Regulatory framework aplicable to digital entities. Authorization regimes.

International practice and lessons from AFI

ASBA

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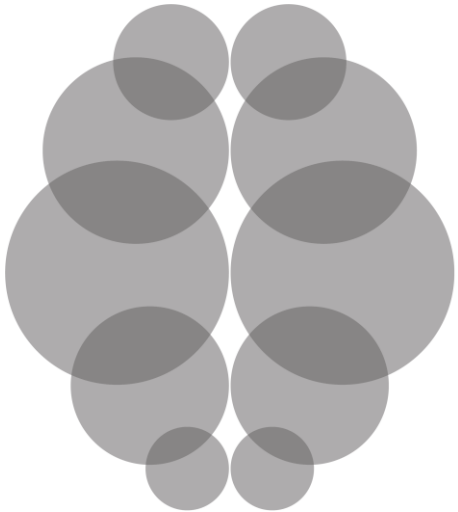

About AFI

The world's leading organization on financial inclusion policy and regulation.

AFI is a policy leadership alliance, owned and led by member central banks and financial regulators in developing countries, that works to ensure that everyone, regardless of their economic status or background, has access to and can benefit from financial services.

The goal: to support members to develop and implement successful financial inclusion policies that address country specific challenges.

1b	90	83	1,200
people financially included	member institutions	countries	policy and regulatory changes

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How digital banks are commonly understood in international practice?

- Observed across AFI member institution jurisdictions.
- Fully regulated financial institutions.
- Digital-first delivery model.
- Same core banking activities, different operating model.
- Subject to prudential supervision.
- Umbrella term covering internet-only banks, virtual banks, and challenger banks.

Why authorization matters for digital entities

Opportunities

- Strong potential to expand financial access and deepen inclusion.
- Lower cost structures.
- Ability to reach underserved and remote populations (areas that traditional banks cannot economically serve).

Challenges

- New risks, including operational, cybersecurity, and market integrity risks.
- Authorization as the first line of regulatory control.
- Balancing innovation and inclusion with financial stability and consumer protection.

Regulatory approaches observed internationally

1. Existing Framework

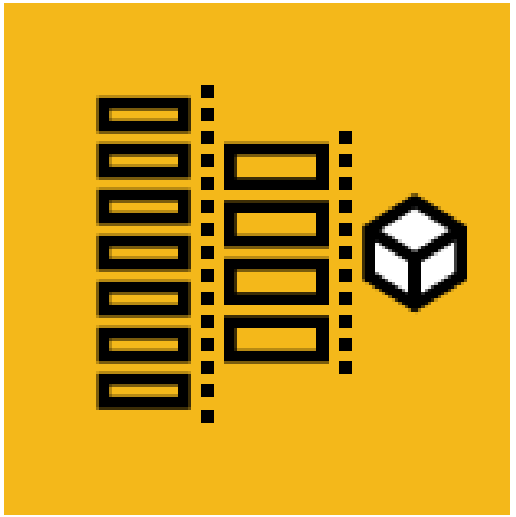
   Apply general banking regulations, treating digital banks like traditional institutions

2. Specialized License

   Create distinct digital banking licenses with proportionate, risk-based requirements

3. Hybrid / Phased Approach

   Enable gradual market entry through sandbox testing or progressive licensing



Choice depends on legal and market context.

Core elements assessed at authorization stage

Strategy & Business Plan

Clear focus on financial inclusion objectives, target market definition, and sustainable growth projections aligned with capital resources

Management & Governance

Demonstrated expertise in both financial services and technology operations, with independent board oversight and risk management functions

Operational Resilience

Robust IT infrastructure, cybersecurity protocols, business continuity planning, and third-party risk management for outsourced functions

Exit Planning

Clear resolution and customer protection mechanisms ensuring orderly wind-down or transfer of services if the bank fails

Progressive and phased authorization

- Gradual market entry
- Capital and activity limits in early stages
- Enhanced supervisory engagement
- Reduces risks while enabling innovation

Consumer Protection embedded in authorization

1-Transparency & Fair Conduct

Clear and accessible disclosure of fees, terms, and conditions in accessible language, with safeguards against misleading practices and hidden charges.

2- Data Protection & Cybersecurity

Robust data protection requirements, secure authentication, encryption standards, and transparent data usage practices compliant with privacy laws.

3- Complaint Handling & Redress

Accessible customer service channels and effective complaint handling and dispute resolution mechanisms.

4- Digital onboarding safeguards

Risk-based digital onboarding requirements, including reliable customer identification, fraud prevention measures, ans safeguards to prevent exclusion of low-risk users.

From authorization to supervision

Licensing is not the end point

Risk-Based Oversight

Supervisory intensity scaled to bank size, complexity, customer base, and technology dependencies

SupTech Integration

Leveraging supervisory technology and real-time data analytics for continuous monitoring where feasible

Cross-Authority Coordination

Collaboration with telecommunications, data protection, and consumer protection authorities on overlapping issues

Key regulatory principles

Effective digital banking regulation is grounded in principles that balance innovation and safety, while supporting sustainable and inclusive financial sector development.

Proportionality

Regulatory requirements scaled to an institution's size, risk profile, and systemic importance, avoiding unnecessary barriers to entry while safeguarding stability

Technology Neutrality

Regulation focused on activities and risks rather than specific technologies, ensuring frameworks remain adaptable as innovation evolves

Inclusiveness

Policy frameworks designed to expand access for underserved and unserved populations, embedding financial inclusion as a core regulatory objective

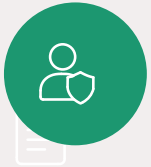
What this means for LAC Supervisors

Adaptive Frameworks

Regulatory frameworks must be adaptable, risk-aware, and proportionate enabling innovation while protecting consumers and financial stability

Licensing as Gateway

Well-designed licensing regimes are essential tools for ensuring safe market entry and sustainable long-term operations



Protection & Trust

Consumer protection and effective supervision are foundational to maintaining public trust and ensuring digital banking delivers

Cross-border coordination

Strengthen cooperation and information sharing among authorities to address cross-border digital entities risks and supervisory cooperation

DFS Regulation: why it matters for authorization

- Digital banks operate within broader DFS ecosystems
- Authorization must consider payments, onboarding, data, AML/CFT
- Insights from AFI DFS State of Practice report

Overview of the DFS regulatory framework

According to the AFI report, digital financial services regulation is structured around five interconnected pillars that represent the core areas where regulators are focusing their efforts:

Inclusive Innovation

Regulatory environments that support innovation and expand access

Digital Payments

Payment systems, e-money, and provider licensing

Digital Finance & Emerging Innovations

Open banking, digital credit, CBDCs, and crypto-assets

Inclusive Financial Integrity

Balancing AML/CFT requirements with financial inclusion

Consumer Protection & Data Privacy

Safeguarding rights in digital environments

Inclusive integrity and digital onboarding

Tiered KYC approaches
Risk-based identification requirements scaled to account type and transaction limits

Simplified Due Diligence
Streamlined verification for low-risk, low-value accounts

Digital ID as an enabler & Remote Onboarding
Leveraging national digital identity systems for efficient onboarding.
Enable customer acquisition without physical presence

Risk-Based Onboarding
Customer acceptance tailored to actual risk profiles rather than blanket requirements

Main Messages:

- Financial integrity measures should be proportionate and risk-based, protecting the system without excluding vulnerable groups.
- Strong digital ID infrastructure enables faster adoption of digital financial services and accelerates financial inclusion outcomes.

Cross-cutting lessons from DFS regulation

Across jurisdictions, common regulatory lessons emerge that are relevant for policymakers shaping digital financial services frameworks.

Trust as a foundation
Public trust is essential for the adoption and sustained use of DFS

Strong consumer protection
Clear consumer protection frameworks are critical to prevent harm and strengthen confidence id DFS

Coordination across authorities
Effective DFS regulation requires coordination across financial, telecom and data protection authorities

Capacity Building
Invest in supervisor skills, tools, and technological understanding

SupTech & RegTech
Leverage technology for more efficient and effective supervision

What international practice shows

01

Digital Payments Lead

Digital payment systems are the most mature and comprehensively regulated segment of DFS

02

Progressive licensing

Regulatory sandboxes, innovation hubs, and other phased licensing approaches are increasingly adopted across jurisdictions

03

Emerging Tech Lags

Newer innovations, such as decentralized finance and digital assets remain less consistently regulated across jurisdictions

04

Consumer Focus Grows

Consumer protection is increasingly recognized as a core pillar of sustainable digital finance ecosystems

05

Dual Objectives

Financial inclusion and financial integrity objectives must be aligned and mutually reinforcing

Why this discussion matters for LAC

These findings are particularly relevant for Latin America and the Caribbean, where the rapid expansion of digital financial services present both significant opportunities and shared regulatory challenges.

- Rapid growth of digital entities and digital financial services
- Shared regulatory challenges across jurisdictions
- Opportunity for regional convergence
- Peer learning and knowledge exchange adds value

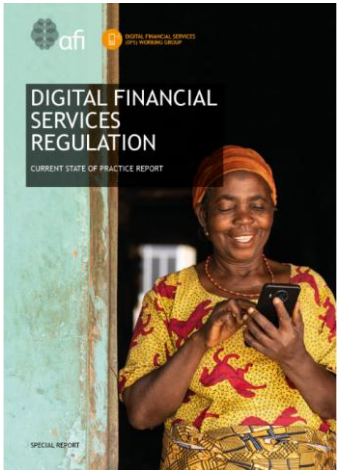
The region has a unique opportunity to advance regulatory convergence, reduce fragmentation and facilitate regional digital finance integration.

Key takeaways

- **Proportionate regulation**
  Clear, risk-based regulatory frameworks tailored to local contexts are essential.
- **Progressive authorization**
  Technology-neutral and activity-based licensing supports safe and gradual market entry.
- **Ecosystem building - Payments as foundation**
  Payments underpin digital ecosystems; broader DFS require layered regulation.
- **Consumer protection & trust**
  Consumer protection, data privacy, and cybersecurity frameworks are fundamental, not optional.
- **Supervisor Capacity**
  Effective oversight requires new capabilities including SupTech, data analytics, and cross-border cooperation.

AFI's Publications

https://www.afi-global.org/publications/policy-framework-on-the-regulation-licensing-and-supervision-of-digital-banks/



Digital Financial Services Regulation: Current State of Practice Report - Alliance for Financial Inclusion

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