# Developing a Risk-Based Approach to Financial Consumer Protection Supervision

*A soon to be published World Bank note that assists supervisors in reviewing the fundamental elements of risk-based market conduct supervision*

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# Common issues when implementing FCP RBS

Increasing demand for RB FCP supervision

Limited public practical guidance specifically on RBS for FCP that focuses on key initial steps/considerations

Where to start and what to consider?

Successful frameworks evolve with time

# How best to assist the implementation of FCP RBS?

Compile key issues & questions that regulators should consider

Indicate points of reflection and consideration instead of answers

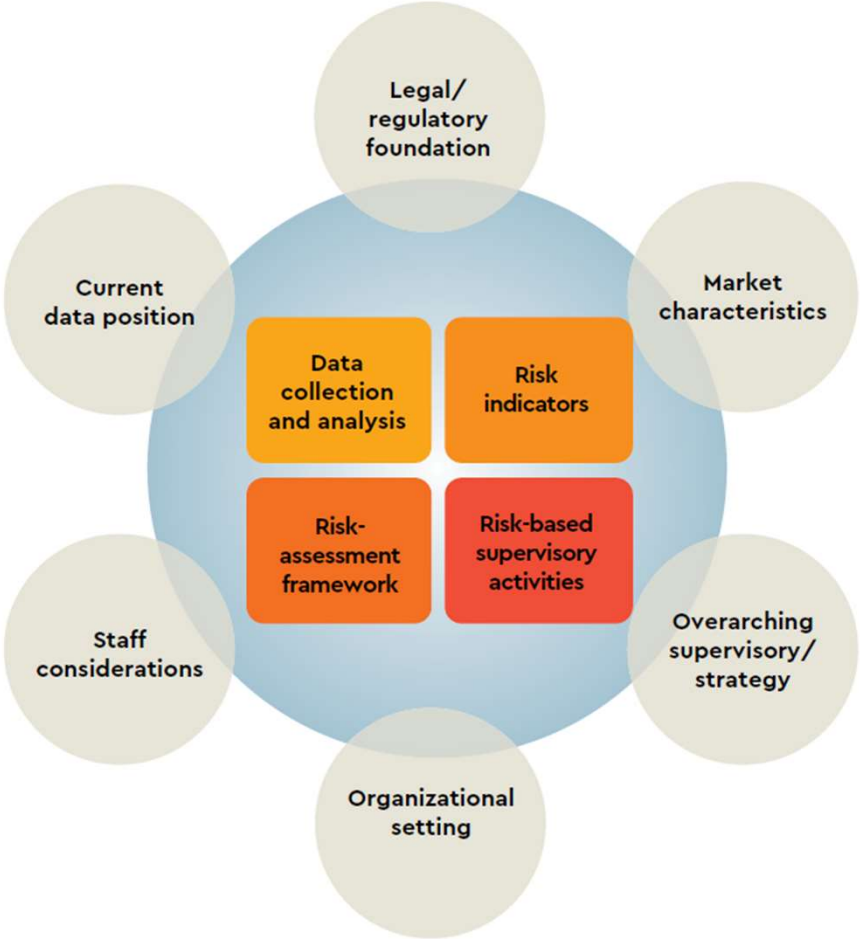
Focus on elementary but essential goals and strategies

Prioritize risk identification and initial supervisory tools

# The ‘guided self-analysis’ approach of the Note

- The Note discusses 6 context factors and 4 core components that an authority should consider when implementing FCP RBS.

- For each of these 10 items, the Note provides:
  - ✓ a list of key questions to consider;
  - ✓ practical explanations and real life examples (to help answer those questions in the context of a particular authority).

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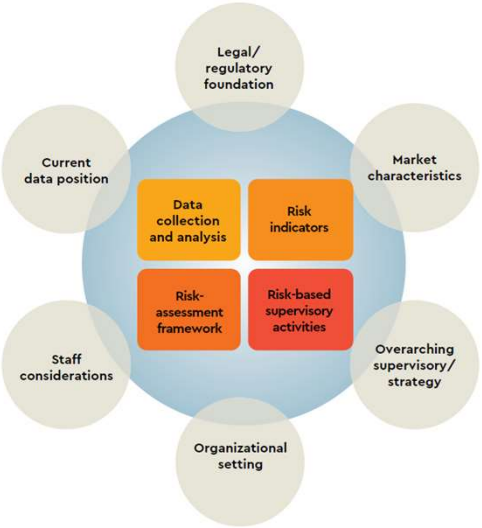
# Context factors

- Legal / regulatory foundation
- Market characteristics
- Overarching supervisory strategy
- Organizational setting
- Staff considerations
- Current data position

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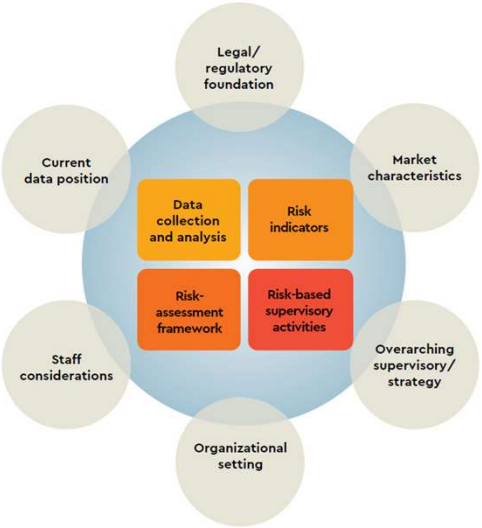
# Core elements

Data collection and analysis

Risk indicators

Risk-assessment framework

Risk-based supervisory activities

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# A few examples of what is in the Note (#1)

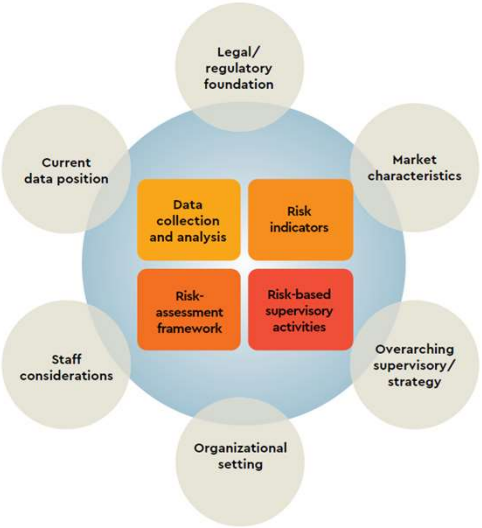
Key questions to consider…

Data collection and analysis

Risk indicators

Risk-assessment framework

Risk-based supervisory activities

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# Example 1: Risk-assessment framework – key questions

**a)** Will the Authority develop a formalized FCP risk framework at this time?

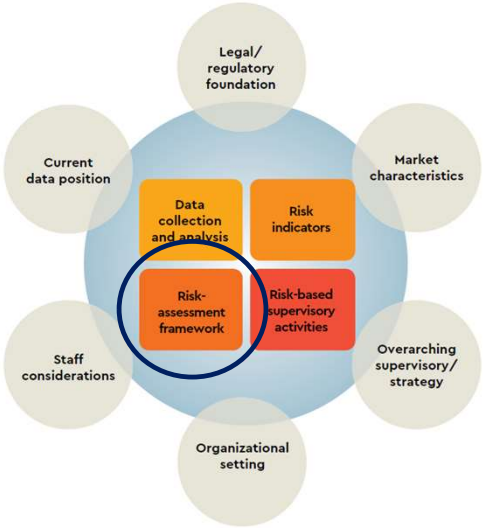
**b)** Is there a need to formally define what would constitute risks from a FCP RBS perspective (...)?

**c)** Will the FCP risk framework be used only to guide risk analyses in a qualitative manner (...), or will it also be used to generate risk ratings?

**d)** What role will the FCP risk framework play in the Authority's supervisory cycle? (...)

**e)** What will be the relationship between the FCP risk framework and any prudential risk framework employed (...)?

**f)** Given the answers to these questions, what would be an appropriate approach to (further) develop the Authority's FCP risk framework? (…)

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# A few examples of what is in the Note (#2)

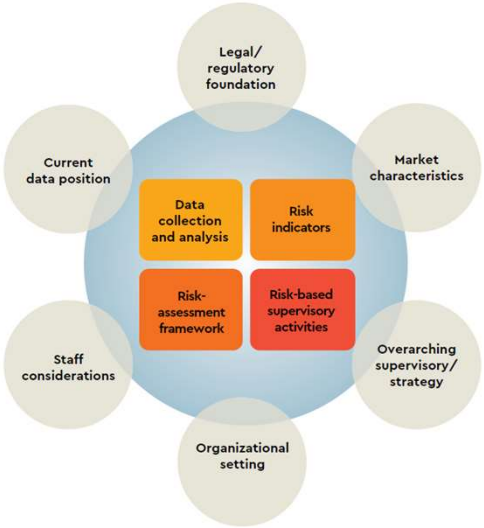
Data collection and analysis

Risk indicators

Risk-assessment framework

Risk-based supervisory activities

Practical explanation and real life examples…

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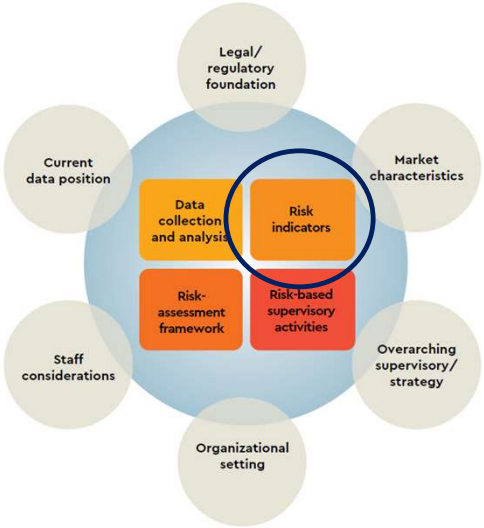
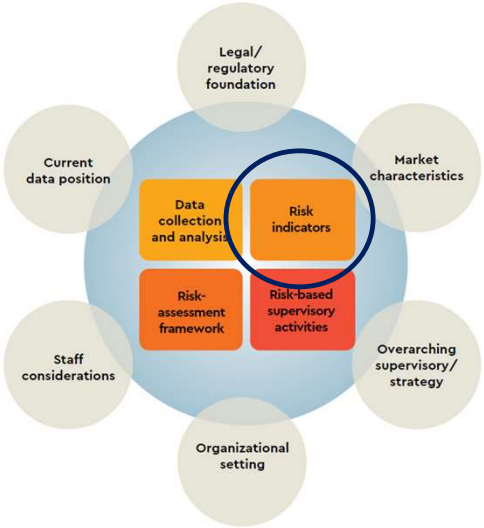
# Example 2: Risk indicators - Explanation and examples

| | |
|---|---|
| Indicator | Distribution channels |
| Description | Use of third party / outsourced distribution channels |
| Format | Qualitative |
| Periodicity | Annually |
| Purpose | Heavier dependence on agents/other third parties to market and sell products can present higher inherent risk for consumers, as controls and oversight tends to be inherently more limited when compared to an FSP's own branches (or directly administered digital channels). The risk indicator classification for the purposes of different levels of reliance on third party distribution is developed using the 4 tiers used for risk levels (i.e. levels classified as high, medium high, medium low or low risk). |
| Risk correlation | N/A |
| Data source | Data from FSPs with application of risk classification methodology |



# Example 2: Risk indicators - Explanation and examples

| Indicator | Category |
|---|---|
| Total consumer indebtedness | Market conditions |
| Financial literacy | Market conditions |
| Technological literacy | Market conditions |
| Country's banking access rate | Market conditions |
| Total active retail accounts/consumers | General profile |
| New retail accounts/consumers acquired during reporting period | General profile |
| Number of retail accounts/consumers relationship ended during reporting period | General profile |
| Number of vulnerable consumers/percentage of vulnerable consumers | General profile |
| Market share per relevant segment (as defined by the Authority) | General profile |
| FSP's relevance of higher inherent risk products (as defined by the Authority) | General profile |
| Total inactive/dormant accounts | General profile |
| New inactive/dormant accounts | General profile |
| Total assets by segment/total accounts balance | General profile |
| Net interest income earned by FSP | General profile |
| Net non-interest income earned by FSP (fees, charges and commissions of any type) | General profile |
| Total penalties and losses to consumers | General profile |
| Penalties and losses during the reporting period | General profile |
| Total complaints (filed with FSPs, the Authority, or e.g. Ombudsman schemes) | Complaints |
| Total complaints by critical subject (filed with FSPs, the Authority, or e.g. | Complaints |



# Closing remarks on risk-based MCS

Compliance-based and risk-based supervision approaches are not mutually exclusive – they complement each other

Effective market conduct supervision combines supervision focused on individual entities with cross-cutting / thematic efforts

Risk-based prioritization implies rigorously selecting what *not* to do (since there are other issues more feasible or impactful to be covered)

Data collection and analysis

Risk indicators

Risk-assessment framework

Risk-based supervisory activities

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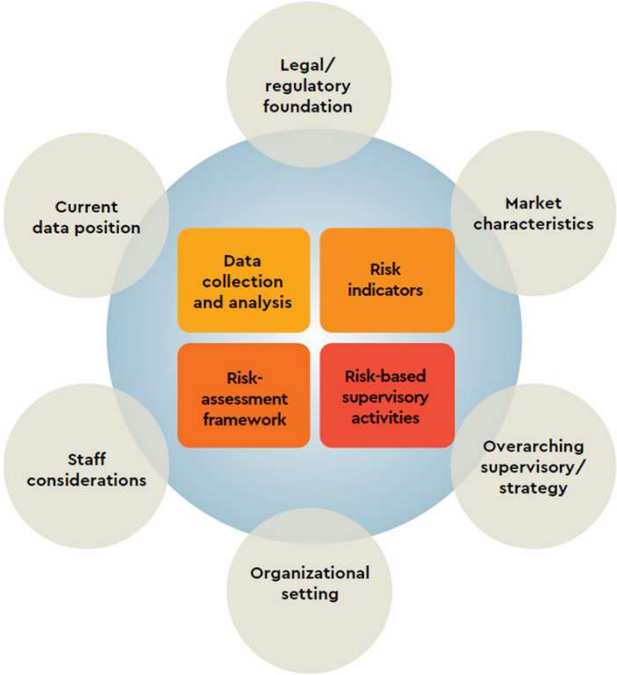
# Closing remarks on *implementing/improving* MC RBS

MC RBS must be customized – the best tools and methods are the ones that best fit the current situation of the Authority

Context factors (see illustration) must receive thoughtful attention – this enables an Authority to take realistic and effective RBS implementation steps

A step-by-step, 'start small but start right' approach tends to work best – resist the temptation to aim for state-of-the-art solutions straight away

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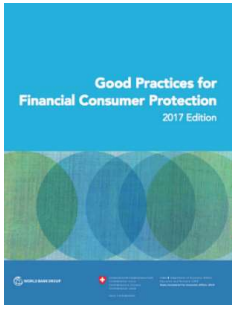
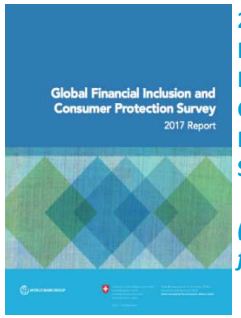
# Other World Bank FCP resources…

**Consumer Risks in Fintech**

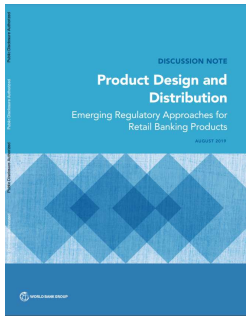



**Good Practices for Financial Consumer Protection: 2017 Edition**

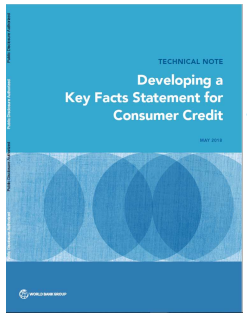



**2017 Global Financial Inclusion and Consumer Protection Survey**

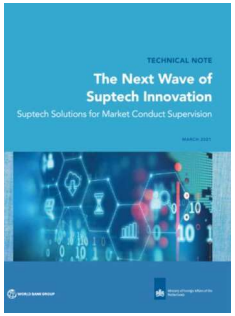
***(2022 survey forthcoming)***



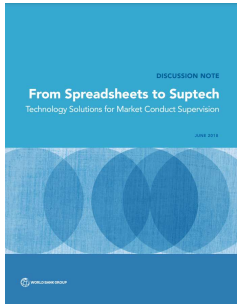

**Product Design and Distribution: Emerging Regulatory Approaches for Retail Banking Products**



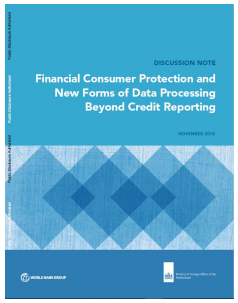

**Developing a Key Facts Statement for Consumer Credit**



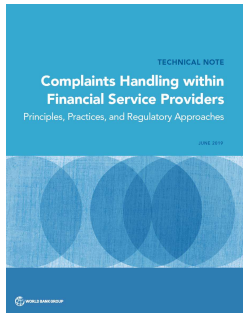

**The Next Wave of Suptech Innovation: Suptech Solutions for Market Conduct Supervision**



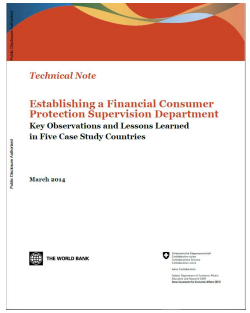

**From Spreadsheets to Suptech: Technology Solutions for Market Conduct Supervision**




**Financial Consumer Protection and New Forms of Data Processing Beyond Credit Reporting**




**Complaints Handling within Financial Service Providers**




**Establishing a Financial Consumer Protection Supervision Department**

**https://responsiblefinance.worldbank.org/en/responsible-finance/financial-consumer-protection**

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