FinCoNet
INTERNATIONAL FINANCIAL CONSUMER PROTECTION ORGANISATION

Welcome

Dear FinCoNet Members,

I hope that you, your colleagues and your families are keeping well.

I am pleased to share with you this second 2021 edition of the FinCoNet newsletter, which has a new look incorporating the colour scheme of FinCoNet reports.

As you will see in the 'In Focus' section of this newsletter, our thoughts are now turning to the FinCoNet Annual General Meeting and International Seminar, which will be held virtually on 10-12 November 2021. As you know, while we had hoped to host the AGM in person this year in Lisbon, this will not be possible due to the ongoing uncertainty due to the pandemic. We will therefore hold the AGM virtually this year, and I look forward to seeing you all then.

I hope you will find this edition of the FinCoNet newsletter an interesting and enjoyable read!

Maria Lúcia Leitão
Chair, FinCoNet

In this issue

This second 2021 issue of the FinCoNet Newsletter includes:

New Zealand Council for Financial Regulators (CoFR) consumer vulnerability framework

- The New Zealand Council for Financial Regulators (CoFR) has published a consumer vulnerability framework which provides a common understanding of the characteristics of vulnerability among financial regulators and provides industry with a common reference point as they develop and review their own vulnerable customer policies and procedures.

New breach reporting obligation for Australian credit licensees

- Upcoming reforms to Australia's breach reporting regime clarify and strengthen the existing obligation on Australian Financial Services (AFS) licensees to self-report certain breaches of the law to ASIC and, for the first time, extend the obligation to credit licensees.

Bank of Russia's first behavioural survey for non-qualified investors' testing

- The Bank of Russia carried out the behavioural survey in order to try out test questions for non-qualified retail investors.

Findings of FCAC surveys to assess the financial impact of the pandemic

- FCAC has conducted two surveys intended to better understand and track the impacts of the COVID-19 pandemic on the financial situations of Canadians.

Peru's new regulatory framework for credit life insurance products

- On March 2021, Peru´s government enacted Law N° 31143 intended to protect consumers in the financial services industry from aggressive practices

World Bank Policy Research Paper 'Consumer Risks in Fintech: New Manifestations of Consumer Risks and Emerging Regulatory Approaches'

In Focus

FinCoNet Annual General Meeting 2021: Save the Date!

The FinCoNet Annual General Meeting 2021 will be held on 10-11 November 2021, followed by the FinCoNet International Seminar on 12 November 2021. Due to the ongoing uncertainty around travel and sanitary restrictions as a result of the COVID-19 pandemic, it has been decided that the AGM 2021 will be held as a virtual meeting via the Zoom platform. The Banco de Portugal will therefore defer hosting the AGM in Lisbon until 2022.

Please see the Save the Date flyer below, which has also been circulated to FinCoNet Members, Associates and Observers. Invitations and the draft agendas will be made available to FinCoNet Members and other interested parties shortly. We look forward receiving your registrations in due course.

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FinCoNet Annual General Meeting 2021 and FinCoNet International Seminar

SAVE THE DATE

Virtual meeting, via Zoom
10-12 November 2021

Further details, invitation and Agendas to follow in due course.

FinCoNet is an international organisation of supervisory authorities with responsibility for financial consumer protection.

New Zealand Council for Financial Regulators (CoFR) consumer vulnerability framework

Contributor: Tammy Peyper, New Zealand FMA

The New Zealand Council for Financial Regulators (CoFR) has published a consumer vulnerability framework. The framework provides a common understanding of the characteristics of vulnerability among financial regulators and provides industry with a common reference point as they develop and review their own vulnerable customer policies and procedures.

This work was done in follow up to the next steps identified in the FMA's Customer vulnerability – our expectations for providers. The FMA undertook extensive engagement with stakeholders which focussed on better understanding what contributed to the financial vulnerability landscape in New Zealand. Several key findings emerged, fundamental of which was the limited consistency around what are the characteristics of a vulnerable customer. The New Zealand financial regulatory landscape includes five regulators and as consumer vulnerability cuts across regulators it was agreed that this should be a CoFR initiative. Being a CoFR initiative would mean that all regulators would agree on common understanding conveyed in a single publication and would lay a uniform foundation for further work by the regulators.

The framework:

- Is non-binding and serves as a guideline only.
- Raises expectations that firms consult widely and ensure that they can respond to the evolving needs of their customers.
- Highlights the shift away from customer 'type' to customer 'experience'.
- Identifies potential risk factors.

A note about the Council for Financial Regulators (CoFR).

The Council of Financial Regulators (CoFR) contributes to maximizing New Zealand's sustainable economic well-being through responsive and coordinated financial system regulation.

Objectives

CoFR's main objectives are to:

- Develop a collective view on longer-term strategic priorities for the financial system;
- Identify and monitor important issues, risks and gaps in the financial system that may impinge upon achievement of member agencies' regulatory objectives;
- Agree with collaborative responses to issues that require cross-agency involvement and put in place appropriate mechanisms to deliver them.
- Membership

The members of CoFR are:

- Reserve Bank of New Zealand (RBNZ);
- Financial Markets Authority (FMA);
- Commerce Commission;
- Ministry of Business, Innovation and Employment (MBIE); and
- The Treasury

New breach reporting obligation for Australian credit licensees

Contributor: ASIC, Australia

Upcoming reforms to Australia's breach reporting regime clarify and strengthen the existing obligation on Australian Financial Services (AFS) licensees to self-report certain breaches of the law to ASIC and, for the first time, extend the obligation to credit licensees.

Licensees will not be required to report every instance of non-compliance, but a targeted set of 'reportable situations' defined under the law. The changes help provide greater certainty for industry participants and ensure that ASIC receives reports in a timely and consistent manner.

Set to commence on 1 October 2021, the reforms flow from the findings from the ASIC Enforcement Review Taskforce (appointed by the Government to review ASIC's enforcement regime) and the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Financial Services Royal Commission).

What must be reported

The types of 'reportable situations' that licensees must report to ASIC under the new reporting requirements include:

- significant breaches or likely significant breaches of 'core obligations[1]';
- investigations into whether there is a significant breach or likely breach of a 'core obligation' if the investigation continues for more than 30 days;
- conduct that constitutes gross negligence or serious fraud; and
- conduct of financial advisers and mortgage brokers who are representatives of other licensees in certain prescribed circumstances.

Background to the reform

The information provided in breach reports allows ASIC to detect significant non-compliance early and take action where appropriate, as well as identifying and addressing emerging trends of non-compliance in the industry.

In late 2017, the ASIC Enforcement Review Taskforce made several recommendations for strengthening and clarifying the breach reporting requirements for AFS licensees and recommended that a comparable breach reporting regime for credit licensees be introduced. In making the latter recommendation, the taskforce noted that the existing regime requiring credit licensees to lodge a compliance certificate on an annual basis was no substitute for the self-reporting obligation that AFS licensees are subject to.

In early 2019, the final report of the Financial Services Royal Commission recommended that:

[1] 'Core obligations' for credit licensees largely replicate the general conduct obligations under s47 of the *National Consumer Credit Protection Act 2009* which includes obligations such as engaging in credit activities efficiently, honestly and fairly, maintaining organisational competence and managing conflicts of interest.

- the recommendations of the ASIC Enforcement Review Taskforce relating to AFS licensees' and credit licensees' self-reporting should be carried into effect; and
- AFS licensees and credit licensees should be required, as a condition of their licence, to report 'serious compliance concerns' about individual financial advisers and mortgage brokers to ASIC basis.
- The Government has since passed legislation to give effect to the Financial Services Royal Commission recommendations from 1 October 2021.

ASIC's implementation of the reform

ASIC has prepared draft updated regulatory guidance to help licensees comply with the new breach reporting requirements. ASIC has sought public comment on the draft guidance and will publish final guidance before the reform commences.

ASIC expects a significant increase in the volume of reports received as a wider range of licensees will be required to report and a wider range of breaches will be subject to reporting.

As part of the reform, ASIC will also be required to publish data about breach reports annually on its website.

Bank of Russia's first behavioural survey for non-qualified investors' testing

Contributor: Bank of Russia

The Bank of Russia carried out the behavioural survey in order to try out test questions for non-qualified retail investors. The main objective was to find out how well individuals comprehend the specifics and inherent risks of complex financial products.

The questions were prepared by the self-regulatory organisations of brokers. Following the survey, the Bank of Russia determined further actions to enhance the tests, which will help improve the investors' protection in the financial market.

The behavioural survey was conducted within the annual competition 'The Best Retail Investor' held by the Moscow Exchange from 17 September to 17 December 2020. The regulator surveyed 429 individuals anonymously and voluntarily. Based on the analysis of the depth of the questions, the respondents' replies and financial performance over the two calendar months, as well as the correlation between these results and the level of knowledge demonstrated by respondents in the course of the testing, the Bank of Russia have drawn the following conclusions.

The questions of the medium level of complexity (requiring a single equation to solve a problem) proved to be most suitable for the test. They imply that individuals have basic practical skills. Simple (knowledge of basic definitions) and complex (estimate of prospects, forecasting, and addressing problems with account of existing circumstances) questions turned out to be less efficient. According to the results of the survey it has also been found out that more questions are needed to reliably determine an investor's knowledge level.

Findings of FCAC surveys to assess the financial impact of the pandemic

Contributor: Financial Consumer Agency of Canada (FCAC)

Over the past months, FCAC has conducted two surveys intended to better understand and track the impacts of the COVID-19 pandemic on the financial situations of Canadians. In particular, these surveys provided comprehensive insights on Canadians' finances, financial well-being, and access to and use of relief measures implemented by banks and other regulated entities (REs).

Target population

These surveys target the general Canadian population aged 18 and over. Where feasible, these surveys oversample disadvantaged populations, such as persons aged 18-34, persons living in lower income households, persons with high school education or less, more recent immigrants, and Indigenous persons. The key findings of the August 2020 to March 2021 survey period are presented below.

Results from the COVID-19 Financial Well-Being Survey

The COVID-19 Financial Well-Being Survey is a monthly survey designed to collect information about Canadians' day-to-day financial management and financial well-being in dealing with the pandemic. The questions in this survey are based on previous FCAC surveys, such as the 2019 Canadian Financial Capability Survey – allowing the FCAC to compare Canadians' financial state immediately prior to and during the pandemic.

The results reveal that the pandemic has significant financial impacts on Canadian households. Over 57% of households has been affected financially in at least one way – including reductions in regular paid hours (30%), increase difficulties finding a job (28%), temporary layoff (23%), and permanent job loss (16%). These financial impacts have negative implications for household employment, debt, and income. For example, the survey found that:

- 36% of households with existing debt experienced increases in debt
- 37% of households accessed savings to cope with the impacts of the pandemic
- 48% of households had an emergency fund that would cover 3 months of expenses, down from 64% in 2019
- 52% of households drew on at least one of the financial supports offered by the government

The survey also found that Canadians' perception of their subjective financial well-being has decreased during the pandemic. For example, 69% of Canadians believe their current credit record is good or very good, down from 76% in 2019. Additionally, there has been a rise in reports of fraud – with 37% of Canadians reportedly targeted for financial information through phishing or hacking during the pandemic, compared to 22% over a two-year period in 2019.

Despite these negative impacts, the survey found improvements in financial literacy among Canadian households:

- 58% of households reported using a budget, up from 49% in 2019
- 48% of households described themselves as financially knowledgeable, up from 40% in 2019

Overall, the survey found that the pandemic has negatively impacted Canadian households' financial health, despite having some positive implications for financial literacy and consumer education.

Survey on Canadians' Use of Bank Products / Services

The survey has collected information from Canadians regarding the use of bank products and services during the pandemic. There has been a noticeable trend in Canada toward digital payments, which has been accelerated since the onset of the pandemic. Data from COVID-19 Surveys: Bank Products and Service Survey indicates a significant increase in use of contactless payments in lieu of use of cheques and debit cards. Overall, 87% of Canadians listed credit or debit cards as their preferred method of payment. Canadians' increasing preference toward the usage of card and digital payments over cheques and cash are reflected in these additional indicators:

- Almost half of Canadians (49%) reported less frequent use of cheques compared to the year prior
- Digital payments are on the rise as Canadians increased the use of contactless payments by 53%
- There is an overall trend away from cash payments, with two-thirds of Canadians reporting less use of cash
- E-transfers have become significantly more utilized method of payment with 88% of Canadians use it as often or more frequently than the year prior

The survey also collected information regarding the financial assistance offered by banks to support Canadians while they were managing the impacts of the pandemic. According to the survey:

- 7% of Canadians received financial assistance from their bank
- 14% of Canadians contacted their bank about financial assistance
- Over half (55%) of Canadians reported receiving information regarding COVID-19 from their bank

The survey also found that some Canadians experienced difficulties access banking services. For example, 19% of respondents indicated that they have been impacted by bank closures due to the COVID-19 pandemic. On the other hand, Canadians opted into managing their finances online with 87% of respondents reporting online use, compared to 82% in 2019.

Overall, as the survey indicates, there has been a trend toward the use of digital payments and the use of online banking. This could have been influenced by the COVID-19 pandemic, as well as perceived convenience of use of digital payments.

Monitoring trends

Running a series of monthly surveys contributes more broadly toward FCAC's mandate of supervising REs as it can monitor trends over time while ensuring REs continue to comply with their legislative obligations, voluntary codes of conduct and public commitments. The COVID-19 surveys also provide on-going up-to-date monthly feedback to strengthen FCAC's ability to develop more targeted and timely marketing and communication materials, with the goal of helping Canadians navigate their financial situation through the pandemic. FCAC intends to conduct the COVID-19 Financial Well-Being Survey until at least December 2021 to monitor the financial impact of the pandemic on Canadians as the economy recovers. For updates on the findings, FCAC encourages users to visit the dashboard on COVID-19 surveys.

Peru´s New Regulatory Framework for Credit Life Insurance Products

Contributor: SBS, Peru

On March 2021, Peru´s government enacted Law N° 31143 intended to protect consumers in the financial services industry from aggressive practices through several regulatory provisions, setting caps on interest rates, additional fees for complementary services (i.e. commissions and expenses paid by consumers to financial entities), and commercialization of credit life insurance products. As part of these changes, the Superintendence of Banking, Insurance and Private Pension Funds (SBS) was given new powers to approve charges on additional fees. Also, this law set two specific provisions for life insurance products when required as a pre-condition for contracting financial products:

- Offer insurance with the option for reimbursement as an alternative to "plain vanilla" credit life insurance; and
- Complete elimination of the "endorsed policy evaluation" fee when a customer opts to contract life insurance policy directly from a third-party provider or insurance broker.

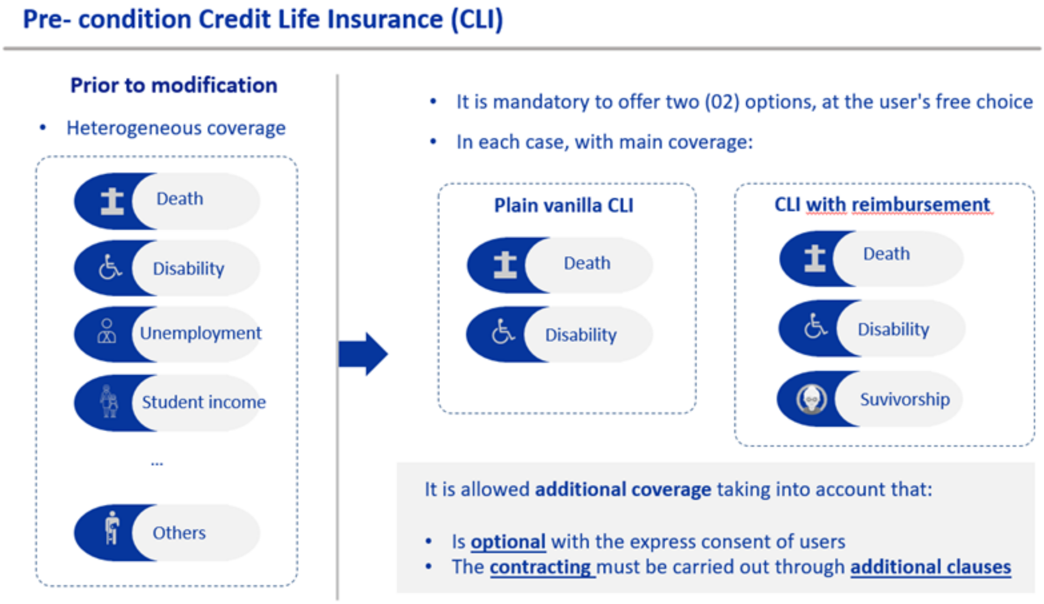
On the other hand, SBS´s most recent assessment (from a market conduct perspective) on these life insurance products identified the following opportunities in its design and implementation process:

- Insurance companies, in collaboration with financial entities, had designed credit life insurance products with additional and non-optional coverages, making this comparison very difficult for consumers to comprehend. In addition, some companies added the cost of optional coverage to the total amount of the credit line without providing the necessary information to the customer and in a clear and transparent way.
- Endorsing a life insurance policy as a substitute was not a real alternative for consumers, due to the current market barriers: (i) lack of knowledge of the procedure to endorse it and (ii) the high cost of the banking fee to process endorsement, being in some cases more expensive than the premium itself. This finding was also confirmed in several SBS focus groups.
- In the case of credit cards, consumers were paying a fixed monthly premium, which is commonly not related to the insurance risk exposure because there was a bias towards consumers with lower debt balances to finance those with higher balances. In addition, it was found that the cost of credit life insurance could represent between 8% and 41% of the average debt balance of a traditional credit card.

Under this context, on April 2021, SBS modified the regulation of market conduct for financial and insurance systems, in an effort to establish provisions associated with the design and commercialization of credit life insurance and the calculation of premium charges as a requirement for contracting credits:

- Standardization of coverage of credit life insurance to cover death and disability only, as well as survivorship for the case of credit life insurance with a reimbursement. Any additional coverage is optional and has to be contracted by the consumer independently.
- Prohibition of charging fees for policy endorsement or the selection of credit life insurance (plain vanilla or with reimbursement). Financial entities have to inform customers about theirs right of endorsement at the time of credit contracting and keep evidence of those interactions.

- For all types of financial credits, the credit life insurance premium must be calculated proportionally to the outstanding amount of the credit. For credit cards, the premium must be proportional to last month´s average of the balance for daily purchases, aiming to charge consumers a cost related to actual insurance risk covered in the previous month.



In summary, these new regulations aim to promote more credit life insurance products that meet the actual needs of consumers while eliminating the sale of add-ons without customers´ proper consent and provide a transparent and safe sale process to all consumers.

World Bank Policy Research Paper ‘Consumer Risks in Fintech: New Manifestations of Consumer Risks and Emerging Regulatory Approaches’

Contributor: The World Bank

Fintech is increasingly recognized as a key enabler for financial sectors worldwide, enabling more efficient and competitive financial markets while expanding access to finance for traditionally underserved consumers. A critical challenge for policy makers is to harness the benefits and opportunities of fintech while managing its risks, including for consumers. The COVID-19 pandemic further accelerated the widespread transition of consumers to fintech and digital financial services, highlighting their significant benefits while also demonstrating how risks to consumers can increase in times of crisis and economic stress. This new research paper identifies a range of consumer risks posed by fintech, focusing on four key fintech products (digital microcredit, peer-to-peer lending, investment-based crowdfunding, and e-money) and (2) discusses consumer protection regulatory approaches emerging internationally for policy makers to consider when developing regulatory policy to target such risks. Examples of regulatory approaches are drawn from country examples and international literature. The paper also discusses a range of implementation considerations.

Publications

World Bank

- Policy Research Paper 'Consumer Risks in Fintech: New Manifestations of Consumer Risks and Emerging Regulatory Approaches'

About FinCoNet

Established in 2013, FinCoNet is an international organisation of supervisory authorities responsible for financial consumer protection. It is a Member-based organisation set up as a not-for-profit association under French law.

FinCoNet promotes sound market conduct and strong consumer protection through efficient and effective financial market conduct supervision.

Each Member of FinCoNet has responsibility for and an interest in protecting the interests of consumers of financial services. FinCoNet seeks to enhance the protection of consumers, and to strengthen consumer confidence by promoting robust and effective supervisory standards and practices, and sharing best practices among supervisors. It also seeks to promote fair and transparent market practises and clear disclosure to consumers of financial services.

Visit our website at www.finconet.org/

Contacts

FinCoNet Chair

Maria Lúcia Leitão
mlleitao@bportugal.pt

FinCoNet Vice Chair

Christopher Green
chris.green@asic.gov.au

FinCoNet Secretariat

Miles Larbey
miles.larbey@oecd.org

Matthew Soursourian
matthew.soursourian@oecd.org

Laura Dunbabin
Laura.dunbabin@oecd.org

Sally Day-Hanotiaux
sally.day-hanotiaux@oecd.org

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