fraud), and collect information to help the supervisor plan its activities. Section 7.2 will discuss this in more detail.

3.2 The two materiality tests

Looking at the relevance of agents for the system (or a sector) as a whole is called, in this paper, "the first materiality test." This test helps supervisors determine whether supervising agents will be a priority and, if it is, which topics to focus on considering other concurrent risks and the supervisor's stated policy goals. In at least two researched countries (Brazil and Mexico), prioritization of risks and issues in the use of agents is done at the systemic level, and the criteria include the following:

- The number of transactions (including account opening) performed by agents compared to the total number of provider transactions
- The number and nature of consumer complaints related to agents, compared to the total number and nature of complaints against regulated providers, and the total number and nature of complaints related to other channels
- The frequency and seriousness of negative media reports related to agents
- The risks of the products delivered through agents

The researched supervisors recognize the importance of growing agent networks, but agree that the agent business in itself does not raise systemic prudential concerns, as it usually attracts only a small portion of the total value of bank transactions. However, this observation is tempered by the potential consequences of a serious failure (e.g., bankruptcy) leading to the dismantling of a large agent network. Such a situation could potentially reduce public confidence in the financial sector and the supervisor's credibility. All countries have highlighted consumer protection as the top concern at the systemic level. The risk of money laundering was not emphasized as much, as agents carry out low-value transactions limited by strict regulatory transaction thresholds.[21] Large failures could also impact financial inclusion goals. This sentiment was stronger in countries where dominant providers have large and exclusive agent networks that are the only interface with a large number of customers who have little access to other formal financial services.[22]

The proposed "second materiality test" in a risk-based approach is at the institutional level, i.e., identifying the providers that should receive supervisory attention with regard to their agent business and the relative levels of attention needed across different providers. Brazil, Colombia, and Peru have established criteria to determine such materiality of agents for each provider, including the following:

- The size (in number of agents) and geographical spread of agents
- The number of client accounts transacted through agents
- The volume, value, and types of transactions performed by agents
- The types of services and products rendered by agents
- The relative importance of agents for the provider, as share of revenue, share of transaction volume and value, and share of accounts

[21] Colombia is an exception in this regard, where the AML/CFT risk assessment was noted as being very important and a key requirement in the regulations to be accomplished before obtaining authorization to use agents, by the Financial Superintendence of Colombia.

[22] One of the goals of emerging or recently issued regulations (e.g., in Nigeria) on independent agent networks by licensed managers (sometimes called "super agents") is to ensure competition, which in turn would reduce the potential impact of a failure in a large agent network.

- The complexity of the agent network management and its risk-sharing arrangements (number of participants, outsourcing arrangements with third parties, etc.)

These two high-level tests are the starting points for risk-based supervisory planning, which will be informed, additionally, by detailed information on particular providers.

3.3 Where do agents fit in risk-based supervision?

The researched countries do not vary substantially with regard to how/where they classify agent-related risks. In general, they are perceived to include elements of operational, consumer, and ML/TF risks. The most common view is to associate agent-related risks with operational risk, which sometimes may be subdivided into specialized assessments, such as assessment of "delivery channels."

In Brazil, agent-related risks are primarily considered part of consumer protection risk. The Conduct Supervision Department of the central bank focuses on particular risks in the largest providers or in a specialized segment of the market, such as providers of payroll loans delivered through agents—and addresses the risks by requiring corrective measures in several institutions incurring the same problem, or by changing regulations. The assessments feed the providers' conduct risk matrix, which feeds their overall risk matrix combining prudential and conduct risks. Some aspects of the agent business can also be eventually covered by the prudential supervision departments as a minor item of the operational risk assessment. In this case, the result of the assessment will feed the prudential risk matrix, under "operational risk." This is a similar approach to the one adopted in Peru.

In Mexico, the National Banking and Securities Commission places the assessment of agents under the Operational and Technology Risk Department, which focuses on the risks related to the communication and information technologies used by agents. This department also looks at the nature and level of consumer complaints to inform its work, although it is not its focus.[23] The assessments feed the provider's risk matrix, under "operational and technology risk."

Similarly, the Colombian, Kenyan, Peruvian, Philippine, and Tanzanian supervisors insert assessment of agents as an item in the operational risk assessment. In Colombia, Peru, and the Philippines, there is a segmented assessment of the provider's channels strategy and management, including agents. In Kenya and Tanzania, risk classification is done only with regard to banks, as there is no risk-based supervision for nonbanks using agents, since such supervision is yet to be conducted by the respective payments departments, not by the bank supervision departments (see next item).

Although the State Bank of Pakistan has not yet fully developed its supervisory approach to agents, it indicates that this topic will be handled by the Bank Supervision Department as part of the operational risk assessment of individual providers.

[23] In this regard, the National Banking and Security Commission coordinates with the financial consumer protection agency (Condusef) to share information about consumer issues in agent networks and may even conduct joint inspections.

3.4 Coordination with other supervisors

In an increasing number of cases, agents of one provider are delivering services on behalf of multiple providers, as a result of innovative linked products, such as savings, loans, and microinsurance delivered and/or served through e-money accounts. In most cases, the cash-in/out functions in the researched countries are done by the agents hired by a nonbank e-money issuer. Although these arrangements do not seem to have specific impacts on the approach to agent supervision, providers of linked products who are not under the purview of the same supervisor require coordination with other supervisors, which could include the insurance supervisor, the securities authority, or even the telecommunications authority. The focus of such coordination could be on identifying product risks, sharing findings with regard to how providers manage their agent networks, and imposing corrective or sanctioning measures that could affect more than one provider (e.g., a determination for restituting a client of a bundled product due to an agent charging unauthorized fees).

Insights for supervisors

1. To ensure supervisory resources are deployed effectively and that the most relevant risks in each agent business are identified and addressed timely and adequately, supervision should be risk-based, regardless of which department is responsible for it. The risk-based methodology should be fully incorporated into the supervisory practice, which in some cases may require legal reforms to give greater flexibility to the supervisor to develop the supervision program according to identified priorities.

2. Materiality tests should be done by the supervisor, looking at each provider and also at the market as a whole, with the purpose of establishing supervisory priorities. This may mean that a provider that is not considered systemic for prudential purposes is considered important for agent supervision because it serves a large number of customers through a large agent network.

4 Internal organization of agent supervision

The organizational structure for agent supervision varies across countries. Most likely, no single model would apply to all contexts. There are four types of teams involved with assessing the risks related to the use of agents by banks and nonbanks in the researched countries:

- **Generalist offsite supervision department/team**—All researched countries have supervision teams organized into offsite and onsite activities. The offsite team is usually in charge of collecting and studying periodic regulatory reports (e.g., financial statements, performance indicators, prudential limits) to inform marketwide and provider-focused analyses. In Pakistan the offsite department is also in charge of enforcement actions. In none of the countries was the offsite team deeply involved with agent-related issues.

- **Generalist institution-focused onsite supervision teams—**All researched countries have their onsite supervision department divided into smaller teams dedicated to groups of banks or nonbanks, covering a range of risks (e.g., credit, treasury, operational) for each group of institutions. As mentioned previously, the risks related to the agent business are usually embedded into the operational risk assessment.

- **Specialist risk departments/teams—**Cutting across and coordinating with provider-focused teams, there can be teams or departments that specialize in certain risks, covering all types of regulated providers. In Brazil, the relevant department is the Conduct Supervision Department of the Central Bank of Brazil; in Mexico it is the Operational and Technology Risk Department of the National Banking and Securities Commission; in the Philippines it is the Core Information Technology Specialist Group (CITSG) of the Central Bank of the Philippines; and in Peru it is the Deputy Superintendence of Market Conduct and Financial Inclusion.[24]

- **Payment system department—**The payments departments at central banks may also be involved in overseeing agent networks used by both banks and nonbanks, with the purpose of monitoring the development of the payments infrastructure and the volume of transactions in each channel. However, they also have an actual supervisory role with regard to nonbanks using agents in the case of the Central Bank of Kenya and the Bank of Tanzania.

Payments departments in central banks are familiar with oversight of payments systems, in particular of large-value payment systems. They are also becoming increasingly involved in monitoring retail payment services, such as e-money. However, payments departments carry out supervision, including onsite inspections, less often than bank supervisors. They may also be less familiar with the implementation of a risk-based supervisory approach. In some countries, such as in Brazil, Colombia, and Peru, they may lack authority to supervise individual providers that do not classify as providers or operators of large-value payment systems. According to the researched countries, supervising nonbank retail payment providers such as e-money issuers operating through agents is not as complex as carrying out comprehensive prudential supervision of banks, but should payments departments become responsible for supervision, their expertise, capacity, and structure are likely to require adjustment. The alternative to having payments departments conducting supervision is to leave the relevant providers under the responsibility of departments specialized in supervision, as is the case of Brazil, Colombia, Peru, and the Philippines.[25]

In any case, when there is more than one department involved, it is crucial to seek coordination and collaboration among them. A key goal is achieving consistency to ensure a level playing field among different types of providers, given that supervisory intensity and focus may affect the speed of innovation and the market's ability to respond to competitive forces. It may also impact goals that are broader (such as financial inclusion) than the goals pursued by individual departments. Coordination also helps to optimize the use of resources and build on existing supervisory know-how to develop supervision manuals and inspection programs. The different departments may even consider conducting joint work to build capacity and minimize the cost to providers.

[24] The Operational Risk Division is also increasingly involved.
[25] Mexico and Pakistan are not included, as nonbanks are not allowed to issue e-money and use agents.

Insights for supervisors

1. Supervisors should find the most pragmatic solution for internally allocating agent supervision, in a manner that builds on existing knowledge of the agent business and know-how of supervision techniques, and optimizes the use of resources.

2. If different departments are responsible for different types of providers using agents, there should be coordination and collaboration among them to help ensure consistency in their approaches, and allow for knowledge sharing, including to build capacity in supervision, in case one of the departments is less experienced in this activity.

5 Qualification of supervisory staff

Supervisors in the researched countries have not expressed the need to dedicate information technology (IT) specialists for agent supervision. Even in the case of Mexico and the Philippines, where specialist operational and technology risk teams exist and are involved in agent supervision, such teams are not comprised entirely of IT specialists, but mostly of professionals with mixed professional backgrounds (generalists). The IT specialists allocated to the Operational and Technology Risk Department of the National Banking and Securities Commission in Mexico are used mostly during the licensing of individual agents, in which data security, data integrity, and system robustness tests are performed.

Researched supervisors agree that, in most cases, onsite and offsite supervision of bank and nonbank agents can be conducted by generalists, but these generalists should be well-trained and experienced. To cover some aspects of data security, integrity, and robustness of the IT systems supporting agent transactions, the generalist supervisors may receive specific training, by IT supervisors, seasoned generalist supervisors, or external trainers. Well-crafted supervision manuals (e.g., on basic IT checks aforementioned) and sound coaching from senior and experienced staff are just as important to qualify supervisors.

Keeping supervisors qualified is even more important in today's fast-changing environment. Supervisors ought to be well-versed in the foundations of the agent business and have a good understanding of market dynamics. It is particularly important for supervisors to understand how risks and their management change in arrangements such as agents serving multiple providers (e.g., common in Mexico, Pakistan, Tanzania) and the use of third parties for agent management (see Box 1). Such understanding will determine, for instance, whether and how often supervisors need to conduct inspections at third parties and what the focus should be.

Most researched countries organize in-house training courses for supervisors covering a wide range of topics in financial sector supervision, but only the Central Bank of Brazil reported having trained supervisors—through in-house or external courses—specifically on the agent business.

Finally, in addition to the topic areas discussed, supervisors should also develop a profound knowledge of the relevant regulation and the authority's enforcement powers and how and when such powers may be used. This helps them interact with banks and nonbanks consistently and carry out inspections and interviews with more confidence, improving the credibility of the supervisory authority.

Insights for supervisors

There may be no need to have specialist IT supervisors dedicated to agent supervision. Generalist supervisors (not specialized in IT) should receive quality training, including in basic IT consistency checks focused on fraud prevention and consumer protection. Most importantly, generalist supervisors should have extensive exposure to the agent business of relevant banks and nonbanks to fully understand their operations, which will help them identify risk management and internal control weaknesses that may point to the need to do a specialized IT inspection.

6 Authorization procedures for using agents

Authorization[26] of providers to use agents as a new channel is a good opportunity for supervisors to bar providers, from the start, from operating through poorly designed agent businesses that do not meet minimum requirements or introduce excessive risk to the provider or to consumers. It is also an opportune moment for supervisors to acquire in-depth knowledge about the specific agent network and its potential viability. All researched countries, except Brazil, impose some type of authorization on banks and nonbanks for them to start using agents, which varies from complex and time-consuming processes (e.g., Mexico and Pakistan) to simpler and faster analyses (e.g., Peru and the Philippines). Details about the different authorization processes in the researched countries can be found in Annex 1.

While, according to recently passed regulations, future nonbank e-money issuers will receive similar treatment dispensed to banks in Brazil, Colombia, and Peru, existing nonbank e-money issuers benefit from lighter or no authorization requirements (compared to banks) to start operating through agents in Kenya and Tanzania.

In Tanzania, banks are subject to strict authorization requirements, both for launching agent businesses more generally and for starting operations of individual agents, while nonbanks can start or terminate operations with individual agents as they see fit. The situation in Kenya was similar until the passing of the 2014 National Payment System Regulations, which introduced licensing requirements for new nonbanks providing payment services such as e-money, but no separate authorization is required for enlisting their agents. Nonbanks simply need to notify the central bank 14 days before the commencement of the agent's operation and report basic information periodically.[27] In contrast, banks in Kenya have to seek the central bank's authorization to enlist each new agent (authorization is given in bulk, rather than one-by-one).

In Uganda, nonbank e-money issuers that were operating before the 2013 Mobile Money Guidelines were introduced were not required to obtain authorization to use agents, but

[26] The terms "license", "authorization", and "registration" are used in different ways in the researched countries. In this document "authorization" is used to refer to an approval process involving analysis of minimum requirements set by regulation, regardless of the terms used in specific countries. "License" is used for the initial authorization for a new provider to be created and/or start operations.

[27] Although the regulation does not require authorization for nonbanks to use agents, it has reduced the uneven playing field between banks and nonbanks using agents by imposing requirements for nonbank agent agreements, operational standards, reporting, consumer protection, etc., in line with the pre-existing requirements imposed on bank agents.

their partner bank had to get a letter of no objection from the central bank and provide information about the agent network.[28] The Guidelines made it clear that a letter of no objection will not be issued unless the provider demonstrates that its agent operations meet minimum requirements.

With the exception of Kenya, all researched countries do not require authorization from the supervisor to close bank and nonbank agent premises. Kenya requires authorization to close down a bank agent premise according to the 2013 Guideline on Agent Banking (no approval is required to close down a nonbank agent premise).

None of the researched countries needs prior supervisory authorization to terminate an agency contract. This applies to both banks and nonbanks in countries where both types of agents are permitted. If the contract is terminated by the provider, in some cases a notice to the supervisor is required. In Brazil and Pakistan, such notice is done by the provider through the agent registry system, where the status of each agent can be changed online (see next section on Agent Registries).

Authorization in Brazil, Colombia, and Mexico has, over time, been simplified as a result of accumulated experience by the supervisor:

(i) Channel authorization: While the regulations in Mexico have not changed substantially since they were first issued, the authorization procedures have been simplified. Mexico's National Banking and Securities Commission has been reducing the time it takes to authorize banks to use agents. However, the process still takes around four months. This is about the same amount of time required for the Financial Superintendence of Colombia to approve a provider to use agents (individual agent authorization is not required), although there are discussions about simplifying the process (e.g., by not requiring a new approval for only minor changes to the original business plan).

(ii) As far as individual agent authorization is required, the Central Bank of Brazil used to require authorization for banks to enroll and even to terminate operations with each new agent until 2009, when it replaced the authorization requirement with simple online notifications.

Insights for supervisors

1. The authorization process for using agents as a new channel should strike a balance among the need to review the proposed agent business, the need to be agile, and the need to optimize the use of supervisory resources.

2. The authorization process for banks and nonbanks using agents should ensure a level playing field.

3. Ideally, authorization should be for the bank/nonbank to start using agents, and not for each new agent relationship. If authorization for each agent is required, it should be done in bulk and annual renewals should be avoided to reduce the burden on providers.

4. The license for new nonbanks to issue e-money should cover the permission to use agents, without the need for a separate authorization to contract with agents.

[28] Nonbanks cannot directly apply to the central bank for a letter of no objection; they need to partner with a bank, which in turn receives the letter of no objection.

7 Agent registries and other regulatory reporting

7.1 Objectives of regulatory reporting

Timely and accurate regulatory reporting is a key supervisory instrument. It can help to identify problems that can threaten the safety and soundness of providers early on, and it is at the core of risk-based supervision. High-quality information is also useful to fulfill other regulatory or policy objectives mentioned earlier in this paper, such as financial inclusion. The supervisor should be able to identify the specific purpose of each data point collected, and strike a balance between fulfilling different objectives through regulatory reporting—some of them could, for instance, be achieved by other means, such as financial inclusion surveys—and thus limiting the burden on providers.

7.2 Agent registries

Brazil and Pakistan have both developed a web-based agent registry in which the supervised bank or nonbank inserts information on every agent operating on its behalf. The Brazilian registry is a simpler tool when compared to Pakistan's AgentChex. Also, Brazil's agent registry is just a small portion of a web-based registry (UNICAD) that centralizes an array of information on all regulated banks and nonbanks, such as branch networks and details of directors, board of directors, majority owners, organizational charts, banking conglomerates, among others. Providers are responsible for keeping UNICAD up-to-date (they access UNICAD directly through the internet), and the supervisor can extract a range of reports to facilitate data analysis. Should there be a change in an agent's information (e.g., telephone number), the bank or nonbank must update UNICAD within five days of the date of change. Regulated institutions, industry associations, and government entities can access a public version (e.g., no confidential data) of UNICAD from the internet.

Pakistan's AgentChex is a mix of registry with reporting platform and agent blacklist that providers can access through a web portal and populate with data (similar to UNICAD). At the time of enlisting new agents (and on an as-needed basis, such as when information changes), banks need to input extensive identification information (listed below) into AgentChex, for each agent:

- Date of start of relationship
- Agent name, business name
- Date of birth, sex, identification documents
- Business address, residential address
- Geographic coordinates of business location
- Contact numbers
- Agent core business and number of years in operation
- Agent education level
- Whether the agent is multibank or single[29]
- Legal status
- Agent type (direct agent, subagent),[30] and name of super agent,[31] if applicable

[29] Multibank agents are agents with a valid/active agent agreement with more than one bank in Pakistan. Single agents have only one agency relationship.
[30] These terms are not used equally across researched countries. A direct agent in Pakistan is the agent with which the bank signs the original agency agreement. A subagent is another establishment contracted by the original agent, to conduct all or part of the functions of the original agreement.
[31] Super agents provide liquidity services to agents.

- Service authorized—over-the-counter or full fledge (account-based)[32]
- Whether agent ID was verified[33]
- Credit registry report (normal or negative)
- Whether agent is proscribed/listed person or involved in illegal banking activity

An agent registry accessible by banks and nonbanks on an ongoing basis is a useful tool to provide supervisors quick access to, and analysis of, basic and updated aggregate data or individualized agent information. It streamlines the work of the supervisor, who does not need to update his internal agent database (e.g., an excel spreadsheet) every time a new update arrives. It is particularly useful if good analytical reports can be generated directly from the registry, without the need to manipulate the data. Such reports or the raw data are used for financial inclusion monitoring purposes as well as for supervisory purposes. However, a key prerequisite for agent registries is a number or code that uniquely identifies each agent. In Brazil, agents are uniquely identified by their taxpayer number (CNPJ). In Pakistan, they are uniquely identified by their national ID. In both cases these documents can be verified online through the respective issuing authorities. However, in many other countries the lack of a centralized national or tax ID system creates challenges in setting up registries similar to those in Brazil and Pakistan. Another challenge would be lack of resources at the supervisory authorities.

Collecting a wide range of detailed information on individual agents as it is done in Pakistan might not be feasible or useful for all supervisors. The decision on whether to do so in each context should be based on supervisory priorities, alternative information sources available, resources at hand, reporting capability of providers, and potential impact on policy goals such as market innovation, efficiency, competition, and financial inclusion. Pakistan's approach is unique among the researched countries for requiring much more detailed information on a provider's agents. It is also different from other developing countries where the use of agents is widespread (e.g., Bangladesh, Bolivia, India, Paraguay, South Africa), judging by the reporting requirements described in the respective agent regulations of these countries. As the AgentChex in Pakistan has only recently been launched, there is no experience yet with how useful the data will be for supervisory purposes.

7.3 Content of regular reporting (beyond agent registries)

Reporting on bank and nonbank agents varies widely among the researched countries. Supervisors in Brazil, Peru, and the Philippines do not request regular reporting on values and volumes of agent transactions for supervisory purposes, yet the Philippines is currently discussing a change to the reporting requirements that would capture such information in the future.[34] Peru's Superintendence of Banking, Insurance, and Private Pension Funds, through its Operational Risk Division, will start requiring reporting to feed into the operational risk assessment of banks and nonbanks. Supervisors in Brazil have no plan to do the same. They will keep requesting information only on an as-needed basis to inform assessments of individual providers, or for other purposes. Supervisors in

[32] In Pakistan, most agent operations are not conducted through client accounts (full-fledged). Over-the-counter transactions use the account of the agent to make a transfer or a payment.
[33] Identification documents in Pakistan (Computerized National Identity Card [CNIC]) are issued by the National Database and Registration Authority (NADRA), and verification is done online.
[34] The Payments Department of the Central Bank of Brazil requests aggregate agent transaction data every six months, to monitor the evolution in the use of different channels for retail payment transactions.

Colombia receive monthly reports from banks with information on all the operations conducted via agents in each municipality and for each type of product.[35]

The supervisors in Kenya, Mexico, Pakistan, Tanzania, and Uganda receive either monthly or quarterly aggregate information on the total number of agents. Kenya and Mexico also require providers (banks and nonbanks in Kenya and banks in Mexico) to report the total volume and value of transactions conducted at agents, by type of transaction, and aggregate statistics on consumer complaints related to agents, agent frauds, thefts, and data breaches. In addition, Kenya requires banks (but not nonbanks) to provide an annual report of agent operations. In Brazil and Peru, the respective conduct supervision departments monitor consumer complaints on an ongoing basis[36] and may identify emerging agent issues through this monitoring. Pakistan requires complaints and fraud information to be reported on a monthly basis, but this will be substituted for AgentChex (see below). Table A-3 in Annex 1 lists the reporting requirements for each of the researched countries.

Pakistan is the only country where transaction data reporting is done for each individual agent. Banks using agents will need to report monthly, for each agent, through AgentChex:

- Number of accounts opened, by type of account
- Value and number of total transactions
- Value and number of deposits, withdrawals, fund transfers, bill payments, and airtime top-up transactions
- Number of suspicious transaction reports
- Number of cases of fraud, theft by the agent
- Number of complaints against the agent

In addition to the above monthly updates to AgentChex, the State Bank of Pakistan also requires banks to keep the following information up-to-date, in relation to each agent:

- Agent risk rating (high, medium, low) and reason of change in risk rating (the ratings are assigned by the banks, not by the State Bank of Pakistan)
- Physical verification of agent by the bank and, if not, reason for not verifying
- Fulfillment of minimum standards for the agent's premises
- Number and date of visits by the bank's supervisor or compliance officer to the agent
- Training hours received by the agent
- Data on last training received by the agent
- Cases of fake client identification documents (CNIC)
- Agent status (normal, under warning, suspended, terminated, blacklisted) and date of change in status and reasons for assigning non-normal status
- Type of transaction receipt generation system (manual, automatic)
- Device protocols used by the agent (e.g., SMS or USSD)

This level of detail in reporting may certainly be beyond what most supervisors would want to prescribe.

[35] In addition, the Association of Banks and Financial Entities of Colombia collects information on agent operations on a monthly basis and publishes it. The supervisor also makes use of this information.

[36] In the case of Brazil, the complaints data originate from the central bank's own consumer complaints channel (regular reporting of consumer complaints data by financial institutions is still in early stages), while in Peru the supervisor uses statistics from monthly reports on the providers' own internal complaints handling channels.

7.4 Units responsible for receiving and handling regulatory reports

In Colombia, Kenya, Peru, Tanzania, and Uganda, the monthly or quarterly reports are received in electronic format (e.g., Excel spreadsheets sent by email) directly by the departments in charge of nonbank or bank supervision. In Pakistan, AgentChex reports are currently managed by the Banking Policy and Regulation Department, not by the Statistics Department or by the Banking Supervision Department. In Mexico and Brazil, all reporting is done through a web-based reporting portal that feeds into a central database kept by the supervisor. Such reporting is automatically assessed for completeness and timeliness by the unit in charge of handling all regulatory reports, which is separate from the supervision teams. If necessary, the reports are sent back to the provider for corrections; they are then available for consultation by the supervision and other teams.

7.5 Ensuring quality of reported information

Researched supervisors are aware of the need to ensure accuracy of reported information, which includes creating standardized definitions (e.g., the meaning of "complaints" and categories of "complaint motives," "technical error," "communication failure," and "active/enlisted agent") and giving clear guidance to providers on reporting. The objectives are to ensure consistency of data reported, reduce reporting errors by providers and processing/analytical errors by supervisors, and allow comparability.

In addition to standardization, supervisors recognize that the most effective means to reduce reporting errors is to automate the reporting process as much as possible. In an ideal world, this would mean the supervisor would build an electronic reporting platform for providers to link to their own management information systems (MIS) from which data can be extracted with minimum or no manual intervention. However, this is not always possible. Direct MIS data extraction, transformation of the data into the required format, and automated transmission all depend on whether the providers and the supervisor are able and willing to make IT investments. It also depends on how important it is to collect the data to achieve specific purposes and justify the investment. None of the researched countries has implemented a completely automated reporting system, with automated data extraction (with regard to agent-related reporting), although most have done so for financial data reporting by banks, for prudential supervisory purposes. For example, banks and nonbanks input information manually into Brazil's UNICAD.

Even if reporting is not fully automated,[37] the supervisor should strive to make available a single reporting (file transfer) platform that uses a single reporting template with standardized data fields and sends the data to a single database that is accessible by supervisors and other departments.[38] This is a much better process than receiving separate files (e.g., Excel files), via different channels (e.g., emails, hardcopies), and manually consolidating the data into one file (e.g., ACL or Access).

To limit processing errors, the supervisor's database should produce the reports or the database should be compatible with other programs/systems so that those systems can generate reports without excessive manual data manipulation. Pakistan's AgentChex will

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[37] This does not mean that the providers cannot produce the data through computerized information systems. They need to be able to do it, even if reporting is manual. The effectiveness of the provider's information system, particularly for risk management purposes, is one of the key items assessed by the supervisor.

[38] This is also to avoid having different departments of the supervisory agency requesting duplicate data from the same providers.

offer several reports at the aggregate and provider levels, but it is not yet clear what the reports will be used for. Brazil's UNICAD generates reports that are used by supervisors, for instance, to check which services are rendered by agents in a certain location.

In the researched countries, providers manually input most of the information on agents into the reporting tools available. Manual reporting, which is time consuming, results in outdated data (particularly with regard to agents) because of fast changes—new hires and closures. For this reason, the supervision teams in the Central Bank of Brazil often ask providers for an updated list of agents when conducting inspections, as information in UNICAD is not always reliable.

Regardless of whether the reporting is manual or automated, supervisors should assess, at least occasionally, through onsite inspections, offsite questionnaires, and automated consistency checks conducted by the file receiving system (if there is one), the quality of the data reported. This will help supervisors identify weaknesses in data generation and the reporting process, identify data errors, misreporting, and the likelihood of future reporting errors. Such assessment should be one important element of supervision.

Insights for supervisors

1. Supervisors should establish a reporting framework that, while not overburdening the provider, enables them to fulfill specific and clearly articulated purposes, such as identifying agent-related consumer issues, monitoring the relative importance of agents in the financial system, and monitoring financial access indicators.

2. Reporting requirements may include quarterly aggregate data on the number of agents, broken down by location, types of services, and transaction volume; values broken down by transaction type; and number of consumer complaints related to services rendered through agents, by type of service. More detailed information can be collected if necessary to achieve specific objectives.

3. Supervisors may consider having an online system for providers, such as an agent registry, to update information on their agents on an ongoing basis. The supervisor may also choose to make such a registry accessible for consultation by the general public with respect to nonconfidential data.

4. The supervisor should verify, at least sporadically, the quality of the reporting process (including agent registries) through offsite and onsite checks of providers.

5. Capacity and resources permitting, all types of reporting, including agent registries, should be as automated as possible, on three levels: (i) data extraction from the institution's information systems, (ii) reporting mechanism, and (iii) storage and data extraction by supervisors. The goal is to reduce reporting and processing errors.

8. Supervision procedures

In general, the researched countries do not consider agent supervision to be a priority area within their overall supervision work. They focus on the provider's role (and the role of third parties involved in agent management) in effectively managing the risks posed by agents. In fact, the main weakness observed by researched supervisors with regard to agents is deficient monitoring of agents by the bank or nonbank, even though they have not faced many instances of serious risks materializing.

The supervisory process with regard to agents in the researched countries varies in terms of intensity and internal organization, but it does not deviate from the basic tools commonly used in financial supervision around the world, for other supervisory purposes: ongoing market monitoring (not present in all researched countries), institution-focused work (offsite and onsite), and thematic work (cross-sector analysis of certain issues in the use of agents—also not present in all researched countries).

Offsite and onsite institution-focused work are the most used tools by the researched supervisors. Some (e.g., Kenya, Peru, and Tanzania, all with respect to banks using agents)[39] do more onsite work than the others, but in general the emphasis is on optimizing the use of supervisory resources given the relatively lower significance of the agent business when compared to other supervisory responsibilities. None of the countries intends to visit a large number of agents, or even representative samples of agents.

Only two researched countries have developed specific supervision manuals for assessing agent networks of banks and/or nonbanks. Brazil has a supervision manual for onsite and offsite work encompassing all aspects of the agent regulation. It was developed for banks, but it will also be used for nonbanks that are expected to begin issuing e-money. Mexico has an agent certification manual that is used by the Operational and Technology Risk Department during the authorization process. It is also used during the course of sporadic onsite inspections.[40] The other researched countries assess the management of agent-related risks during the course of comprehensive inspections that cover other risks of banks or nonbanks.[41] As mentioned previously, agent-related risks are commonly embedded in the operational risk assessment, which may cover the assessment of the distribution channels strategy and operations and internal controls. The assessments are organized following the structure of the relevant regulation, rather than being translated into a specific supervision manual for the use of agents.

Supervisors overseeing markets that are in a fast development mode, where agents are starting to play an increasingly significant role in financial services distribution should start by organizing their work with the creation of a supervisory plan (i.e., timeline and scope of assessments) and a supervisory manual/guide that gives detailed instructions for supervisors to develop a deep understanding of the business model of at least major providers. Fast-growing markets, with large numbers of agents being signed up by

[39] In Peru, the visits to agents are part of a broader work program that includes visits to branches, primarily to check compliance with consumer protection rules, such as transparency and disclosure requirements.
[40] Banks in Mexico are required to use the agent certification manual to conduct annual reviews of their agent networks. Such reviews must be made available to the supervisor.
[41] Naturally, comprehensive risk assessments vary widely according to the type of provider. Since nonbanks tend to have a more limited scope of operations, a comprehensive risk assessment in a nonbank providing services such as e-money distributed through agents is much narrower than a comprehensive risk assessment in a full-fledged commercial bank using agents.

providers in short timespans may create more risk than more stable markets where growth is slower and practices are more similar across providers.

Since providers may adjust their agent management model a few times during the first years of operation with agents until they find a preferred or more effective model, the supervisor may conduct more intense supervision—through more frequent contact with the providers and/or more market monitoring—in the first years of operation. As experience with agent management practices grows and major variations reduce over time, the supervisor is likely to find it unnecessary to dispense too much attention to individual providers on an ongoing basis, and will be able to focus on specific industry-wide issues.

The following subsections, and particularly 8.2, describe supervisory procedures that, together, amount to a full-fledged assessment of the agent business in a supervised market and in an individual provider. They also offer insights to such a full-fledged assessment. Supervisors should evaluate which portions of this guidance are more useful to apply a proportionate approach to their unique contexts.

Insights for supervisors

1. Supervisors interested in supervising the use of agents, particularly in markets where a large number of agents are used by banks and/or nonbanks, should create a specific supervisory methodology (e.g., through a supervision manual/guide) that combines market-wide and institution-focused assessments using different supervisory techniques. The breadth of the assessment and the combination of techniques should strike a balance between the costs and the benefits of supervision in this area.

2. The intensity of supervision should respond to the supervisor's priorities and be proportional to the risks imposed by the use of agents in the particular market—which is related to, among other factors, the speed with which the agent business is growing.

8.1. Market monitoring

Market monitoring is the least developed area among the researched countries. Most supervisors have not established a market monitoring strategy and specific manuals/guides, leaving this task to each supervisory team member. Most researched supervisors have established some type of regular reporting regarding banks and/or nonbanks, but have not yet articulated the objectives nor the analyses that will be carried out using such reports and additional sources on an ongoing basis. For instance, Pakistan's AgentChex is starting to gather information on the risk level of all bank agents,[42] but the supervisor does not have clear objectives for using such information yet. The main purpose of market monitoring in financial supervision is to spot industry trends that could raise supervisory concerns (e.g., consumer, operational, or legal risks and data security). In the researched countries, market monitoring of agents is done mainly to keep track of financial inclusion indicators, such as the number of agents in urban and rural areas.

Monitoring is not the same as offsite supervision focused on individual institutions. It focuses on the market as a whole. To conduct effective market monitoring, the supervisor should establish clear objectives contained in procedures detailed in manual/guides. It

[42] According to each bank's own criteria on "level of risk."

will be based on a range of sources—not limited to regulatory reports—whose content, frequency, and format should be defined. The depth and breadth of the monitoring will depend on each supervisor's available resources and objectives and the information available.

A major information source for market monitoring is regulatory reports, but supervisors may also use media monitoring, statistics about suspicious transaction reports (STRs), and industry and consumer reports prepared by third parties, such as government agencies, research companies, universities, industry associations, or development organizations. Many supervisors,[43] including the ones researched, also keep an eye on international trends and practices with regard to the use of agents by regulated institutions, through reports, studies, and policy gatherings.

Media monitoring is useful to spot emerging trends and problems in the local markets, where media are independent and tuned to financial services business. Examples from the researched countries include theft at agent points and abuse and fraud by agents and by their customers. Based on media reports about poor service at bank agents, the Central Bank of Brazil has conducted, a few years back, onsite inspections in a targeted sample of agents.

Depending on the country, monitoring may be conducted by the offsite supervision team, the onsite supervision team, or specialized risk teams. In Brazil, monitoring (though not formalized by manuals) is primarily done by the Conduct Supervision Department. In Mexico it is done by the Financial Inclusion and the Operational and Technology Risk teams.

8.1.1. Monitoring numbers and risks of shared agents

A couple of researched supervisors have expressed concerns with the potential of increased risks when agents operate on behalf of more than one provider (shared agents).[44] However, neither supervisors nor the few providers interviewed for this publication have confirmed materialization of increased risks to a worrisome level. Examples of such perceived risks are as follows:

1. Providers trying to evade assuming responsibility for misbehavior of agents (e.g., charging unauthorized fees), although usually it is clear which provider is responsible for each transaction conducted at a shared agent
2. Agents gearing clients to the provider that will pay him/her higher fees for the transaction requested by the customer
3. The risk of agents running out of cash or float more often and not being able to meet the cash-in and cash-out needs of the clients

Most supervisors in the study indicated that competition and financial inclusion would advance if agents were to serve clients of several different providers. One way to promote this model would be to prohibit exclusivity and allow agents to sign agency agreements

[43] Particularly those associated with the Alliance for Financial Inclusion (AFI).

[44] Agents may be serving multiple banks in some countries (e.g., Brazil, Mexico, Pakistan, and Peru), multiple nonbanks in some countries (e.g., Tanzania and Uganda), or both banks and nonbanks in other countries (e.g., emerging model in Ghana). In Nigeria, a recently passed regulation formalizes the role of agent network managers in setting up independent agent networks that can be used by multiple banks and nonbanks.

with several providers.[45] Another way would be for a provider to build an agent network and make the network available to other providers (i.e., client of bank A is able to conduct transactions with an agent that has an agent agreement only with nonbank B). The number of agents working for multiple providers is high in Pakistan, Bangladesh, and Tanzania, and more recently also in Uganda. Mexico has one large agent network that has agency agreements with at least eight large commercial banks.[46]

None of the researched supervisors has created specific mechanisms to identify, measure, and monitor any potential risks introduced by shared agents. In fact, supervisors—as well as providers—find it hard to know the exact number of agents that sign agreements with more than one provider, in the absence of central agent registries showing all contractual relationships. The State Bank of Pakistan plans to determine exactly how many shared agents operate in Pakistan through AgentChex and to cross-check other available data (e.g., agent risk ratings, blacklisted agents, consumer complaints) to learn whether shared agents introduce higher risks.

The Central Bank of Brazil can identify shared agents through UNICAD. However, the reports are not easy to obtain and the perceived risk (resulting from years of experience with agents operating in Brazil) of shared agents does not justify the effort.

Insights for supervisors

1. Supervisors should conduct ongoing market monitoring covering both banks and nonbanks using agents to spot trends in the development of the agent business and emerging risks that could be subject to supervisory action. Market monitoring can also serve other purposes, such as providing periodic information to the broader public and providing data for other policy objectives, such as financial inclusion targets.

2. For effective market monitoring, the supervisor should establish clear objectives and clear analytical procedures, as well as define the content, frequency, and format of a range of information sources that will be used and analyzed (which usually go beyond regulatory reporting and may include the media and research reports, for instance).

[45] Kenya's regulations, for instance, prohibit exclusivity of nonbank and bank agents. In Tanzania, although the regulator has not prohibited exclusivity, agents have established agreements with multiple nonbank e-money issuers. Banks in Tanzania are prohibited from imposing agent exclusivity. The Pakistani supervisor has imposed a maximum proportion of shared bank agents in rural and urban areas as it was concerned about too high a proportion of shared agents. Bank of Uganda has prohibited agent exclusivity among nonbanks, and Mexico has made life difficult for agents who had been operating on an exclusive basis, by restricting their ability to act as agents of a new provider in the first six months after an exclusive agent agreement ends. Brazil, Colombia, Peru, and the Philippines have not imposed any restrictions on agent exclusivity.

[46] Multiprovider agents or shared agents do not equal interoperability among different providers. That is, a customer is not necessarily able to transfer cash from nonbank A to nonbank B, even if both have an agency agreement with agent X.

8.2. Institution-focused assessments

An institution-focused assessment can be either comprehensive, when it covers all risk areas of a provider, or targeted, when it covers only one or a few risk areas or topics.[47] In Kenya, Pakistan, Philippines, and Tanzania the supervisor conducts annual comprehensive assessments covering all/most risk areas, including the use of agents as one element of operational risk.[48] The supervisors in Brazil, Colombia, Mexico, and Peru do comprehensive assessments of banks using agents less frequently, and more often cover only priority areas that are identified according to their risk-based methodology. Whether it is done within a comprehensive assessment or on its own, the assessment of the agent business should be done considering the bigger picture concerning the quality of the provider's risk management and internal control processes, and the role of agents in the provider's overall commercial and growth strategy. If the supervisor has not already formed this broader view before an evaluation of the agent business, then it will benefit from performing such evaluation within a comprehensive assessment. If it already has a broader view, targeted inspections on the agent business will produce better results, by allowing a more in-depth and focused analysis.

There are no material differences between assessing the agent business of a bank and a nonbank, in terms of supervisory tools (onsite, offsite, thematic review) and techniques (specific procedures during onsite and offsite reviews). A full assessment of the agent business of a bank or a nonbank provider covers the whole cycle of the agent business. The supervisory manual/guide should cover all regulatory requirements relevant to agents, but should also cover, at least the following:

- The agreements between the provider and third parties involved in managing agents, such as agent network managers, and the specific roles played by such third parties
- The process of prospecting, selecting, and signing up agents
- The terms and conditions of agent agreements
- The training of agents
- The organizational structure (including third parties), information systems, and processes involved in the management of issues related to agents, including liquidity, money laundering, data security, service quality, fraud, and consumer complaints
- The mechanisms to evaluate and incentivize the performance of agents and agent network managers
- The mechanisms to discourage and punish misbehavior or poor performance by agents and agent network managers
- The process by which relationships (e.g., contracts/operations) with agents and agent network managers are terminated
- The process by which agents are blacklisted (if applicable)[49]

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[47] In this paper, "comprehensive inspections in all risk areas" refers to considering only the risks related to financial services. That is, in countries where the legal framework allows a nonfinancial entity, such as an MNO, to provide financial services such as e-money without constituting a separate legal entity, the supervisor will not assess the risk of the nonfinancial business (i.e., mobile communication services).

[48] This is in regard to bank agents in the case of Kenya, Pakistan, and Tanzania, and of nonbanks, in the case of the Philippines. The nonbank e-money issuers in Kenya and Tanzania are not yet subject to a structured supervisory program. Bank of Uganda is largely omitted in this section for not yet conducting inspections focused on the agent networks used by the existing nonbank e-money issuers (although it has conducted one such inspection in the largest provider).

[49] Although only the Pakistani supervisor is involved in building an industrywide agent blacklist, blacklisting of agents by individual providers seems to be a common practice.

The researched supervisors do not go through all the areas of the agent business every time they conduct an assessment. Rather, they indicate that such comprehensive assessment is done the first time a provider is assessed; subsequent inspections are shorter and focus on specific issues, such as issues that emerge through the review of regulatory reports.

In any case, it is essential for supervisors to understand how, in practice, the provider manages its agents and the specific roles played by third parties. The management structure and procedures, including how much is outsourced to third parties (and how) may vary significantly across providers. This is a key area for supervisory analysis in the providers that are subject to institution-based assessments, as already emphasized in the international standards for supervision of outsourcing in financial services.[50]

Another key aspect for supervisors to recognize is that agent operations may be relatively more relevant for some providers (either bank or nonbank) than for others and that such relevance may change over time as well. Different levels of importance will translate into different levels of attention given by the provider's management on mitigating risks and investing in the improvement of the agent business (e.g., they may request attention to agent networks by the internal auditor or give high priority to training agents). To be sensible to such differences and understand how they result in different practices across the industry, the supervisor should strive to acquire sufficient understanding of the provider's overall business and the strategic role played by agents.

The following subsections discuss offsite and onsite procedures to conduct inspections focused on a provider. The procedures can be used as reference for both comprehensive and targeted institutional-focused reviews of banks and nonbanks using agents. As noted earlier, most supervisors will conduct comprehensive reviews only once on a provider or only sporadically, so not all procedures will be applicable, cost-effective, or useful to all targeted inspections.

8.2.1. Preparation for onsite inspection (offsite review)

"Offsite review" is used in this section to refer to the work conducted—in the researched countries—by the onsite supervision teams (sometimes with support from the offsite supervision departments), mostly as preparation for onsite inspections. One of the key insights of this paper is for supervisors to ramp-up their offsite preparation work to make the most of onsite visits.

The information and documentation analyzed by supervisors during the offsite phase of each institution-focused review does not vary materially among the researched countries, and includes the items listed in Annex 1. Not all documentation/information listed is requested for all inspections or by all researched supervisors. The type and range of documentation to be analyzed will be determined by the focus of the inspection, which will depend on the supervisor's previously defined priorities for the agent business of the particular provider (e.g., assessing technology risk in agent transactions, management of agent network managers, complaints handling, or loan misselling through agents).

The Central Bank of the Philippines, for instance, analyzes agent model/actual contracts only when the provider will launch a new product or expand an existing one. This is because the supervisor has established, as a priority, to assess the soundness and

[50] See BCBS (2005).

appropriateness of the agent business as a whole, including the selection and accreditation process, agent monitoring, and the involvement of other parties, rather than analyzing contracts.

Supervisors should not simply note questions for onsite follow-up. The offsite work is much more effective when it has interaction with the provider, to clarify minor issues and request additional details, so that the onsite work is focused on more complex discussions and verifications that are not possible to do offsite. The provider's contact person varies across researched countries: the executive in charge of channels more broadly (e.g., some banks in Brazil, Kenya, Peru, and Mexico have a person in charge of all types of channels, including branches and agents), in charge of particular products that use agents (e.g., the mobile money executive in some nonbanks in Kenya, Tanzania, Uganda, and some banks in Pakistan), or specifically in charge of agents (e.g., some banks in Brazil and Peru).

After (or while) writing the main issues, questions, and observations, supervisors should prepare a detailed plan for the onsite work, including questions (or talking points) for the key meetings to be held. To identify the key meetings to be held, supervisors will benefit from mapping the main processes of the agent business (see listing in Section 8.2), point out those that will be reviewed, and what needs to be further investigated.

The offsite analysis should equip supervisors with an excellent background that is essential for making the most of the onsite inspection—saving time and sharpening the technical assessment. Well-prepared supervisors are not only more effective, but also go a long way to contribute to the authority's credibility, which may lead, ultimately, to increased levels of compliance and better business practices.

8.2.2. Onsite work

8.2.2.1 Visits to the institution's headquarters

The bank or nonbank in the researched countries is legally responsible for its agents, and controls its agent activity even when it uses third parties to manage all or part of its agent network. Supervisors focus their onsite work on the bank or nonbank's headquarters, instead of on samples of individual agents, although some complement this with inspections at a small number of agents (e.g., Central Bank of Kenya and Bank of Tanzania, with regard to bank agents).

At the headquarters, the supervisor should be able to assess how well the provider manages its agent-related risks through the use of information systems (e.g., the system where agent transactions are recorded, the AML/CFT system, etc.), management reports, internal audits, contacts with agents and agent network managers, and a range of manual and automated internal controls. The supervisor should compare the practice observed with the policies and procedures manuals previously analyzed during the offsite preparation. It is also necessary to assess the knowledge, involvement, and commitment of top executives and operational levels with the policies to ensure safety, reliability, continuity, and robustness of the agent business.

After an initial opening meeting with the main executive(s) relevant to the agent business, the onsite work at the headquarters may include the following:

1. **Meeting with relevant board member(s).** If the offsite review raised suspicions that board members are not exercising their oversight function (e.g., if the board has not responded to the auditor's call for specific corrective actions) and this has resulted in

heightened agent-related risks, supervisors should request a meeting with relevant board members to require change and warn of potential supervisory measures. This meeting should be well planned and substantiated by analyses showing the impacts or potential impacts of weak board oversight.

2. **Meetings with relevant top executives** directly or indirectly related to agent management. Here supervisors should assess the executives' knowledge of and main practices on important policies related to agents (e.g., agent transaction limits, agent selection and training, AML/CFT controls affecting agent operations, agent fees), agent performance assessment, issues observed during the offsite review, new strategic alliances that impact the agent business (e.g., shared agents), and findings of the internal auditor. These meetings (or those with the board) should also be an opportunity to follow up on any pending measure requested in previous inspections.

3. **Several meetings with operational-level staff (or staff of third parties conducting similar functions).** Usually, most of the time onsite will be spent with operational staff to check how compliance with regulation and the institution's own policies and procedures is achieved and to allow the supervisors to do a thorough review of the main processes in managing agents. Having a thorough understanding of all operational procedures involved in managing agents will help supervisors compare practices across providers, which helps them require timely corrective measures with confidence and authority.

   Operational staff may include those in charge of the following:
   - Agent prospection, selection, and due diligence
   - Agent training
   - Development and distribution of agent operational manuals and other material to be used by agents
   - Agent transaction and liquidity monitoring
   - Processing of agent transaction logs, if applicable[51]
   - Agent supervision/inspections
   - Cash distribution management
   - Agent hotline service
   - Customer complaint unit
   - Management of the agent registry and other relevant systems or databases
   - Regulatory reporting on agent activities

It is important to sit side by side with staff performing key functions using the agent transaction and database system to check how information is gathered, handled, and included and excluded in the system; to make transaction and access simulations; and to check how management reports are created. Supervisors should know who has access to such systems. As mentioned in Section 5, generalist supervisors can perform checks of the robustness of the systems used for registering and managing agents and their transactions. The following are some examples:

- Simulation of breaches to the access rules that are intended to reduce the risk of fraud and ensure data integrity

[51] In mobile money businesses that use airtime agents, it is common in the countries we studied for agents to use a paper-based transaction log that is later sent to headquarters and may eventually be checked against the digital transaction trail.

- Simulations of breaches to the agent daily or monthly transaction limits, to check whether the system allows such breaches and what happens when there is an attempt to transact above the set limits
- Simulations to check whether agent transactions are promptly and correctly reflected in the clients' and agents' bank or e-money accounts
- Observe all steps and controls involved with one single agent transaction, by type of transaction
- Observe all steps and controls involved with one single consumer complaint regarding agents
- With regard to AML/CFT systems, check the parameters for the system to identify and flag suspicious transactions involving agents

Interviewing operational staff is an inquisitive and time-consuming process, and supervisors should have training in such techniques to demonstrate confidence. Confidence will also be based greatly on the previous knowledge gathered through the offsite review.

4. **Meeting with the internal auditor** to discuss weaknesses identified but not yet addressed during the supervisor's offsite review and weaknesses identified during the current onsite work, as well as to gain detailed knowledge of the work program and methodology of the internal auditor, with respect to agents and third parties involved in agent management. Supervisors should evaluate the quality of the internal auditor's assessment of procedures related to agent management and compliance with the applicable regulation and the provider's own policies. Supervisors should keep in mind that the provider may be working on other priorities.

IT audit—The inspection described above is not an IT audit. It will provide elements to determine whether an IT audit is necessary. An IT audit is conducted whenever there are possible important weaknesses in the information systems supporting agent operations and their management by the provider or third parties. On the other hand, depending on availability of resources, the supervisor may choose to do an IT audit first, particularly for newer providers, without having any particular concern. Serious weaknesses can be identified through simulations, conversations with operational staff and third parties (especially daily systems users), and the internal auditor. Nonspecialized inspections may point to continuity problems and system design flaws that impact effectiveness of controls and accuracy/integrity of the data stored in the systems and generation of management or regulatory reports about agents.

8.2.2.2 Visit to third parties involved in or responsible for agent management

The onsite inspection should also be done at third parties, such as agent network managers, when they assume important roles in agent management (the service level agreements between them and the provider would have been analyzed during the offsite preparation work). As the role of third parties in managing agents may vary widely across providers, the supervisor should evaluate whether an inspection is warranted with respect to each third party. Inspections may also be conducted if there is suspicion of poor practices by a particular third party (e.g., if the agents managed by a certain third party have worse performance than agents managed by another third party or by the provider itself). The examination procedures should be similar to those conducted at headquarters.

8.2.2.3 Visit to agents

If time and resources permit and if it is considered relevant to the current institution-focused assessment, examiners may wish to visit a sample of individual agents. Although most of the supervisors in our research (e.g., Kenya, Mexico, Peru, Tanzania) use random samples most of the time, targeted samples may be more effective for most supervisory purposes and may reduce costs. Criteria for targeted samples could include the following:[52]

- Agents classified as high risk by the provider (e.g., those close to national borders)
- Agents with larger numbers or volumes of transactions
- Agents working for more than one institution
- Agents receiving high numbers of consumer complaints
- Agents with reported instances of fraud, overcharging, transaction errors, and other problems
- Agents reappointed after being blacklisted
- Agents operating in areas considered riskier from an AML/CFT standpoint, such as those operating next to the borders or remote agents
- Agents operating with newly introduced products or technologies
- Agents operating under newly hired agent network managers
- Agents that have not received training

The main purpose of visiting select agents is to inquire about the circumstances around the preidentified weakness, including the actions taken by the provider to correct it and avoid future occurrences of similar weaknesses. For instance, if an agent was selected for being linked to a customer fake ID case, the examiners should make inquiries about the training received to identify fake IDs, the process for receiving and registering each customer transaction, and what is done when the agent has doubts about the veracity of a client's ID.

Random samples may have some utility. Randomness should not be limited to the largest cities where supervisory offices are usually located. However, this increases travel and accommodation costs, so random samples should be done only if resources permit. Randomly selected samples can be useful to do the following:

a. Check signage of agents, including fee schedules and branding
b. Observe customer interactions with agents:
    - Information provided by the agent to the customer
    - Checking of customer's identification
    - Data security (who has access to and handles the devices used to conduct the transactions)
    - Generation of transaction receipts
    - Customer data privacy (if client passwords are kept private)
c. Conducting mystery shopping to check the above[53]

[52] The criteria used will depend on the objective of the particular inspection and on the information available.

[53] The difference between mystery shopping and (a) and (b) is that during a mystery shopping exercise, the supervisor (or a third party conducting it on the supervisor's behalf) pretends to be a customer. In (a) and (b) the supervisor identifies himself. Mystery shopping might not be familiar to all supervisors, as it is a technique more commonly used by market conduct supervisors, particularly those focused on financial consumer protection. In the context of this paper, mystery shopping would entail a person simulating a common interaction with an agent (e.g., an account opening request) and thus being able to observe a typical

Insights for supervisors

1. Institution-focused assessments should use a mix of onsite and offsite techniques and focus attention on the effectiveness of the risk management process put in place by the provider (including its management of third parties such as agent network managers), as opposed to focusing on individual agents.

2. The institution-focused assessments should be based on a manual/guide that covers the main aspects/stages of the agent business.

3. To optimize the use of their time onsite, supervisors should collect and analyze as much information as possible in advance (offsite), the range of which will depend on the scope of the onsite inspection and the complexity of the agent business. This will enable them to go onsite with an advanced understanding of the main issues of the agent business that require further investigation.

4. In the first years of supervision of the agent business, the supervisor may visit a small number of agents to understand how different types of agents operate in different institutions. On an ongoing basis, inspections at individual agents should happen only sporadically, to avoid high costs of supervision. Checks that could be performed during an agent inspection or via mystery shopping at agents but not during inspections at the provider's headquarters include price disclosure, transaction simulations, and know-your-customer procedures by agents.

8.3. Thematic reviews

Thematic reviews are not commonly used in prudential supervision, but they are increasingly used for market conduct and financial consumer protection supervision.[54] This tool could be very useful for supervisors interested in verifying the status of what they consider key risks in the agent business across different providers. Thematic inspections may involve both offsite analyses and onsite inspections. The only supervisor in our research that has conducted thematic inspections related to agents was the Central Bank of Brazil, including one to check practices regarding agent agreements in medium-sized banks and one on agent fees related to credit provided through agents. Issues that could be subject of thematic reviews include the following:

- Consumer disclosure at agent points
- Cash availability (liquidity) at agent points
- The use of third parties in the agent management process
- Agent due diligence procedures

transaction. The disadvantages are that it can be costly, the quality offered by available market research firms might not meet the supervisor's expectation, and some supervisors may face legal obstacles to use this tool.

[54] See examples of consumer-related thematic inspections by the Central Bank of Ireland, the Financial Consumer Agency of Canada, and the Financial Conduct Authority of the UK.

Insights for supervisors

Supervisors should consider using thematic reviews to cover priority issues in the use of agents by banks and nonbanks or by specific sectors (e.g., nonbank e-money issuers, lenders distributing loans through agents).

9. Enforcement

Credible powers to take corrective and enforcement measures are key for supervisory effectiveness. Not only should supervisors have legal powers to take timely actions, but to also gain credibility from providers that it will take timely action when necessary. In many instances, even when legal powers exist, supervisors may refrain in practice from taking enforcement actions, particularly when the provider is a large and influential company. For effective enforcement, there needs to be full support by the supervisory authority's highest levels, and commitment for equal treatment across providers, to protect the supervisor's credibility with external stakeholders.

The researched supervisors have broad legal powers to require course correction and take enforcement actions against most types of providers (see the cases of Tanzania and Uganda, below), but none has so far taken serious enforcement actions with regard to the use of agents by banks and nonbanks. Most of the problems spotted through supervision have been resolved during the course of routine interaction with the provider. For instance, there were cases of supervisors requesting changes in the internal controls procedures, in agency agreements, and in the training of agents.

The supervisors in our research, to varying degrees, have reported having the following corrective and sanctioning powers:

a. Power to determine changes:
   - In the provider's agreements with agents and agent network managers
   - In advertising and marketing materials used by agents
   - In the agent management policies and procedures
b. Power to suspend, limit, or prohibit the use of agents or expansion of agent networks by a certain provider
c. Power to suspend, limit, or prohibit a provider from dealing with specific agents or agent network managers
d. Power to require corrective measures from agents
e. Power to request closure of certain agents
f. Power to suspend, limit, or prohibit the offering of certain services or products through agents
g. Suspension or withdrawal/revocation of the provider's license or authorization to operate
h. Imposition of fines
i. Termination of employment of an officer or employee of the provider
j. Withholding of approvals (not necessarily related to the use of agents), including prohibition from opening new branches or suspending the launching of new products, until a specific problem in the use of agents is corrected

In Tanzania and Uganda, where nonbank e-money issuers have been operating based on letters of no objection, the supervisor's enforcement powers are less clear than in cases where there is a strong legal basis for the nonbank's operation. If the Bank of Tanzania and Bank of Uganda were to face serious situations that would require, say, imposing a fine on the nonbank provider, they are left only with the option to withdraw the letter of no objection, which would prohibit continuation of the e-money issuing business altogether.

Insights for supervisors

The supervisor should have sufficient and unquestionable powers, instituted by law, to take a range of enforcement and corrective measures to deal with noncompliance with regulations relevant to the use of agents by banks and nonbanks.

Annex 1. Comparative Tables

Table A-1. Internal organization for agent supervision in the researched countries

Country/authority	Offsite	Institution-focused onsite teams	Specialized teams	Payment system department/team
Brazil (Central Bank of Brazil)	No major role in agent supervision. The offsite supervision team analyzes agent database (UNICAD) from time to time with to check whether the database is correct. It has also analyzed consumer loan portability issues involving bank agents, using UNICAD and other databases.	It considers agent networks a minor element of operational risk of individual providers. It takes consumer risk assessments done by the Conduct Supervision Department into consideration when filling the risk matrix of the provider.	The Conduct Supervision Department is the primarily responsible for agent supervision. Conducts consumer risk assessments at institution and sector levels, focusing on the internal controls and agent-related risks management processes.	The Payments Department has a minor role. It focuses on ensuring competition and efficiency of payment systems, and monitors volume/value of transactions in each channel used by the bank and nonbank sectors, including agents.
Colombia (Financial Superintendence)	No major role in agent supervision.	Primarily responsible for supervision of banks using agents, as part of the operational risk review, which includes review of the provider's channels strategy and AML/CFT risk assessment.	No specialist risk team.	No specific role, but it monitors volume/value of transactions in all bank and nonbank channels.
Kenya (Central Bank of Kenya)	No specific role in agent supervision.	Primarily responsible for supervising banks using agents.	No specialist risk team.	Primarily responsible for supervising nonbank payment service providers (e.g., mobile money issuers) operating through agents. Methodology being developed.
Mexico (National Banking and Securities Commission)	No specific role in agent supervision.	Primarily responsible for assessing a bank's risk profile; it takes assessments by the Operational and Technology Risk Department into consideration.	The Operational and Technology Risk Department is primarily responsible for supervision of banks using agents.	The Bank of Mexico (central bank) has a complementary role in overseeing all retail payment schemes in the country, and it monitors transaction values and volumes in all bank and nonbank channels.

Pakistan (State Bank of Pakistan)	No specific role in agent supervision.	Primarily responsible for banks using agents (methodology under development).	There is no specialist risk team, but a team inside the Banking Policy and Regulation Department is developing the AgentChex (web-based agent registry and bureau). This department also produces the Branchless Banking Quarterly Newsletter.	The Payments Department has a minor role through its oversight of all payment systems in Pakistan.
Peru (Superintendence of Banks, Insurance and Pension Funds)	No specific role in agent supervision.	The institution-focused bank supervision teams are primarily responsible for supervision of banks and nonbanks using agents and take the assessments of consumer risks done by the specialist team into consideration.	The Market Conduct Department supervises agents and other channels in all supervised entities, to assess consumer risks. The Operational Risk Supervision Division plans to increase its oversight role with regard to agents.	The Payments Department at the Central Bank of Peru has a complementary role in overseeing all retail payments in the country.
Philippines (Central Bank of the Philippines)	No specific role in agent supervision.	The institution-focused bank supervision teams take the assessments of the Core Technology Risk Team into consideration.	The Core Technology Risk Team is primarily responsible for licensing and supervision of bank and nonbank agents.	The Payments Department plays a complementary role in overseeing all payment systems in the Philippines.
Tanzania (Bank of Tanzania)	No specific role in agent supervision.	The institution-focused bank supervision teams are primarily responsible for supervising banks using agents within the assessment of operational risk.	No specialist risk team.	The Payments Department is primarily responsible for supervising nonbank payments providers using agents (methodology in development).
Uganda (Bank of Uganda)	No role in agent supervision.	The Bank Supervision Department provides assistance to the Payments Department in the supervision of nonbank e-money issuers.	No specialist risk team.	The Payments Department is primarily responsible for supervision of nonbank e-money issuers using agents.

Table A-2. Agent authorization procedures in the researched countries

Country Licensing authority	Authorization for banks to use agents		Authorization for nonbanks to use agents
	Type of authorization	Information reviewed and other checks conducted	
Brazil Central Bank of Brazil Main regulation: Resolution 3954/2011	No authorization required. Banks must insert individual agent information into web-based system.	Not applicable.	Nonbanks are payment service providers and other deposit-taking and nondeposit-taking regulated institutions. The process is the same.
Colombia Financial Superintendence (Bank Supervision Department) Main regulation: Title IX of the Book 36 of Part 2 of the Decree 2555 of 2010 and Chapter I of Title II of Part I of Circular Basica Juridica (CBJ) (CE029/2014).	Authorization of contracts between agents and banks (could use model contract for all agents). Response time varies.	Focus in on operational risk and AML/CFT. Documents required are business plan, feasibility study, financial projections, technology description, description of the agent network, and type of products and services offered.	Nonbanks are other deposit-taking and nondeposit-taking regulated institutions, including nonbanks specialized in electronic deposits. The process and the requirement are the same.
Kenya Central Bank of Kenya (Bank Supervision Department and Payments team [soon to be department]) Main regulations: National Payments Systems Regulations 2014; Guideline on Agent Banking 2013	Two phased: one-off agent network approval and individual approval for each agent. The individual agent approval should be renewed annually. Maximum response time is 30 days from the date application is considered complete, for both phases.	Agent network approval: (*a*) number of agents per province over a three-year period, (*b*) agent due diligence policy, (*c*) services to be provided by agents, (*d*) model agency contract, (*e*) operational procedures and technology to be used, (*f*) risk assessment report, (*g*) internal audit report, (*h*) AML/CFT policies, (*i*) agent operation policies, (*j*) delivery channel strategy, (*k*) feasibility study for a three-year period, (*l*) business strategy for the agent business. Agent-specific approval: (*a*) name; (*b*) physical location, GPS coordinate, postal address and telephone numbers; (*c*) commercial activity; (*d*) any variation of the model agency contract; (*e*) services to be provided; (*f*) CEO's declaration regarding agent due diligence and that it meets the minimum qualifications required; (*g*) licensing fee.	Nonbanks are payment service providers (including mobile money providers) operating through agents and other channels. Nonbanks are required to notify Central Bank of Kenya of each new enlisted agent, presenting (*a*) the procedure for recruiting agents; (*b*) copy of the proposed agency agreement; (*c*) policies and procedures for the cash service, including compliance with AML/CFT rules; (*d*) description of technology; (*e*) a risk assessment report; (*f*) physical security measures at agent points; (*g*) agent operational manuals or other training materials.

Country Licensing authority	Authorization for banks to use agents		Authorization for nonbanks to use agents
	Type of authorization	Information reviewed and other checks conducted	
Mexico National Banking and Securities Commission (Operational and Technology Risk Department) Main regulation: Credit Institutions Law	Two phases: one-time authorization for the business strategy related to the agent channel, and one-time "agent certification," that includes onsite checks. No need for additional authorizations to increase number of agents within the authorized retail networks. Response time varies.	Business plan, financial projections, description of technology, location, and description of agents. Agent certification phase includes onsite visits to headquarters to review internal controls and IT infrastructure. Onsite visits to sample of agents to conduct transaction simulations and other checks.	Nonbanks are not allowed to use agents.
Pakistan State Bank of Pakistan (Banking Policy and Regulation Department) Main regulation: Branchless Banking Regulation	Two phases: principal approval based on overall business description and specific agent approval (done in bulk). Response time varies. New authorization required if there is substantial change in the underlying technology infrastructure.	Description of services to be provided and how they fit in the bank's overall strategy; certification from the CEO/president that the bank has adequate risk management in place and a manual on corporate security policy and procedures in line with the regulations; copy of relevant sections of the security policies and procedures manual. State Bank of Pakistan prescreens the financial condition of the provider to ensure it can support the branchless banking activities. Within 30 days from commencement of activities, provider must present a discussion on the services to be offered, the business objectives, procedures (both manual or automated), a visual description of the bank's electronic banking system, a list of software and hardware components in their role in the business, description of the contingency and disaster recovery plans, even problem management plan, copy of agent agreements, arrangements for liabilities arising from security breaches or frauds, latest internal/external report on the business, confirmation that the systems have been tested.	Nonbanks are not allowed to use agents.

Country Licensing authority	Authorization for banks to use agents		Authorization for nonbanks to use agents
	Type of authorization	**Information reviewed and other checks conducted**	
Peru Banking Superintendence (Banking Supervision Department) Main regulation: Resolution 6285/2013	One-time authorization for using agent channel. No individual agent authorization. Response time varies according to each application.	Copy of Board decision to operate through agents; business plan for the agent channel, including agent selection criteria, services to be offered, transaction limits to be imposed, technology to be used; operational policy and procedures; risk evaluation report from the risk management (or similar) unit, listing the risks in agent operations and mitigation measures.	Same.
Philippines Central Bank of Philippines (Core Information Technology Specialist Group) Main regulations: Circular 471/2005 and Circular 704/2010	Banks allowed to use agents only for serving e-money accounts. Same rules apply as for nonbanks.	Not applicable.	Nonbanks are e-money issuers. Remittance agents used by e-money issuers are considered to be agents of the customers and are subject to direct registration and supervision by the Central Bank (Circular No. 471). Alternatively, Circular No. 704 provides for a simplified process wherein agents need not apply individually to the Central Bank for licensing, but super agents can accredit their own network of agents provided that their accreditation and selection process complies with the requirements of Circular No. 471 (agents' applications must be accompanied by the agent's incorporation papers, copy of their business license or permit, list of their stockbrokers or partners, and notarized deed of undertaking. Before launching the agent business, agents must prove that relevant personnel has received AML/CFT training).
Tanzania Bank of Tanzania (Banking Supervision Department and Payments Department) Main regulation: Guidelines on Agent Banking 2013	One-time authorization for conducting agent banking business, which is two-phased: approval of agent business and approval for individual agents.	Documents reviewed: agent due diligence policy and procedures, services to be provided, draft standard agreement, description of technology, risk assessment report for the agent business, AML/CFT policies and procedures related to agents, agent operational policies and procedures, feasibility study. Bank of Tanzania also analyzes the bank's capital adequacy, record of earnings, adequacy of risk management, track record of regulatory compliance. Approval or denial is provided within 30 days.	Nonbanks are mobile financial service providers. Nonbanks are required to obtain a one-time letter of no objection when initiating mobile money business. No authorization for individual agents or bulk authorization is required. There is no specific regulation setting the requirements for the granting of the letter of no objection.

Country Licensing authority	Authorization for banks to use agents		Authorization for nonbanks to use agents
	Type of authorization	Information reviewed and other checks conducted	
Uganda Bank of Uganda Main regulation: Mobile Money Guidelines 2013	Banks not allowed to use agents.	Not applicable.	Nonbanks are mobile money service providers. Nonbanks providers of mobile money are required to obtain a one-time letter of no objection when initiating mobile money business. No specific authorization for individual agents or bulk authorization is required. The Mobile Money Guidelines 2013 are not clear on what documentation related to the requirements set forth are needed to the granting of a letter of no objection.

Table A-3: Reporting requirements related to the use of agents in the researched countries

Country	Bank agents	Nonbank agents
	Type and frequency	Type and frequency
Brazil Central Bank of Brazil Main regulation: Resolution 3954/2011	**Aggregate data** **Every 6 months**—agent transaction numbers and volumes, by type of transaction (for payment system monitoring purposes). **Individual agents** **Permanently updated**—Basic identification of each agent, full address, services provided, commercial activity, to be permanently updated in web-based database (UNICAD).	Nonbanks are payment service providers and other deposit-taking and nondeposit-taking regulated institutions. The reporting requirements are the same.
Colombia Financial Superintendence (Bank Supervision Department) Main regulation: Title IX of the Book 36 of Part 2 of the Decree 2555 of 2010 and Chapter I of Title II of Part I of Circular Basica Juridica (CBJ) (CE029/2014).	**Aggregate data** **Monthly—**information on different operations of agents distributed by type of product and municipality. **Semiannually—**report on operations done via every available channel. **Annually**—the supervisor and Banca de las Oportunidades publish Financial Inclusion Report that includes, among other things, number of agent outlets, with location, by type of agent (type of commercial activity), and total volume and values of transactions, by type of transaction.	Nonbanks are other types of regulated deposit-taking and nondeposit-taking financial institutions The reporting requirements are the same.

Kenya Central Bank of Kenya (Bank Supervision Department and Payments team (soon to be department) Main regulations: National Payments Systems Regulations 2014; Guideline on Agent Banking 2013	**Aggregate data** **Monthly—**by province—number and value of transactions, by type of transaction (deposits, withdrawals, loan disbursement, cash loan repayment, bill payment, payment of retirement and social benefits, payment of salaries, fund transfers, account balance enquiries, mini statement inquiries, collection of loan application forms, collection of account opening application forms, collection of credit and debit card application forms, collection of debit and credit cards, other). **Monthly**—all incidences of fraud, theft, or robbery, by nature, name of agent affected, location of agent affected, number of incidences, amount involved, data of occurrence, steps taken. **Monthly**—customer complaints and remedial actions, by nature of complaint, complainant (name and contact information), name of agent complained against, physical location of agent, date of occurrence, remedial actions. **Individual agents** **Annual**—name of each agent, postal and physical address, including GPS coordinate, date of opening, commercial activity and services offered.	Nonbanks are payment service providers operating through agents and other channels. **Aggregate** **Monthly**—number of agent outlets, with detailed geographical distribution, and (related to all channels, not only agents): volume and value of transactions, geographical details of incidences of frauds, material service interruption and major security breaches and security measures put in place to prevent major service interruptions, geographical details of consumer complaints and resolving mechanisms.
Mexico National Banking and Securities Commission (Operational and Technology Risk Department) Main regulation: Credit Institutions Law	**Individual agents** **Monthly—**details on opening and closure of agent network managers, agents, and individual agent outlets, by locality (break down of municipality). **Monthly—**consumer complaints (including those against agents), detailed information on losses, data security breaches, through electronic channels.	Nonbanks are not allowed to use agents.
Pakistan State Bank of Pakistan (Banking Policy and Regulation Department) Main regulation: Branchless Banking Regulation	**Aggregate** **Quarterly**: financial data (value and volume of transactions by type, number of agent outlets) related to branchless banking initiatives, including agents. **Individual** **Monthly:** customer complaints of fraud and forgery incidents and actions taken. **Immediately as incidents occurs**: fraud instances involving agents. Additionally: AgentChex will require the information listed in Section 7.	Nonbanks are not allowed to use agents.
Peru Banking Superintendence Main regulation: Resolution 6285/2013	**Aggregate** **Monthly**—Agent numbers by municipality, volume, and value of transactions, by type.	Nonbanks are e-money issuers. The reporting requirements are the same.

Philippines Central Bank of Philippines Circular 471/2005	Banks are allowed to use agents only for serving e-money accounts.	Nonbanks are licensed as e-money issuers. There is no regular reporting required from agents, but this might change in the future.
Tanzania Bank of Tanzania Main regulation: Guidelines on Agent Banking 2013	**Aggregate** **Monthly**: value and volume of agent transactions, fraud involving agents.	Nonbanks are mobile financial service providers. **Aggregate** **Monthly**—agent's mobile money balance, number of agents, and not specific to agents (although agents are the main channel for mobile money): (*a*) number and value of transactions; (*b*) suspicious transactions; (*c*) transactional limits; (*d*) number and nature of complaints and complaints resolved; (*e*) number, nature, and value of fraud; (*f*) applicable fees; (*g*) system uptime.
Uganda Bank of Uganda Main regulation: Mobile Money Guidelines 2013	Banks are not allowed to use agents.	Nonbanks are mobile money service providers. **Aggregate** **Monthly**—agent's mobile money balance, number of agents, and not specific to agents (although agents are the main channel for mobile money): (*a*) number and value of transactions; (*b*) suspicious transactions; (*c*) transactional limits; (*d*) number and nature of complaints and complaints resolved; (*e*) number, nature, and value of frauds; (*f*) applicable fees; (*g*) system uptime.

Box A-1. Examples of documents and information reviewed during offsite review

- Model agent agreement, model agent network manager, or super-agent contracts
- Specific actual agreements
- List of current agents or aggregate numbers, indicating the type of agent
- Agent operational procedures manuals
- Codes of conduct related to agent operations
- Advertising and marketing materials related to services delivered through agents
- Signage used at agent points
- Internal and external audit reports related to distribution channels or agent networks
- Business plan for channels or agent networks
- Operational manual related to specific products delivered through agents
- Agent training policy and documents proving training events
- Access rules to the systems used to manage agent operations
- Management reports on the agent business
- Board minutes related to channels strategy or agent networks, or major products delivered through agents
- Internal complaints handling reports
- Agent fee schedule
- Service-level agreement for cash handling/transportation services
- Agent selection policies and criteria
- Criteria used for classifying agents according to the provider's internal risk rating
- Criteria and implementation policies and procedures for setting and monitoring agent transaction limits
- Identification, qualification, roles and responsibilities of staff and third parties involved in agent selection, hiring, monitoring, support, and dismissal
- Agreements with other financial service providers, in case of alliances or partnerships

Annex 2. Glossary

Agent	An individual or business contracted by the provider (a bank or nonbank) to process transactions for users, in particular cash in (i.e., converting cash into electronically stored value), and cash out (transforming stored value back into cash), but also other services such as checking the identity of new customers or facilitating loan applications (in the case of bank agents).
Bank	A regulated deposit-taking institution including, depending on the country, a commercial bank, finance company, financial cooperatives, and regulated microfinance institution.
Electronic money (e-money)	Monetary value represented by a claim on the issuer that is stored on an electronic device and issued upon receipt of funds and accepted as a means of payment by undertakings other than the issuer.
I-SIP	The key objectives of a financial regulator, viz. inclusion, stability, integrity, and protection.
Mobile banking	Customers accessing a bank account via a mobile phone and being able to initiate transactions on the phone.
Mobile money	A service in which the mobile phone is used to access financial services.
Nonbank	An institution that is not regulated and supervised as a bank or other deposit-taking financial institution.

Offsite supervision	Ongoing analysis, at market and institution level, of financial and also economic information (e.g., monitoring indicators on the I-SIP objectives and compliance with prudential limits such as capital adequacy and minimum liquidity ratios).
Regulations	The subset of regulation adopted by an executive body, such as a ministry or a central bank, including Decrees, Regulations, Resolutions, Circulars, Guidelines, etc.
Supervision	The assessment and enforcement of compliance by financial institutions with laws, regulations, or other rules intended to ensure that they operate in a safe and sound manner and that they hold capital and reserves sufficient to support the risks that arise in their business.
Supervisor	Authority in charge of supervising banks and nonbanks operating through agents. This is typically the banking supervisory authority, but at times also the payment supervisory authority as far as nonbank agents are concerned. Securities, insurance, and other such supervisors may find the information in this paper applicable to their work in so far as their supervision of banks and nonbanks operating through agents. However, they are not the paper's primary audience.
Note: This glossary draws on the CPMI Glossary and the MMU Glossary, but has been adapted for the purposes of this paper.	

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