

2022 FinCoNet International Seminar

23.11.2022

OPENING REMARKS

Maria Lúcia Leitão,

FinCoNet Chair

Bom dia a todas e a todos

Caros colegas,

Dear colleagues,

Dear friends,

- I am very happy to see you all here in the Banco de Portugal for a topical discussion on reviewing the fundamentals of market conduct supervision and the challenges market conduct supervisors face ahead.
- Market conduct supervision was propelled by the global financial crisis that struck the markets in 2007. This crisis made us realise that the relationship between banking customers and financial firms is asymmetric and that uninformed financial decisions may also risk the stability of the financial system. Thus, market conduct supervision is essential to ensure consumer protection and trust in financial markets, as well as the stability of the financial system.
- During these last three years, we have been living in a “permacrisis”, experiencing an extended period of instability and insecurity, resulting from a series of unexpected and catastrophic events, which have been generating constraints that have deeply hindered households’ financial resilience. In this

context, the role of market conduct supervisors has been, once again, strongly acknowledged.

- Market conduct supervisors saw their work programmes massively impacted to address COVID-19 driven issues. Consumers of financial services received special attention from public authorities and we, market conduct supervisory authorities, were called upon to contribute to the deepening of the applicable regulatory framework and to oversee its implementation by financial institutions.
- Growing access to digital financial products and services, fostered by the COVID-19 pandemic, brought new risks for consumers. Now, more than ever before, supervisors should keep vigilant and adjust their supervisory approaches to mitigate cybersecurity risks, scams, and fraud.
- The digitalisation of financial services also promotes the appearance of new players in the market, often unexpected and sometimes disruptive players, bringing innovative products and different business models. These new players and products put pressure on the supervisory perimeter and on the existing regulatory and supervisory framework. As discussed yesterday, during our workshop on “buy-now-pay later” products, sometimes those innovative products challenge the traditional purchasing culture putting additional pressure to our supervisory approaches.
- Nowadays, alongside the lingering effects of the pandemic, consumers are facing the impact of high inflation and increasing interest rates. As a result of the sharp increase in inflation, central banks have been seeking to lower it

back to target, readjusting monetary policy and reversing the low level of interest rates. This context is squeezing consumers' financial resilience, exposing the most vulnerable.

- Therefore, I would dare to restate that our role has become more important than ever before.
- In such a challenging and always evolving context, market conduct supervisors often feel themselves as racing against time. We need to closely monitor the market to anticipate risks and be proactive and agile in the prevention of those risks, especially focusing on consumers who are more vulnerable.
- SupTech tools play an important role in facilitating monitoring and timely identification of those risks. Market conduct supervisors all around the world are relying more and more on these new oversight tools, also taking advantage of technological innovation brought by AI to more efficiently and quickly handle complaints, answer enquiries from customers and monitor the promotion financial products through social media, to mention only some examples.
- The pandemic and the most recent developments show us the fundamental role of a supervisor of our days that goes beyond supervision in the strict sense, encompassing the support of the design of policies that safeguard consumers, the economy, and the operators themselves, while seeking to align expectations and good practices in the market.

- The importance of having a comprehensive financial consumer framework, encompassing a specific mandate on market conduct supervision, as foreseen in the **G20/OECD High-Level Principles on Financial Consumer Protection** has become clearer.
- These principles were developed in response to the call from G20 Leaders to enhance financial consumer protection in the wake of the global financial crisis (2007-2008). They were approved back in 2011 but they remain more important than ever before. They represent extremely important standards that countries need to adopt to promote financial consumer protection encompassing regulation, supervision, and financial literacy.
- I am very proud to have been deeply engaged in their development. They establish important standards to build a conduct of business supervisory strategy.
- As you may know, these principles are being revised to incorporate recent developments, ensuring that they continue to reflect best practices and are forward-looking. The need to have robust financial consumer protection has certainly become strengthened. This is an important initiative that we strongly support.
- After highlighting the importance of a legal, regulatory and supervisory framework at national level, principle number 2 acknowledges the importance of establishing oversight bodies explicitly responsible for financial consumer protection, with the necessary authority to fulfil their mandates. These Oversight Bodies should have clear and objectively defined

responsibilities and appropriate governance; operational independence; accountability for their activities; adequate powers; resources and capabilities; a defined and transparent enforcement framework and clear and consistent regulatory processes. Cooperation with other financial services' oversight authorities and between authorities or departments in charge of sectoral issues should be promoted. International cooperation between oversight bodies should also be encouraged, while specific attention should be considered for consumer protection issues arising from international transactions and cross-border marketing and sales.

- The Banco de Portugal's banking conduct supervision mandate includes regulation, oversight, and enforcement powers. Its implementation started 15 years ago, with complaints handling. Nowadays it also includes the supervision of a comprehensive set of conduct requirements, also through on-site and off-site inspections, reporting obligations and systematic monitoring of the retail banking markets.
- The current context requires not only having market conduct supervision fundamentals in place, but also working on relevant topics, such as the prevention and management of arrears and the challenges brought about by new technological developments, new players, new business models and new forms of credit or credit-like products.
- In Portugal, a comprehensive framework concerning the prevention and management of arrears has been in place since 2013, and was reinforced in 2021, foreseeing measures to smooth the exit from credit moratoria.

- In terms of the digitalisation of retail banking products and services, the Banco de Portugal took on the challenge to ensure financial consumer protection irrespective of the channel or the provider. For the same risks, institutions should obey the same rules. For new and complex risks, a comprehensive framework of rules must be defined.
- Cooperation with other market conduct supervisors and international organisations, sharing experiences and best practices, has been a key aspect to building up the Banco de Portugal's Banking Conduct Supervision.
- FinCoNet has played a crucial role in this regard. Its purpose is to promote sound market conduct and strong consumer protection through efficient and effective financial market conduct supervision, thereby contributing to stability in financial services sectors around the world.
- FinConet's Programme of Work complements both the work on regulation, conducted by the G20-OECD Task Force on Financial Consumer Protection, and the work on financial inclusion and financial education, conducted by the OECD-INFE.
- FinCoNet is here to foster exchange of views and collaboration in banking conduct supervision topics.
- It is now time to hear our distinguished speakers.
- I wish you all a very interesting and fruitful Seminar!

- Thank you very much.