OVERINDEBTEDNESS AND DIGITALISATION – GROWING CHALLENGES FOR MARKET CONDUCT SUPERVISION

FINCONET INTERNATIONAL SEMINAR

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BANCO DE PORTUGAL
EUROSYSTEM

A COMPLEX MACROECONOMIC CONTEXT WHILE DIGITAL TRANSFORMATION ACCELERATES

> Inflation remains far too high and will stay high for a while.
>
> ECB MONETARY POLICY STATEMENT,SEPTEMBER 2022

> Digitalisation is transforming society, the economy and the financial sector. This transformation [...] has the potential to benefit people and companies. However, it may also make it more challenging for the existing regulatory and supervisory frameworks to safeguard financial stability, consumer protection, market integrity, fair competition and security.
>
> EUROPEAN COMMISSION, CALL FOR ADVICE ON DIGITAL FINANCE AND RELATED ISSUES, 2021

ECONOMIC CHALLENGES AMPLIFY OVERINDEBTEDNESS RISK

- Rising inflation
- Increasing of interest rates
- Reduction of households' real disposible income

Market conduct supervisors need to:

- Closely monitor the economic and financial context
- Anticipate the evolution of risks, especially for vulnerable groups
- Prioritise supervisory approaches

MITIGATION OF THE OVERINDEBTEDNESS RISK IS A PRIORITY FOR THE BANCO DE PORTUGAL

2013

- Legal and regulatory framework on the management of pre-arrears and arrears
- Regulation on the late payment of credit agreements

2018

- Regulation on creditworthiness assessment
- DSTI ratio based on the assumption of an increase of 3 pp for credit agreements longer than 10 years

2021

- Reinforcement of the legal and regulatory framework on the management of pre-arrears and arrears
- Specific rules for credit agreements exiting from credit moratoria

PT LEGAL AND REGULATORY FRAMEWORK

✓ PRE-ARREARS ACTION PLAN (PRAP)

The institution identifies early warning signs

The institution contacts the customer
10 days (at most)

The customer alerts the institution of payment difficulties

The customer provides information and documents

10 days (at most)

The institution assesses the financial capacity of the customer and presents proposals

15 days (at most)

PT LEGAL AND REGULATORY FRAMEWORK

✓ OUT-OF-COURT ARREARS SETTLEMENT PROCEDURE (OASP)

The institution contacts the customer
15 days (at most)

Between the 31st and the 60th day

ENTRY INTO THE OASP

The institution informs the customer about the entry into the OASP

The institution assesses the financial capacity of the customer and presents proposals

Negotiation between the institution and the customer

5 days (at most)

30 days (at most)

90 days (at most)

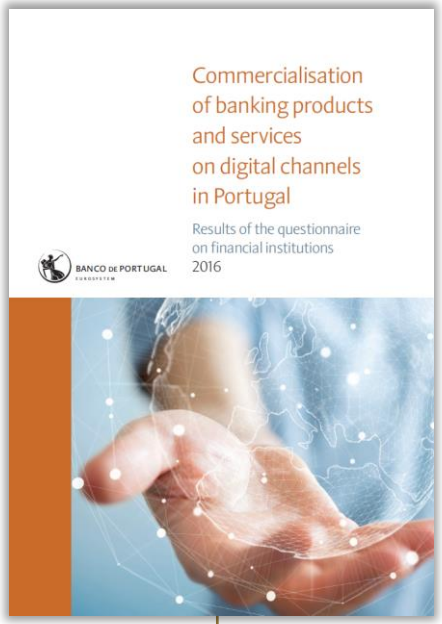
‘DIGITAL’ IS NOT A HYPE, BUT A PERMANENT CHALLENGE

- New, unexpected and disruptive players
- New products and standard products with new features
- Innovative business models
- Cross-border provision

Market conduct supervisors need to:

- Timely monitor financial innovation
- Ensure technological neutrality
- Adopt innovative supervisory tools
- Liaise with other supervisors/overseers

THE BANCO DE PORTUGAL HAS BEEN MONITORING INNOVATION SINCE 2016

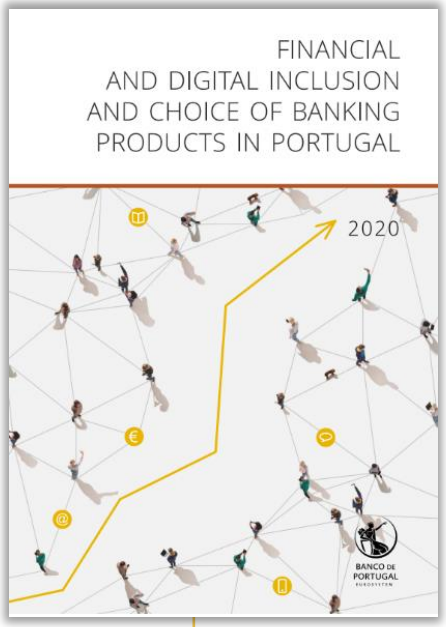


1st questionnaire to the industry on the digitalisation of retail banking products and services in Portugal

2016

2nd questionnaire to the industry on the digitalisation of retail banking products and services in Portugal

2018



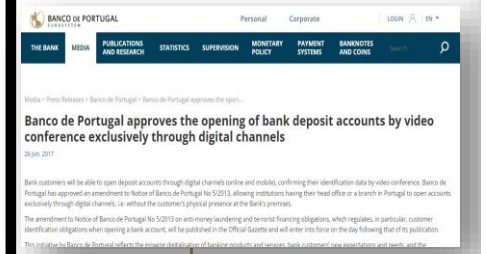
National survey on the financial and digital inclusion and choice of banking products in Portugal

2020

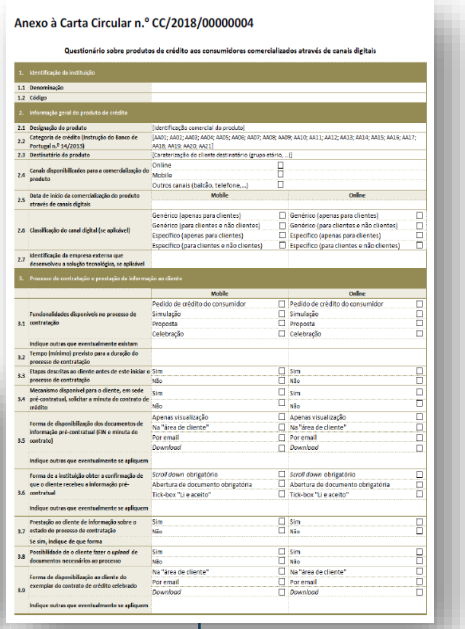
National survey on **digital financial literacy** of the Portuguese population (with the support of the OECD and the EC)

2022

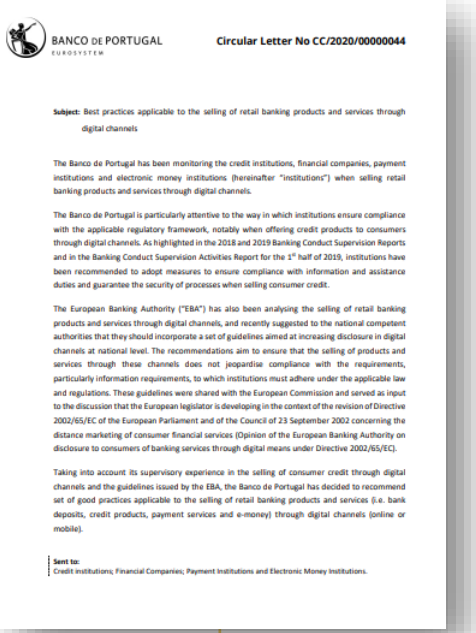
THE BANCO DE PORTUGAL HAS BEEN TAKING SEVERAL REGULATORY INITIATIVES AND ADOPTING NEW TOOLS



Approval the **opening of bank deposit accounts by assisted video conference**



Circular Letter that **requires institutions to report information on the provision of consumer credit via digital channels**



Best Practices applicable to the selling of retail banking products and services through digital channels

Implementation of two Suptech tools (up and running)

2017 — **2018** — **2020** — **2022**

HOW TO ENSURE CONSUMER PROTECTION IN AN UNPREDICTABLE CONTEXT?

- Monitor the market and anticipate risks
- Be involved in the definition of measures to mitigate the identified risks
- Be agile and act timely
- Adopt innovative oversight tools

Supervisors need to ensure a high level of consumer protection while supporting innovation and promoting a level playing field among financial institutions

THANK YOU