2024 Global Regulatory Update

For Credit Unions and Financial Cooperatives

Financial Inclusion Through Equitable Innovation

World Council of Credit Unions International Advocacy

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Introduction

The regulatory environment significantly impacts a credit union's ability to advance its mission of people helping people, but changing requirements or guidance can often go unnoticed. Properly tailored and reasonable regulations can create a safe and fair playing field, allowing credit unions to thrive in reaching underserved communities. While an overly burdensome regulatory environment solely designed for large international banks can stifle growth, overrun resources and prevent a credit union from serving its community. To shine a light on the international regulatory environment as it's evolving, the World Council of Credit Unions (WOCCU) provides an annual regulatory update for credit unions across the globe. The 2024 Edition of WOCCU's Global Regulatory Update is intended to give credit unions an understanding of the current international regulatory environment and provide context for what is to come this year.

2024 will be a year of digital innovation while striving for financial inclusion. WOCCU continues to advocate that who is providing the service is just as important as how the services are provided when considering new regulatory requirements. If regulations are written only for the large international banks as innovation and new technologies evolve, community-based organizations will be excluded from key aspects of the financial services market. Likewise, there is danger with insufficient regulations allowing profit-driven entities to evade consumer protection and other safeguards. Unreasonable regulations limit credit unions and other community based financial cooperatives, which in turn limits access to dignified, responsible and reliable financial services to those who need it most.

In many recent cases, international standard setters have agreed. They are including guidance on proportionality and directing national-level jurisdictions to adapt international standards for smaller community-based service providers. Developing new methods for instant payments, testing central bank digital currencies, reporting environmental impact, preventing cyberattacks or evaluating digital IDs will all involve some form of technological innovation. However, the goal is not just to innovate but to do so with the purpose of expanding access to financial services, something credit unions are poised to support.

Proportionality is mentioned throughout this report on a range of diverse regulatory topics. It means properly adjusting a regulation to match the situation. Proportionality requires recognizing the difference in the cooperative model, the scope and breadth of the service provided, differences amongst communities receiving services and relative risks to the financial services market. Regulations offer an important balance of safety and soundness and the ability to serve individuals with differing circumstances and needs. If only large providers are offering digital services, it will exclude access for communities that need it the most. Credit unions globally are the most capable in the financial services industry of delivering products and services to underserved communities and ensuring financial inclusion during a time of innovation and change. WOCCU will continue to advocate in front of the international standard setters for appropriately tailored regulations to ensure credit unions are considered and included in a developing digital regulatory environment.

Digitization and Financial Inclusion

In 2024 the road to financial inclusion runs through digital innovation. Brazil takes over the Group of Twenty (G20) presidency with priorities focused on climate change and the fight against economic inequality. Technological innovation, through fair and sustainable development, is at the forefront of the G20's plan to accomplish its priorities.

The G20 is the main forum for international economic cooperation. It consists of 19 countries, the European Union and the African Union. It plays an important role in shaping global frameworks and governance on major international economic, social and political issues. Leaders of the world come together with their respective finance ministers and central banks to take policy positions on global issues. Where there is consensus among the countries, they will reflect their positions in the Leaders' Declaration, which gives direction to many of the international standard setting bodies, such as the Basel Committee on Banking Supervision, the Financial Action Task Force, the Financial Stability Board and others.

Several G20 tracks will meet throughout the year, culminating in the G20 summit in November. In the initial meetings of the G20 Finance Track, Roberto Campos Neto, President of the Banco Central do Brasil, presented the bank's strategic agenda related to the group's presidency. It included discussions on Pix (the Brazilian instant payment system), the Open Finance initiative, actions to modernize foreign exchange legislation and the development of Drex, the Brazilian digital currency. Campos Neto credited Pix, along with broader access of digital payments, with the financial inclusion of millions of Brazilians. The task force's discussion also included cross-border payments, DeFi, asset tokenization and artificial intelligence as key elements on the Finance Track Roadmap.

Within the Finance Track is the Global Partnership for Financial Inclusion (GPFI). It is the main implementing mechanism for the G20 Financial Inclusion Action Plan. The plan focuses on advancing financial inclusion globally by increasing the quality of access to, as well as the use of, sustainable formal financial services. GFPI's current action plan will run for three years, from 2024 to 2026. The plan prioritizes digital financial inclusion by promoting the deployment of secure and responsible digitally-enabled financial services and products. The goal is to provide financially excluded populations with formal financial services suited to their needs, affordably and responsibly delivered in a sustainable manner. The plan also prioritizes micro-, small- and medium-sized enterprises (MSMEs) to support the advancement of the global economy, particularly in developing countries through innovative methods (including digital infrastructure).

Emerging digital technologies are expected to play a large role in reaching sustainability and financial inclusion goals. However, some emerging areas have been difficult for world leaders and regulators to agree on common standards moving forward. Artificial intelligence is expected to be discussed throughout 2024, as little progress was made on global commitments regarding safeguards in the previous year. World leaders have supported language emphasizing a human-centric approach and responsible development but have yet to reach a consensus on the details.

The Bottom Line:

As digital growth continues, credit unions will need to closely identify the digital needs of its members, the use of digital platforms, and other methods of electronically accessing and delivering services. A key aspect for credit unions advancing their financial inclusion mission in the future will be their use of technology. The G20 has noted the importance of increased access to digital financial services. However, regulations lag in many areas of digital development. The delay in regulations keeping up with new technology makes it challenging for financial institutions to properly estimate the compliance resources needed to maintain a new digital method and adjust as regulations change. It also heightens the risk of consumer manipulation and exclusion from the financial marketplace. This makes it even more important that credit unions, who are mission-driven to protect their members, are involved in the delivery of digitally enabled financial services.

Key Document:

GFPI Current Action Plan 2024-2026

Climate Change and Sustainable Finance

Credit unions are integral participants in the fight against climate change. Access to financial services focused on sustainability is vital, especially in underserved communities often hardest hit by the effects of climate change. Credit unions are already playing a role in helping local communities address climate issues through their products and services such as financing solar panels, green mortgages, EV car loans and many others. Credit unions have a massive opportunity to support their communities' efforts to meet international standards like the United Nation's Paris Agreement reduction in emission standards. However, documenting these efforts for regulators and ensuring emerging reporting requirements are appropriately tailored for the cooperative model will be a significant challenge that must not be underestimated in terms of time and resources needed.

Climate-related regulations are developing to include disclosures related to the impact an organization's work has on the environment and the financial risks climate change poses to its financial stability. New international standards related to climate change were issued in 2023. Following advocacy efforts on behalf of credit unions led by WOCCU, proportionality was included in many of the initial climate-related discussions, guidance documents and standards. The G20 supported a proportional approach to climate-related disclosures issued by the International Sustainability Standards Board, IFRS S1 and IFRS S2 (sustainability disclosures for capital markets worldwide). The Standards will help to improve trust and confidence in company disclosures about its sustainability efforts to inform investment decisions. The standards are designed to create common language for disclosing the effect of climate-related risks and opportunities on a company's prospects. While these standards are focused on specific companies, they will likely be the basis for future disclosures in the financial services industry.

Many countries are already working to adopt climate-related standards at the national level. The European Union has established a taxonomy and a corporate reporting sustainability directive for sustainable activities as the foundation for its finance framework and market transparency tool. As national governments look to the guidance established by international regulatory bodies, acknowledging the proportional design is critical. Recognizing the requirements will need to be adapted rather than applying the most stringent standards, intended for large international banks, is paramount to the long-term sustainability of the cooperative model.

For climate disclosures, the mechanisms included to address proportional regulations are important as climate impact information can be highly technical and difficult to obtain. WOCCU continues to advocate for national-level jurisdictions to include the use of reasonable and supportable information that is available without undue cost or effort when establishing disclosure criteria. Consideration of an entity's business model, scope of services, capabilities and resources when establishing the level of detail needed within disclosures is also crucial. It is important that regulatory requirements specific to credit unions in this area minimize the cost and expenditures necessary so their resources can remain focused on communities often not served by large banks.

The Bottom Line:

Credit unions are needed on the financial front lines of climate change. The opportunity to create positive change, reach the most impacted communities and strengthen the business model is paramount for a sustainable future. With that opportunity, how climate change prevention efforts are documented for regulators and how financial institutions model and set aside capital for the effects of climate change is a regulatory burden that must be tailored to the not-for-profit structure of credit unions. The unique mission of credit unions positions our industry to be at the forefront of ensuring members, who may otherwise be left without resources, have access to needed financial products. However, new regulatory standards are in development for financial institutions to prepare for the financial risks of climate change and to measure and disclose their own impact on the environment. While initial international standards have embraced a proportional application, ensuring national-level standards follow that same path will be critical. Developments on sustainable finance and combating climate change will present both a great opportunity and a significant regulatory challenge for credit unions in the future.

Key Documents:

BIS Disclosure of climate-related financial risks

FSB Annual progress report on climate-related disclosures

Cybersecurity/Operational Resilience

Cyber incidents attacking financial institutions are becoming more sophisticated and quickly rising in number. Many jurisdictions have developed their own systems for financial institutions to report cyber incidents. However, the cross-border implications and the impact on the global stability of financial institutions has spurred international standard setters to address the situation. Following direction from the G20, the Financial Stability Board (FSB) developed a comprehensive approach to achieve greater convergence in cyber incident reporting. The report outlines a common format for incident reporting, common data requirements and terminology, and ways to promote timely reporting under similar reporting triggers. Financial authorities can choose to adopt these recommendations as appropriate for their legal and regulatory framework. Further adoption and development of national-level cyber security requirements as well as incident reporting for better global threat prevention is expected throughout this coming year.

Building on the European Union's previous work of the Digital Operational Resilience Act (DORA), which included information and communication technology risks related to incident reporting, third-party risk is also a focus of the coming year. International standard setters have raised concerns regarding the increasing reliance of third-party service providers and the differences across jurisdictions to manage the overall risks. In response, the FSB created a risk-based toolkit for jurisdictions to apply to their specific circumstances and regulatory framework. It assists financial institutions in identifying critical third-party services and how to manage potential risks. It also provides tools for supervising how financial institutions manage third-party risks and potential systemic risks.

The Bottom Line:

Critically important, both the cyber incident report and the third-party vendor toolkit contain extensive guidance on proportionality. The third-party vendor toolkit clearly outlines when and to what extent the guidance is appropriate to adopt and use. Some of the tools are only appropriate for large cross-border financial institutions while other parts of the toolkit can benefit locally based institutions. Credit unions should carefully monitor their cybersecurity infrastructure and ability to quickly report an incident, as well as their use and reliance on third-party vendors. Managing those risks will be more closely scrutinized in the future. However, it is important to be aware of the need for national-level regulators to follow the proportionality guidance from international standard setters and not apply rules only intended for the largest international institutions. The ability for credit unions to devote resources to serving their community is critical to the progress of financial inclusion. Appropriately tailoring these regulations to ensure safe practices while not taking resources away for unnecessary regulations is directly tied to the work credit unions are able to do in their local communities.

Key Documents

FSB Recommendations to Achieve Greater Convergence in Cyber Incident Reporting

Enhancing Third-Party Risk Management and Oversight Toolkit

Payments

The year ahead is poised to bring further developments related to payments. Closely tied to digitization, international governing bodies have focused on faster payments and broader access to payment systems. Global regulators recently issued reports and guidance to advance payment infrastructure targets set for 2027. The intent is to achieve cheaper, faster, more transparent and more accessible cross-border payments. Spearheaded by the G20 roadmap and priorities, the FSB, among other bodies, continue legal and regulatory preparations for meeting their benchmarks. Closely tied to cross-border payment goals set by the G20, Europe continues to lead the way on instant payments. The European Commission recently reached a provisional agreement that could mandate the availability of instant payments at no additional cost among all EU countries. The agreement would allow a transition period for implementation but continues to push towards a cohesive instant euro payment system.

While international collaboration is focused on cross-border and instant payments, central banks continue to explore digital currencies. Central bank digital currencies could take the form of a digital bank note used by consumers to pay retail shops or between financial institutions to settle trades. Central banks are most concerned with safeguarding public trust in money, maintaining price stability and ensuring resilient payment systems. Many central banks globally are testing projects to determine viability and best practices. For example, Project Mariana is a joint exploration effort of the BIS Innovation Hub, the Bank of France, the Monetary Authority of Singapore and the Swiss National Bank. It is testing a cross-border exchange of hypothetical central bank digital currencies examining the potential for financial institutions to settle foreign exchange trades in financial markets. The benefits of a successful central bank backed digital currency would likely support the G20s other priorities, such as making cross-border payments faster and cheaper while increasing financial inclusion.

The Bottom Line:

The payments landscape is changing quickly and will be disrupted for financial institutions, including credit unions. As it teeters on the edge of significant payment system developments, access for credit unions to these new systems is crucial to prevent the exclusion of underserved communities. Accessible digital platforms, appropriately tailored instant payment requirements and the use of emerging technology will need to be considered through the lens of the cooperative model. As innovation continues, it is important that the communities credit unions serve are considered and the cooperative model is accounted for in future regulations requiring faster payments. While cross-border payment systems are valuable to the entire financial system, ensuring the smallest financial institutions have access will be the only way to guarantee underserved markets are not excluded from future developments, and have access to reliable and trusted payment systems.

Key Documents:

G20 Roadmap for Enhancing Cross-border Payments: Priority actions for achieving the G20 targets

Report on International Data Standards Relevant to Cross-border payments

BIS (Innovation Hub) Digital Currency Projects

AML/CFT

Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) continues to be a focus for international standards setters such as the G20 and the Financial Action Task Force (FATF), especially in the areas of digital identification, reporting beneficial ownership information and de-risking. Emerging areas tied to technology developments are in focus with an effort to ensure AML/CFT standards are properly applied to market developments, such as virtual assets, Decentralized Finance, Peer-to-Peer transactions and stablecoins. As individual financial institutions tackle the regulatory requirements, national governments are looking at the challenges of preventing financial crimes and making regulatory adjustments to prevent new methods of laundering money. A newly proposed AML/CFT agency in the European Union is just one example of significant changes at a regional level.

Due to recent conflicts and rising refugee population, digital identification and the use of alternative forms of identification continues to be at the forefront of financial inclusion discussions. FATF's 2020 digital identity guidance is still under review by many national regulators as the digital environment evolves. While AML/CFT continues to be one of the most significant regulatory burdens for credit unions, the possibility of digital advancements—opening new pathways for credit unions to reach and serve new members—should not be overlooked. Flexibility at the international level must also be considered in individual jurisdictions to account for the realities of underserved communities.

Identifying and reporting beneficial owners of legal entity accounts is another key developing area that credit unions must watch at a national level. Significant advocacy efforts continue to reiterate the importance of a reliable registry that credit unions can use to meet any reporting obligations. Recent international guidance from FATF on beneficial owners contained significant language directing national-level regulators to establish registries for trusts and other legal entity instruments. It also supported a risk-based approach to determining the scope and breadth of reporting requirements. The guidance documents that FATF continues to develop will hopefully allow for regulatory relief and proportional requirements at a national level for credit unions and their obligations to identify beneficial owners.

The complexity of how regulations impact financial inclusion can be seen through a growing and harmful trend of de-risking, which occurs when financial institutions restrict access to their services indiscriminately based on broad categories rather than evaluating the risk of an individual. This often impacts low- and middle-income segments of the population from accessing the financial system and preventing the transfer of humanitarian aid and disaster relief. Many times, de-risking occurs because of the perceived challenges of complying with regulations or is based on the lack of profitability due to the cost of implementing AML/CFT compliance measures. De-risking can also occur at the institutional level where smaller financial institutions are declined access to correspondent banking services, thus limiting the services they can provide to local communities. International standard setters and national-level regulators continue to evaluate ways to balance the need for strong AML/CFT practices along with individualized risk evaluation to ensure financial inclusion. Recently, the U.S. Department of the Treasury released a De-Risking Strategy Report to more clearly establish consistent regulatory expectations to avoid de-risking.

Bottom Line:

Financial inclusion is only possible if credit unions have access to correspondent services and proportional regulations commensurate with the risk and scope of the financial institution. AML/CFT is one of the most critical regulatory areas to balance the need for preventing financial crimes with the ability for credit unions to support underserved communities. Many communities have situations not accounted for by mainstream national regulations and require additional flexibility. Digital developments may offer credit unions an effective way to reach new members and WOCCU is encouraged by FATF’s guidance directing appropriately tailored regulations and resources for credit unions.

Key Documents:

FATF Guidance on Digital Ids

U.S. Treasury 2023 De-Risking Strategy

Conclusion

The regulatory landscape continues to change as digital innovation tests new methods of providing financial services. The cooperative model, as it is not focused on profits but rather dignified reliable access to financial services for everyone, is needed during this digital inflection point. It is critical that emerging technologies are equitable in their development to account for and include underserved communities. Credit unions fill an important gap to bridge digital advancement with the inclusion of local communities. Building on the advocacy work to ensure proportionality is included in international standards and guidance, it will be critical that message is shared broadly as national-level implementation increases. Cyber threats and complex digitization methods will require even more detailed and resource heavy regulations. Those must be appropriately tailored for the size, risk-level and cooperative model of credit unions to ensure access and usability. WOCCU will continue to share this message with international standards setters and support credit unions doing the same in their home jurisdictions.

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