



# Regulatory Approaches To Microfinance

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# Requirements for banking activities in Greece

2

- The activity of deposit taking or accepting other repayable funds from the public is reserved to credit institutions (EU law: CRD4).



- The activity of granting loans or other credits is subject to prior authorization by the Bank of Greece, unless a Law provides for specific terms and provisions (national prohibition).



# Waiver

3

Prior authorization requirements do not apply to granting of loans or other credits:

- between firms belonging to the same group (as a parent or a subsidiary company) or
- for the purchase of goods or services provided by the firm that grants the loan or the credit (commercial credit).



# Financial institutions supervised by the BoG

4

In that context, the granting of loans and any form of credit in Greece is, at the time, permitted only to authorized:

- credit institutions,
- consumer credit companies,
- leasing companies,
- factoring companies,
- ETEAN SA: a specialized financial institution established by Law (mainly providing guarantees),
- credit servicing firms (only for refinancing outstanding debt),
- payment institutions (only as an ancillary service).

In all cases the general terms for licensing are set by relevant laws that also empower the Bank of Greece with supervisory authority and sanctioning powers.

# Main regulatory requirements for supervised financial institutions

5

- Fitness and probity for members of the board, senior management and persons in charge of critical functions.
- Internal governance, adequate internal control systems and policies.
- Minimum capital requirements.
- Minimum solvency ratio.
- Adequate liquidity.

# “Microfinance” in Greece

6

- No legal definition.
- No specific regulatory provisions for it.
- Normally, private banks provide microfinance lending to “bankable” borrowers, according to specific creditworthiness standards (capability to repay).
- The entrance of new microfinance actors would require the establishment of a new legal framework.



# Need for more funding options

7

As banks remain weighed down by bad loans and need to raise additional capital in Greece like in several other countries, small – and - medium enterprises - which account for the bulk of employment in Europe - face difficulty in getting credit.

**Generally, financially constrained firms tend to turn to non-bank financing.**



# Design an appropriate regulatory framework (a)

8

Is the need for prudential supervision well justified?



↪ We need to strike an appropriate balance between:

- ✓ ensuring regulatory protections for borrowers (conduct-of-business rules) and
- ✓ facilitating the flow of alternative funding especially to SMEs while
- ✓ avoiding irresponsible practices that might drive to over-indebtedness and
- ✓ ensuring a level playing field according to the principle: “Same business, same risks, same rules”.

# Design an appropriate regulatory framework (b)

9

## Issues to be considered:

- The business model of the microfinance institution (MFI):
  - Lending/Equity financing
- Sources of funding:
  - Donations/ banking financing/  
public (EU/national) programs
- The target group of clients:
  - Business microcredit/Personal microcredit
- Interaction with banking system:
  - Competitor/partner
- The potential risks to market participants and risk drivers...



# Design an appropriate regulatory framework (c)

10

... and especially:

- Counterparty (credit) risk
- Risk of fraud
- Lack of transparency / misleading information
- Legal risk
- Liquidity risk
- Operational risk
- Money laundering

# Design an appropriate regulatory framework (d)

11



- **Potential regulatory rules**
  - *public registry*
  - *fitness and probity of qualifying shareholders and persons in key roles/functions in the company*
  - *anti-money laundering written policy and procedures*
  - *procedures ensuring compliance with conduct-of-business/consumer protection rules*
  - *adequate internal control policies, IT systems and procedures for diversification, identification and mitigation of relevant credit/operational risk*
  - *arrears and complaints handling policies and procedures*
- **Need to define the competent authority/-ies to monitor compliance (ex-ante monitoring vs ex-post sanctioning)**

# Closing remarks

12



- Need for encouraging innovative financing tools.
- Potential rules must be well designed.
- Dialogue and sharing of experience could be advantageous to all sides.



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*Thank you for your attention!*