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Welcome to the FinCoNet Newsletter

Welcome to the first 2017 edition of the FinCoNet newsletter.

FinCoNet has now confirmed the date and venue of its first event of the year: April 7, 2017 in Dublin, Ireland.

We are very much looking forward to welcoming FinCoNet members and other interested parties to the seminar "Fintech and Financial Consumer Protection: Challenges for Supervisory Authorities". The seminar will be followed by a FinCoNet Open Meeting where participants can discuss the issues raised during the morning's seminar and hear updates on the current work of the FinCoNet Standing Committees.

We thank the Central Bank of Ireland for kindly hosting this event and we look forward to welcoming participants to Dublin.

In Focus

Introducing the new FinCoNet Vice Chair, Maria Lúcia Leitão

Maria Lúcia Leitão has been the Head of *Banco de Portugal*'s Banking Conduct Supervision since the department was created in 2011. This department is responsible for the regulation and supervision of the conduct of financial institutions in relationships with their customers regarding retail banking products and services. It also implements initiatives concerning the supply of information to customers and the promotion of financial literacy. From 2007 until 2011, she was Deputy Head of Banking Supervision in charge of the Banco de Portugal's banking conduct mandate.

Maria Lúcia is also the Chair of the Steering Committee of the National Plan for Financial Education, which embodies the strategy for improving financial literacy in Portugal. The National Plan is an initiative of the three financial supervisors: The Central Bank of Portugal, the Portuguese Securities Markets Commission, and the Insurance and Pension Funds Supervisory Authority.

Maria Lúcia actively participates in several international fora dedicated to financial consumer protection and financial education. At the international level, she is also a member of the Advisory Board of OECD/INFE (International Network on Financial Education). At the European level, she is a member of the Standing Committee on Consumer Protection and Financial Innovation of the European Banking Authority. In addition, she has participated in the G20/OECD Task Force on Financial Consumer Protection and the Joint Committee of the European Supervisory Authorities.

Maria Lúcia often participates as an invited speaker at international gatherings of the Child and Youth Finance International, the World Bank, the OECD, andG20/Global Partnership for Financial Inclusion.

FinCoNet Programme of Work

Following its Annual General Meeting held in Jakarta, Indonesia on November 15-16, 2016, members of FinCoNet have agreed to a new programme of work for 2017/18.

Standing Committees

"FinCoNet's most significant resource is its very active membership. It proposes, leads and develops research projects through the organisation's various standing committees – ensuring involvement and commitment to all projects undertaken", emphasizes newly elected chair Lucie Tedesco, Canada.

> *Following the delivery of a supervisory toolbox, research paper and guidance on responsible lending and sales incentives and another paper on the supervisory challenges to mitigate security risks with online and mobile payments, FinCoNet members will turn their focus to the following initiatives for 2017/18.*

Digitalisation of high-cost lending

The growth of short-term, high-cost online lending has resulted in new challenges for supervisory authorities around the world. While innovation comes with many benefits, it can also present new risks to financial consumers. It can expose them, *inter alia*, to poor lending practices, inadequate disclosure and confusing dispute resolution processes. This could lead to an inability to fully understand the products being purchased and push borrowers into unsustainable levels of debt. The work of this standing committee chaired by the Central Bank of Ireland will focus on the main supervisory challenges presented in this credit market.

Practices and tools required to support risk based supervision in a digital age

The shift from traditional financial sector delivery channels to online and mobile technologies coupled with the rapid growth in digital products and services will have important implications on supervisory practices. The identification of both the risks emerging from digitalisation and the mitigation strategies available are of great interest to FinCoNet's membership. Chaired by Banco de España, this standing committee will analyse the effectiveness of different supervisory tools and techniques that could be used to mitigate consumer risk.

Online and mobile payments

The 2017/18 agenda will include follow-up work arising from the release of the 2016 report entitled "Online and Mobile Payments: Supervisory challenges to mitigate security risks". The report identified a number of areas for further work to help supervisory authorities deal with the security risks associated with online and mobile payments. Led by the Banco de Portugal, the report is informed by responses to a survey, entitled FinCoNet Survey on online and mobile payments: supervisory challenges to mitigate security risks, received from national supervisory authorities around the globe and by desk-based research and analysis.

FinCoNet also intends to collaborate with other international bodies to advance the G20's financial consumer protection agenda. Work plans will be developed by all standing committees over the first half of 2017 and made available for public consumption thereafter.]

Current Issues Forum

Institutional policy on the relationship with financial consumers

Contributor: Francisco José Barbosa da Silveira, Central Bank of Brazil

In November 2016, Brazil's National Monetary Council (CMN) enacted a new piece of regulation, Resolution nº 4.539 (in Portuguese), that requires each financial institution under its jurisdiction to set up an institutional policy on the relationship with financial consumers. This policy must compile the institution's guidelines, objectives and core values towards promoting a sound corporate culture based on ethics, transparency, diligence and accountability, which are key elements for ensuring the convergence of interests and the build-up and maintenance of a corporate reputation perceived by the stakeholders as credible, reliable and competent. Regulated institutions have up to one year to implement the policy.

Under this particular oath, financial institutions are expected to work with consumers in a cooperative and balanced manner, striving to treat them fairly and equitably throughout their relationship, which covers pre-contractual, contractual and post-contractual duties. In practical terms, financial institutions are supposed to ensure, among other conditions, (i) the provision of clear and precise information about financial products and services; (ii) the timely treatment of consumers' claims and complaints; (iii) the removal of barriers that impede consumers from cancelling products or switching between service providers; and (iv) the legitimacy and conformity of products and services rendered.

This regulation was issued to pursue financial stability, as financial regulators should prioritize safeguarding consumers' interests to improve public trust and confidence in the financial sector.

This ended up being one of the several lessons learned in the aftermath of the 2008 financial crisis. Nowadays, it's safe to say that firms wanting to remain relevant must make valid efforts to amend their culture to ensure that consumer interests are placed at the heart of their business models (consumer-centric culture).

This cultural shift should also help traditional retail banking keep pace with changing consumer behaviour in this digital age. Several financial institutions are currently working to improve satisfaction of millennials and internet-based consumers, who demand that, among other things, newly conceived products are tailor made to suit their needs and to allow them to easily switch between service providers.

Moreover, it should also help improve institutions' adherence to suitability, disclosure and transparency standards that have been set by the CMN and the Central Bank of Brazil (BCB) in the past few years (e.g. standardization of the most common fees consumers are charged; annual percentage rate of charge of credit and leasing operations; and credit, data and wage "portability"), by ensuring that mid-level managers and other employees directly involved in dealing with consumer issues, as well as authorized agents who sell their products, have proper and *de facto* references regarding their roles in the organization, including what is actually expected from them.

It must be noted, though, that in order for this sort of policy to induce the desired changes inside the organization, the full commitment of senior-level management is required, as the tone must come from the top and messages must be consistent. Therefore, the provision establishes that each institution's board of directors is held accountable for approving its respective institutional policy on the relationship with financial consumers, as well as for determining organizational roles and responsibilities. Embracing these changes requires the review of sales incentives schemes. This will ensure everyone is acting in customers' best interests.

Additionally, governance mechanisms must be used to guarantee the policy's effectiveness and the adequacy of routines and procedures. This includes dissemination of the policy within the institution, and training employees and authorized agents dealing with consumer issues, internal audit coverage, as well as periodic review of the policy to identify and address any errors or faults.

The aforementioned regulation also strives to increase transparency and assist in the assessment of suitability of products offered and services rendered, by determining that financial institutions have to set and publicize the target groups of products and services in their portfolio, observing their own characteristics and complexity levels.

UK mortgages market study

Contributor: Sam Stoakes, Financial Conduct Authority, UK

Introduction

The UK Financial Conduct Authority launched the mortgages market study in December 2016. For millions of consumers, a mortgage is often the biggest financial commitment of their lives. The importance of mortgage lending in the economy and the role it has in the financial services industry makes it essential that the market works well and in consumers' interests.

Scope of the market study

The focus of the study is on two questions (concentrating on demand- and supply-side issues, respectively):

- At each stage of the consumer journey, do the available tools (including advice) help mortgage consumers make effective decisions?
- Do commercial arrangements between lenders, mortgage brokers and others lead to conflicts of interest or misaligned incentives to the detriment of consumers?

Our scope is within the first-charge residential mortgage market. We want to understand whether consumers are empowered to choose on an informed basis. We will also be considering the role of technology and if there are opportunities for improvement.

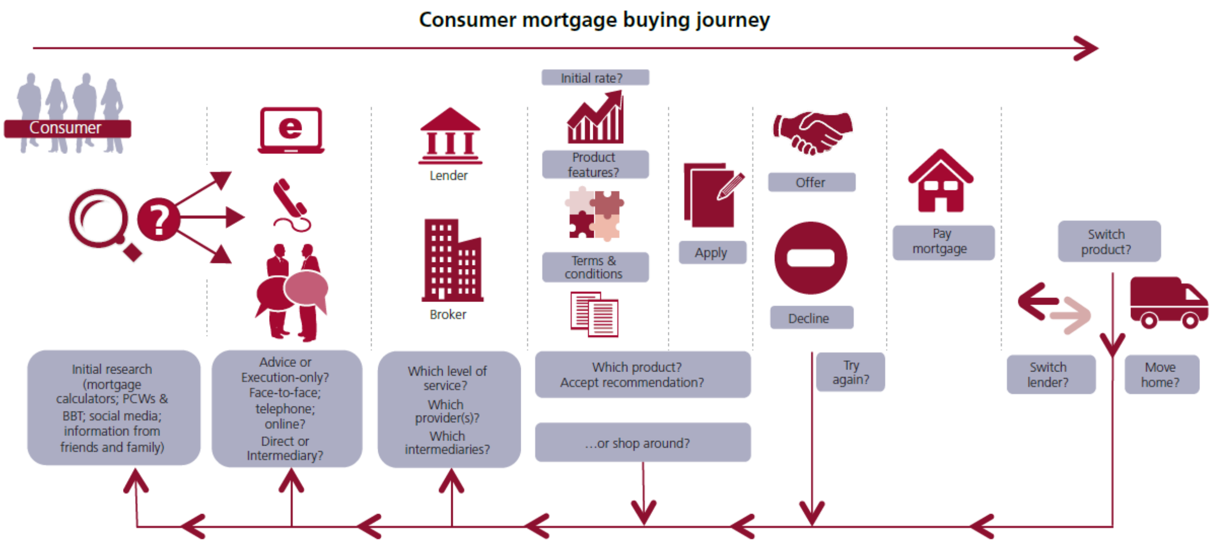

Figure 1: The consumer journey in first-charge residential mortgages

Demand-side issues

We want consumers to be able to access the relevant information, assess it in an informed way, and then effectively act on what they have identified, choosing the most suitable product for them. The tools that consumers can use to help them make these decisions include price comparison websites, best buy tables and advice, which can be provided by a lender or broker.

The 'consumer journey' illustrated above represents all the different stages that a consumer will face. This includes using some of the tools listed in initial research, and demonstrates how many decisions need to be made along the way. Consumers may be hindered by behavioural biases in making these decisions – for example, focusing on short-term prices or inertia. Firms may intentionally design their products or services to reinforce these biases.

Impact of regulatory framework

As the UK market has undergone regulatory change in recent years, we will look at the impact of our earlier mortgage market review (MMR) reforms, most of which came into effect in 2014. Since then, distribution channels and levels of advice have changed significantly. The number of consumers seeking advice has risen from 67 per cent in 2008 to 97 per cent in the second half of 2016. We want to know the extent to which the MMR has driven this change and the effect, if any, this has on consumer outcomes.

Supply-side issues

As you can see from Figure 1, firms in the mortgage market are involved at many stages of the consumer journey. From lenders to real estate agents and price comparison websites, we want to know what impact they might have on consumer decision making. Commercial relationships in the mortgage sector are complex and wide ranging. We are also interested in understanding how these relationships operate and the conflicts of interest that can arise from them. Although we are aware of the positive effects that such arrangements can bring to the sector, there can likewise be unintended consequences.

For example, practices such as choosing only a selection of partners to do business with could reduce operational costs, and enable the firm to provide more efficient service due to familiarity. However, this could also create barriers to entry or expansion, resulting in less consumer choice.

Next steps

So, what is next? We will be gathering information from and talking to stakeholders, and carrying out market research and data analysis to help investigate these questions. We intend to publish the interim report in summer 2017. If we have identified problems through the market study that we need to remedy, we will consult on appropriate remedies. The final report will be published in 2018.

Russia: Investor protection improvements through investor categorisation and appropriate regulation

Contributor: Daria Silkina, Central Bank of Russia

To establish provisions for the appropriate use of investment products, the Bank of Russia (CBR) has developed an investor categorisation framework based on levels of investor welfare and investor financial knowledge. The CBR proposes to define three categories of investors (unqualified, qualified, and professional) and the financial products they have access to / they would have access to under this new framework.

- **Unqualified investors** are divided into two categories, depending on the amount of money in their brokerage accounts: (1) investors who have less than 400,000 rubles (6848.53 USD[1]) in their investment account; and (2) investors with more than 400,000 rubles in their account.

Unqualified investors will be allowed to use more basic and less risky financial instruments without investment profiling:

- stocks, bonds (from quotation lists of the 1st and 2nd levels – those admitted to trading on the Moscow Stock Exchange);
- mutual funds units (for unqualified investors);
- financial instruments of the foreign exchange market.

Unqualified investors will be allowed to trade any financial instruments corresponding to their investment profile, and will have the opportunity to purchase any financial instruments for the total amount of 50,000 rubles (856 USD) per year.

Investors who have in their accounts more than 400,000 rubles are allowed to use the above-mentioned financial instruments and the securities from the list of the 3rd level. They are also allowed to trade on margin.

Unqualified investors willing to use financial instruments that are outside of the ones allowed by this categorisation must pass an online exam on the stock exchange website.

- **Qualified investors** are the investors who comply with one of the following requirements: (1) qualification certificate; (2)

[1] At the exchange rate of the Bank of Russia on 03.03.2017

investing experience being more than one year; (3) work experience in the financial services industry being more than two years; and (4) investor's assets being more than 10 million rubles (171,213.23 USD) or the amount in their brokerage account being more than 1.4 million rubles (23,969.85 USD), at the same time the investment experience should not be less than half a year or if it is less than half a year, the investor should pass the exam .

Qualified investors have to determine their investment profile in order to use financial instruments relevant to their investment profile.

- **Professional investors** have to comply with one of the following requirements: (1) international qualifications certificate (i.e. CFA, ACCA, CIA, CIMA, FRM, or CIIA); (2) at least three years' work experience in the financial services sector; and (3) investor's assets above 50 million rubles (856,066.17 USD).

Professional investors will be allowed to use any kind of financial instrument.

Investment profile determination

The investment profile of a client can be determined not only by a financial advisor but also by any broker's employee. If the investment profile is determined by a broker's employee, such an employee according to his or her job requirements should not be responsible for customer acquisition and financial product sales. This should prevent conflicts of interest between the sales function and the function of investment consultation.

AFM guideline on credit institutions' responsibility towards consumers in payment arrears

Contributor: David de Boer, The Netherlands Authority for the Financial Markets

The Netherlands Authority for the Financial Markets (AFM) published a guideline targeting credit institutions that focuses on their responsibilities towards consumers at times when they are struggling to meet financial payments and are in payment arrears. The guideline, published in November 2016, provides credit institutions and debt collectors with information about laws, regulations and best practices for supporting and assisting consumers in payment arrears.

In 2015, the Authority for Consumers and Markets (ACM) launched a study on the debt collection industry in an attempt to create clarity about debt collection and to provide answers to the number of complaints that they've received from consumers in the past.

Consumers are confronted with unjustified claims

The key findings from the investigation on debt collectors include evidence that debt collection agencies regularly confront consumers with unjustified claims; and that consumers receive unclear invoices and are charged incorrect costs. Another key finding is that debt collectors seem to put a lot of pressure on consumers to repay their debt.

Taking responsibility

The AFM and ACM felt the need to address and prioritize current unjustified and criticized actions from debt collectors. Together, the AFM and ACM aim to protect vulnerable consumers who are in payment arrears. There is a clear distinction between the AFM and ACM in terms of responsibility and focus. The AFM focuses on the credit institutions, while the ACM invests in educating the consumers about debt-collecting rules and their rights.

Credit institutions and debt collectors should provide similar support

The AFM signalled a high level of ambiguity among credit institutions about 'who is responsible for doing what'. One of the main goals of the AFM was to explain and clarify the level of responsibility that credit institutions have towards consumers who are in payment arrears, which does not end when they hand over the different consumer cases to debt collectors. The AFM hopes that this guideline will underline the extended responsibility for credit institutions, as outlined above. Additionally, the AFM advises that credit institutions must understand which debt collectors they cooperate with and that credit institutions inquire how these debt collectors operate. The AFM believes that by choosing a credit institution, the debt collector should give priority to the way it supports consumers, as opposed to having it focus on costs only.

To ensure that consumers who are in payments arrears are treated fairly, the AFM expects that credit institutions make clear agreements with the debt collectors about how to treat consumers. The debt collection agency represents a credit institution; therefore it is very important that they stand by the same standards and conditions in terms of consumer support.

The guideline contains information about …

The first part of the guideline outlines the extended responsibility of credit institutions. The second part showcases some of the best practices about how credit institutions should support consumers. It also includes practical information on how credit institutions can prevent payment arrears, cooperate with consumers in payments arrears, and resolve this without the help/intervention of debt collectors.

Bring change to the market

Before publishing the guideline, the AFM initiated a well-attended roundtable session with credit institutions, debt collectors and trade associations. The goal of this session was to share the most important subjects of the guideline and to get input from these parties on whether they agree with the point of view of the AFM on these subjects. This was important, because the views in the guideline are not only interpretations of the law, but also interpretations of how to put the best interest of the client first.

Finally, the AFM asked credit institutions to perform a gap analysis to compare their own policy with the guideline. It also asked them to define possible improvements. Usually, AFM only publishes guidelines and checks later how institutions have acted upon them. The time between these two activities could be a year. Because AFM wanted to ensure that institutions started with implementation immediately, we requested this gap analysis.

The AFM has received the first analyses and will now evaluate them and initiate a dialogue with the credit institutions. Hopefully their analyses will provide us with some useful insights, making it possible to redefine and improve consumer support.

For more information, please visit the website of The Netherlands Authority for the Financial Markets at www.afm.nl

Consultation on proposed changes to the Central Bank of Ireland's Minimum Competency Code

Contributor: Sinéad Cawley, Central Bank of Ireland

The Central Bank of Ireland's Minimum Competency Code 2011 (MCC) sets out minimum professional standards for persons providing certain financial services, particularly when dealing with consumers. It aims to ensure that consumers obtain a minimum acceptable level of competence from individuals acting for or on behalf of regulated firms in providing advice and associated activities in connection with a number of retail financial products such as consumer credit, housing loans, savings and investments, life assurance, pensions, personal general and commercial insurance, etc.

The Central Bank of Ireland first introduced Minimum Competency Requirements on January 1, 2007. Following a review by the Central Bank in 2011 (undertaken in light of experience, market developments and new powers granted to the Central Bank to impose obligations on individuals), the Minimum Competency Requirements were replaced by the MCC, which came into effect on December 1, 2011. The MCC is closely linked to the Central Bank of Ireland's Fitness and Probity Regime, and is one of the key factors in assessing whether a person is fit to exercise certain controlled functions in a regulated firm.

The MCC applies to regulated firms and persons carrying out controlled functions within those firms who:

- provide advice to consumers on retail financial products;
- arrange or offer to arrange retail financial products for consumers; or
- undertake a specified function (which includes dealing with insurance claims, reinsurance mediation, providing debt management services, adjudicating on complaints, and direct management or supervision of accredited persons).

Persons carrying out any of these functions must either hold a qualification recognised for the purposes of the MCC, be a **grandfathered person**[1] in respect to the function being exercised; be a **new entrant** participating in a training process under the supervision of a qualified or grandfathered person; or be operating in accordance with a **prescribed script**. Both grandfathered and qualified persons must comply with Continuing Professional Development requirements outlined in the MCC.

Since the introduction of the MCC in 2011, professional knowledge and competence requirements have been increasingly included in EU Directives and Guidelines, including the Mortgage Credit Directive (MCD), Markets in Financial Instruments Directive II (MiFID II) and European and Securities Markets Authority (ESMA) Guidelines on knowledge and competence. In light of these and other developments, the Central Bank of Ireland undertook a review of the MCC and published a Consultation Paper on November 15, 2016.

[1] Grandfathered persons are individuals who are not required to obtain a recognised qualification provided they meet certain criteria, including that they were in the industry on January 1, 2007 and have at least four years' relevant experience in the eight-year period prior to that date.

The consultation paper sets out a number of proposed amendments to the MCC in order to satisfy EU requirements. Some of these proposed amendments will have an impact on the existing grandfathering arrangements under the MCC. In order to meet the requirements arising under MiFID II and MCD, persons who are currently availing of grandfathering arrangements in respect to functions that fall within the scope of these directives will be required to obtain a recognised qualification. In the case of MiFID II, persons must obtain a qualification and six months experience by January 3, 2018 and, in the case of the MCD, persons must obtain a qualification by March 21, 2019.

The paper also contains a number of proposed additional requirements, including applying a six-month experience requirement per product to persons carrying out activities in respect to all retail financial products that fall within the scope of the MCC. In addition, the paper also seeks views on extending the application of the MCC to the core business activities of credit unions. At present, the MCC only applies to credit unions when providing insurance mediation activities. It will be extended to credit unions providing mortgage products as a result of MCD. A further proposal contained in the paper is to amend the scope of the MCC to include a new specified function for those directly involved in the design of retail financial products.

The deadline for submissions to the paper was February 15, 2017. The Central Bank of Ireland is now considering the responses received with a view to publishing the revised MCC in July 2017. It is anticipated that the revised requirements will apply from January 2018.

The 2017 supervisory programme of the *Banco de España* in the field of consumer protection.

Contributor: Roberto España Seijas, Central Bank of Spain

On February 21 2017, the Executive Committee of the *Banco de España* approved the 2017 supervisory programme for its Market Conduct and Claims Department. The programme reviews the achievements in the field of banking business conduct and consumer protection developed by the *Banco de España* during 2016, and establishes the priorities for 2017.

For the first time, the programme for 2017 is using the methodology developed by the Oversight of Institution`s Conduct Division to establish supervisory priorities following a risk-based analysis. This methodology combines two concepts: “conduct category” and “conduct profile”. The conduct category classifies all supervised entities into five groups on the basis of relative importance and the impact on customers of their business.

A complex algorithm is then run to calculate the so-called conduct profile, which is a risk rating built on different ratios and indicators like, for example, market share in different businesses; number of claims in that business as compared with its market share; claims received in the internal financial entities’ claims-handling services; claims received in a second step at *Banco de España* in comparison with claims resolved within the service of the bank, or regarding the resolution of claims processed in the *Banco de España*’s claims-handling service; and average of those with a resolution favorable to the claimant out of the total number. The combination of the rating obtained for a bank in different businesses determines its conduct profile.

At a later stage, the combination of “conduct category” (size) and “conduct profile” (risk) determines the supervisory programme, establishing areas of proactive versus reactive supervision for both on-site inspections and off-site surveillance. For entities under proactive supervision, depending on size of businesses and risk, the frequency of onsite inspection and the individual versus group surveillance is decided.

In addition, the programme provides an overview of the different developments in the market in Spain and identifies several areas of priority for the 2017 supervisory activity. In this regard, the 2017 supervisory programme of Market Conduct and Claims Department will stick to the deep review of mortgage and consumer credit markets already in the scope in previous years. While the intensive review of the entities´ internal complaints-handling services was completed during 2016, a new priority has been set for 2017 on the control of the advertisement activity of supervised entities. Furthermore, plenty of other activities are planned in different fields. Special mention should be made of the activities planned to review the transparency of pre-contractual relationships with customers when marketing financial products by digital means.

The review of the mortgage market will keep focusing on two specific areas of activity: i) intense on-site inspections to review the transparency of marketing and accuracy of treatment of huge mortgage portfolios, and ii) verification (both on-site inspections and other supervisory checks) of the correct application of the Code of Good Practices on urgent measures to protect mortgage debtors in arrears and/or difficulties. On the other hand, the review of the consumer credit market will focus on transparency of pre-contractual stages of high-cost short-term credit, and commercialization of revolving credit cards.

With regards to the new priority for 2017 on advertising, an intense off-site surveillance activity has been launched to analyse the policies, procedures, controls and internal registers that more than 300 supervised entities apply in their financial advertising. In addition, all the advertisements published by any means in a six-month period are being reviewed to analyse their quality and adherence to the rules. In this regard, it should be noted that the legal framework for the advertising of banking products in Spain is based on self-regulation and ex-post control. It is also important to bear in mind that advertising should be considered as a first piece of the pre-contractual information package, rather than a one-off element in the bank/client relationship.

The planning of supervisory activities should also take into consideration a relevant level of additional resources to attend non-planned activities that the day-to-day business is continuously requiring. This implies the need to be permanently in contact with the market (to anticipate new risks), and with public and private stakeholders (to meet their demands, complaints and denunciations).

Regulatory sandboxes: Encouraging innovations for responsible financial inclusion?

Contributor: Ivo Jenik, Financial Sector Specialist at CGAP, and Kate Lauer, Senior Policy Consultant at CGAP

Innovation is ever present in human activity, from the flint to the wheel, to the lunar spacecraft, on to the Internet, the mobile phone and, now, synthetic chromosomes[1]. The pace of innovation in the financial sector seemed to be accelerating in recent years, driven mainly by digital technology. Regulators feel the heat as they see familiar (incumbents) and unfamiliar (fintech startups) entities knocking on the gate with a myriad of innovations ranging from biometric-enabled customer due diligence, Big-data driven credit scoring, robo advisors, distributed ledger technology, and compliance processes managed by artificial intelligence. Often, innovators and innovations do not fit under existing regulatory categories and are turned down by the financial regulator, whether out of fear or lack of understanding of the benefits and risks. For this reason, several regulators have invented a 'regulatory sandbox' for innovators and innovations that do not fit into a regular (or rather regulatory) box.

Testing innovative services and products

The term 'regulatory sandbox' was first used by the UK Financial Conduct Authority (FCA) in November 2015[2] to refer to the creation of a 'safe space' for businesses to "test innovative products, services, business models and delivery mechanisms without immediately incurring all of the normal regulatory consequences of engaging in the activity in question." Applicants to the sandbox have to demonstrate the proposed solution is genuinely innovative, and will support the financial services industry and benefit consumers.

Since the FCA's announcement, other 'regulatory sandboxes' have been either launched (Abu Dhabi, Australia, Hong Kong, Malaysia, Singapore, Thailand, and the USA) or announced (Indonesia, Kenya, Switzerland) under different names, with different design features and resources available. In spite of this heterogeneity, most of them share the objective of creating a framework for experimentation and innovation to promote the growth and competitiveness of the (innovative) financial sector in favor of consumers. They also typically have the following features: (i)

[1] https://www.wsj.com/articles/scientists-make-progress-toward-engineering-synthetic-yeast-1489141807

[2] https://www.fca.org.uk/firms/project-innovate-innovation-hub/regulatory-sandbox

structured communication between the regulator and the sandboxed firms, where the regulator advises on legal and regulatory requirements to be met; (ii) monitored testing of innovations under a controlled environment; and (iii) minimum safeguards in place to protect consumers in case the testing fails.

Advancing responsible financial inclusion

Given the benefits that a smart innovation can bring to customers at the bottom of the economic pyramid (think of M-Pesa in Kenya), regulatory sandboxes may have potential relevance to financial inclusion. A sandbox could increase the willingness and improve the ability of regulators to enable innovation aimed at reaching unserved and underserved consumers. A sandbox also provides a safe space for experiments that challenge the traditional ways of conducting financial activities without exposing consumers to unknown risks associated with the test-and-learn approach.

Providing guidance in emerging economies

CGAP has embarked on a review of the existing (very new) regulatory sandboxes to understand both their relevance to financial inclusion and their utility in different regulatory and supervisory contexts. The aim of the research is to provide guidance on sandboxes to regulators in countries struggling with high levels of financial exclusion and apparent or real regulatory barriers to financial innovation.

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 practices and clear disclosure to consumers of financial services.

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