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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 first 2022 edition of the FinCoNet newsletter, which includes summaries of the joint meeting of FinCoNet and the G20/OECD Task Force on Financial Consumer Protection and the International Seminar, held on 28-30 March 2022. Articles are also provided from Japan, United Kingdom and Portugal.

The In Focus section of this Newsletter includes a brief article from CGAP detailing the main findings of their research in the area of consumer risks in digital financial services. In addition, CGAP presents their recently launched Market Monitoring Toolkit.

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 first 2022 issue of the FinCoNet Newsletter includes:

Joint meeting and International Seminar: FinCoNet / G20/OECD Task Force on Financial Consumer Protection

- On 28-29 March 2022, FinCoNet held a joint meeting together with the G20/OECD Task Force on Financial Consumer Protection. Following the meeting, on 30 March 2022, FinCoNet and the Task Force hosted an International Seminar on Sustainable Finance through a Financial Consumer Protection Lens.

Financial and Economic Education Initiatives in Japan

- The Financial Services Agency (FSA) has tackled financial and economic education to enhance the Japanese financial literacy level, dispatching lecturers to senior high schools and universities. Since the COVID-19 outbreak, the FSA has developed and published video tutorials and guides on its website and YouTube.

FCA review finds evidence of growing competition in retail banking

- Building on the 2018 strategic review of retail banking, the FCA have published the 2022 final report on competition in retail banking markets. FCA findings indicate that despite the financial impact of the pandemic, greater competition in retail banking is driving increased choice and lower prices for consumers and small businesses.

The Banco de Portugal's approach to the supervision of credit intermediaries

- Credit intermediaries are natural or legal persons that, while not authorised to grant credit, are involved in marketing consumer and mortgage credit agreements. As part of their activity, credit intermediaries may present or propose credit agreements to consumers, help consumers to prepare said agreements and enter into credit agreements on behalf of creditors. They may also be authorised to provide advisory services regarding credit agreements.

In Focus

CGAP Identifies 66 Consumer Risks in Digital Financial Services

Digital financial services have delivered substantial financial inclusion benefits and unlocked life changing opportunities for consumers, but the use of digital financial services brings not only benefits, but also risks. According to its latest research, CGAP has identified 66 consumer risks—some increasing so rapidly that they are outgrowing consumer adoption rates. While some risks are new, others may seem more familiar but are evolving due to the dynamic nature of financial technology. In most cases, the scale of all the consumer risks has increased on a global, regional, and country level, according to available evidence and data since 2015.

These risks, combined with low digital and financial literacy skills, undermine the delivery of financial services to underserved and low-income consumers, especially women. They can even contribute to over-indebtedness, especially when consumers borrow from unauthorized digital lending apps and peer-to-peer platforms, which may practice exorbitant interest rates, abusive debt collection or social shaming. If not adequately addressed, these risks are likely to erode consumer trust in digital financial services.

To maintain customers' trust in DFS and ensure positive outcomes, there is an urgent need for proactive action by regulators and supervisors, donors and investors, DFS providers and consumer groups. Access the research to learn more.

In Focus

CGAP Launches a Market Monitoring Toolkit to Advance Financial Consumer Protection

CGAP launched a Market Monitoring Toolkit, a set of tools that aim to help supervisors identify, understand, and track financial consumer risks, behaviours, and outcomes which allow for more pre-emptive and forward-looking supervisory work. It is especially valuable during times of rapid change when underserved and low-income consumers are targeted with a range of digital financial services that are exposing them to new and heightened risks, according to CGAP research.

Market monitoring enables financial market supervisors to gather deep insights about consumers' experiences with financial services based on analysis of supply- and demand-side data at a market level. It complements traditional supervisory efforts that focus on the performance and conduct of individual financial institutions.

CGAP's Market Monitoring Toolkit consists of different types of data-gathering and analytical procedures, case studies from a wide range of countries, and practical guidance for selecting and implementing individual tools. Using the Toolkit, financial and consumer protection supervisors will be better equipped to spot emerging consumer risks in financial services, assess and monitor regulatory compliance, and monitor overall market developments. It enables them to identify consumer risks early on and act promptly to prevent significant consumer harm.

Click here to access CGAP's Market Monitoring Toolkit

Current Issues Forum

FinCoNet & G20/OECD Task Force on Financial Consumer Protection meeting and International Seminar

Contributor: Secretariat

On 28-29 March 2022, FinCoNet held a joint meeting together with the G20/OECD Task Force on Financial Consumer Protection (the Task Force). The meeting was held virtually due to the ongoing travel and sanitary restrictions in place due to the COVID-19 pandemic.

Following the meeting, on 30 March 2022, FinCoNet and the Task Force hosted an International Seminar on Sustainable Finance through a Financial Consumer Protection Lens, also held virtually. Around 110 Delegates from 39 countries attended the meetings on each day, participating in an insightful and informative agenda including progress updates on key projects and workstreams, jurisdictional updates and discussions about key financial consumer protection issues. The first day of the joint meeting was chaired by Mr. Richard Monks, the Chair of the Task Force and the second day was chaired by Ms. Maria Lúcia Leitão, Chair of FinCoNet.

In opening the second day of the joint meeting, Ms Leitão, Chair of FinCoNet, reiterated the vitally important role of FinCoNet as part of ongoing international efforts to strengthen financial consumer protection, and thanked all FinCoNet Members for their support and engagement. She also expressed her appreciation for the joint work with the Task Force and the complementary nature of effective supervision and appropriate regulation.

This article summarises the key points discussed and the outcomes of the meetings. More information, including all presentations and document links can be found on the FinCoNet Community site.

Review of the G20/OECD High Level Principles on Financial Consumer Protection

The Review of the G20/OECD High Level Principles on Financial Consumer Protection is a major strategic project for the Task Force as it has been almost 10 years since the Principles were endorsed. These Principles have since become the leading international standard on financial consumer protection and are recognised by the Financial Stability Board as a key standard for sound financial systems. Reviewing the Principles, like any standard, is essential, to ensure they continue to reflect best practice and are forward-looking.

Delegates noted the update on the progress of the review since last meeting, including the publication of the Report on the Implementation of the Principles on 25 January 2022 reflecting the inputs and data provided by Task Force Delegates and key stakeholders. The Secretariat presented the results of the public and stakeholder consultation on the draft proposed revisions to the Principles, which included developments such as:

- the impact of accelerating digitalisation and the benefits and risks it brings for businesses and consumers;
- promoting sustainable and inclusive growth, and fostering integrated approaches to sustainable finance;

- supporting the financial well-being of individuals, families and communities, including those who may be vulnerable.

The feedback from the consultation has been carefully analysed and incorporated as far as possible into the latest proposed revisions to the Principles. The Secretariat noted that the review process is reaching the end of the drafting phase, before moving into the approval/endorsement phase via the G20 and the OECD.

Roundtable on Digitalisation: Artificial Intelligence and Consumer Protection

Delegates participated in a Roundtable discussion exploring the impacts, opportunities and risks of digitalisation for financial consumers and thus financial consumer protection policy makers. The increasing use of Artificial Intelligence (AI) and machine learning in the development of digital financial products and services for financial consumers is a topical area of interest for many market conduct supervisors.

Ms. Nikita Aggarwal from University of Oxford provided a presentation on fairness and the implications for the increasing use of AI and cross-sector regulation including data protection. Delegates also heard jurisdiction updates from Germany, India, United Kingdom and Singapore discussing consumer risks such as the potential for inappropriate, biased or discriminatory outcomes.

FinCoNet Standing Committee 2: Exit strategies from payment holidays: Supervisory approaches and challenges regarding the management of pre-arrears and arrears

The Chair of Standing Committee 2 (SC2), Mr Pedro Dias from Banco de Portugal, provided an update on the SC2 workstream on exit strategies from payment holidays, providing an overview of the high-level findings from the questionnaire and outlining the next steps for SC2 including analysing the questionnaire responses and drafting a report. SC2 is aiming to produce a report by the FinCoNet Annual General Meeting in November 2022.

FinCoNet Standing Committee 3: Supervisory challenges relating to the increase in digital transactions, especially payments

The Chair of Standing Committee 3 (SC3), Ms Magda Bianco from the Bank of Italy, presented the draft Report on supervisory challenges relating to the increase in digital transactions (especially payments), and outlined the next steps for SC3. The Report explores the impact of digitalisation and the increase in digital transactions, particularly payments, provides an overview of challenges for supervisors associated with cybersecurity and identifies effective approaches for conduct supervisors. FinCoNet Members are kindly requested to provide comments on the draft report to the Secretariat by 15 April 2022.

FinCoNet Standing Committee 4: Evolution of oversight for conduct supervisors in the context of COVID-19, including use of SupTech

The Chair of Standing Committee 4 (SC4), Ms Teresa Frick from the FCAC Canada, presented the findings of the survey on the evolution of oversight for conduct supervisors in the context of COVID-19, including of SupTech, and outlined the next steps for SC4. The presentation focussed on the use of SupTech tools in the new environment shaped by COVID-19, and the changes in the processes that market conduct supervisors have implemented due to the new conditions, particularly due to remote work. The Autorité des Marchés Financiers (AMF), Quebec, provided a case study example how the AMF collaborated with other government bodies, adapted supervisory activities, changed communication strategies and strengthened the development of data collection tools.

FinCoNet Standing Committee 6: Mortgage Distribution – Sales incentives, consumer outcomes and supervisory approaches

The Chair of Standing Committee 6 (SC6), Mr Chris Green from ASIC, provided an update on the SC6 workstream on mortgage distribution, provided an overview of the questionnaire and outlined the next steps for SC6. SC6 is examining mortgage distributions and the impact of sales incentives by comparing direct and indirect distribution methods, including risks and benefits to consumer outcomes and relevant supervisory approaches. The Financial Services Regulatory Authority of Ontario provided a case study example outlining the mortgage distribution sector in their jurisdiction. SC6 will distribute their survey in the upcoming weeks.

International Seminar on Sustainable Finance through a Financial Consumer Protection Lens.

The joint meeting was followed by an International Seminar on the topic of Sustainable Finance through a Financial Consumer Protection Lens.

The Seminar brought together financial consumer protection policy makers, regulators, supervisors, academics and other external stakeholders to hear from experts in the field and join an engaging discussion on the topic.

As the Task Force and FinCoNet turn their attention to the opportunities and risks of sustainable finance for consumers and the related issues for policy makers, regulators and supervisors, this Seminar provided an opportunity to explore relevant developments and perspectives.

Delegates heard a scene-setting presentation from Mr. Robert Patalano, Head of Financial Markets Division, OECD, on the issues for the financial sector and international developments. Mr. Patalano emphasised the need for guidance on disclosure requirements to improve consumer and environmental outcomes. Mr. Bryan Coughlan, Sustainable Finance Officer at the European Consumer Organisation (BEUC) gave a presentation discussing the opportunities, responsibilities and risks of sustainable finance for financial consumers. This presentation discussed consumer demand, the importance (and limitations) of transparency of reliable and comparable information, and a critique of shifting too much responsibility onto consumers to drive the sustainable transition. These presentations were followed by a panel discussion featuring representatives from the UK, Japan and the European Commission and touching upon the transition to sustainability, consumer trust and issues with 'greenwashing'. The Seminar was very timely given the review of the FCP Principles and in developing the Task Force PoW.

Looking ahead: FinCoNet Annual General Meeting 2022

The 2022 FinCoNet Annual General Meeting will take place in November 2022 (date tbc).

At this stage, it is expected that the AGM 2022 will be hosted by Banco de Portugal in Lisbon which has been deferred for two years due to the pandemic. Ms. Leitão noted that she is very much looking forward to welcoming all Members to Lisbon assuming the situation allows. FinCoNet Members will be advised about the arrangements for the AGM as we get closer to the event.

Financial and Economic Education Initiatives in Japan

Contributor: Financial Services Agency, Japan

The Financial Services Agency (FSA) has tackled financial and economic education to enhance the Japanese financial literacy level, dispatching lecturers to senior high schools and universities. Since the COVID-19 outbreak, the FSA has developed and published video tutorials and guides on its website and YouTube.

In addition, in November 2021, the Central Council for Financial Services Information under the Bank of Japan, in collaboration with the FSA and other relevant organizations, launched an e-learning program titled "MONEY × VITAMIN – Wisdoms of money management enriching one's well-being" mainly for university students and young business people. The course covers a wide range of financial matters, including economic mechanisms, interest rates and other financial fundamentals, life planning, borrowing, asset building, insurance and financial troubles. Program materials are made available for secondary use.

The FSA has not only provided numerous classes and enriched learning contents for senior high schools and universities as noted above, but also has released "Unko (Teacher Poopy) Money Drill" in March 2021 as a content for younger children to learn about financial literacy online. Unko (Teacher Poopy) Drill, published by Bunkyosha Co., Ltd., is a popular workbook series in Japan using the cute cartoon mascot of unko (poop) for questions, that has been very popular among children and sold more than 8.9 million copies. Unko (Teacher Poopy) Money Drill is child-oriented content created by the FSA in collaboration with Bunkyosha, and it has attracted great attention, even being taken up by the Financial Times. The drill consists of two editions open to the public on the Bunkyosya's website free of charge: "Daily Life edition," content to cover agendas dealing with everyday money-related events that children are likely to experience, and "Economy Edition," to help children to learn about the fun and troubles of business and economic mechanisms, such as how money circulates in society.

In Japan, financial and economic education for the young generation has recently attracted much attention due partly to changes in the social environment. These changes include the forthcoming lowering of the age of legal adulthood in April 2022, which, for example, will allow credit cards to be issued to people aged 18 or more, as well as the planned addition of financial education including such matters as asset accumulation concepts to educational guidelines for the home-economics course at senior high schools in April 2022. The growing attention to financial and economic education also reflects a rising tendency to view money management connected with a broader sense of each individual's life-planning.

FCA review finds evidence of growing competition in retail banking

Contributor: Financial Conduct Authority, United Kingdom

Building on the 2018 strategic review of retail banking, the FCA have published the 2022 final report on competition in retail banking markets. FCA findings indicate that despite the financial impact of the pandemic, greater competition in retail banking is driving increased choice and lower prices for consumers and small businesses.

Why the FCA have undertaken this work

The impact of Covid-19 has accelerated the move to digital banking and innovation, which resulted in significant impacts on consumers and personal financing, and increased financial pressure on banks. The FCA have sought to undertake this work as part of our role to promote competition in consumers' interests.

Key findings

There are signs that some of the historic advantages of large banks may be starting to weaken through innovation, digitalisation and changing consumer behaviour.

There are also clear findings that government and regulators have also played a part in creating a more competitive environment. For example, the FCA and the Prudential Regulation Authority (PRA) have streamlined our authorisations process and put in place new measures to make switching between banks quicker and easier. In SME (Small and Medium-sized Enterprises) banking, money has been awarded to help challengers as part of the Capability & Innovation Fund and Incentivised Switching Schemes.

The key general findings were mainly as follows:

- Large banks are facing heightened competition, in particular for Personal Current Accounts (PCAs) The gap in profitability between large banks and smaller competitors has reduced in recent years, driven by competition in mortgage prices, innovations in banking services and reduced ability to lower funding costs, partially due to FCA rules on switching & preventative measures on bank branch closures.
- Technological development, supported by the lowering of regulatory barriers to entry, has supported the entry of digital only banks with user-friendly banking apps. In the past, building market share has previously been an expensive process
- Digital challengers have rapidly gained shares in PCA and Business Current Account (BCA) markets. Digital challengers have attracted customers by offering incentives such as innovative mobile apps, which makes banking experiences easier and helps consumers manage their

money, often resulting in a lower volume of transaction & overdraft usage. These lead to lower funding benefits and a significantly reduced scope to generate fee income.

- Competition in the mortgage market has intensified, resulting in a reduction of yields; Smaller banks and building societies have struggled to compete with larger firms in the low-risk lending segment, with some competitors seeking yields in other segments, including higher risk areas of the market. Recent temporary support measures surrounding coronavirus and the FCA guidance on payment deferrals have helped to stabilise the housing market and protect consumers.
- Yields on consumer credit have also fallen, particularly in unarranged overdraft after the FCA overdraft remedy came into force in April 2020, which caused a significant decline in unarranged overdraft yields.
- The FCA found that increased competition and innovation have improved outcomes for many consumers and some small businesses. Larger banks have adopted digital innovation in PCA banking which has improved service quality for many consumers.

Next steps

Our aim is to provide an evidence-base through which to consider implications for our approach to regulating this sector, and to contribute to wider debates on regulatory policy.

There is also a continued need for us to ensure fair and equal treatment for all consumers, with particular focus those who may be classed as consumers in vulnerable circumstances, who may not benefit from increased competition. We are consulting on a new consumer duty which would set a higher level of consumer protection in retail financial markets where there may be vigorous competition.

The Banco de Portugal's approach to the supervision of credit intermediaries

Contributor: Tiago Prelhaz Santos, Banco de Portugal

Credit intermediaries are natural or legal persons that, while not authorised to grant credit, are involved in marketing consumer and mortgage credit agreements. As part of their activity, credit intermediaries may present or propose credit agreements to consumers, help consumers to prepare said agreements and enter into credit agreements on behalf of creditors. They may also be authorised to provide advisory services regarding credit agreements.

These entities, who often operate businesses such as car dealerships, real estate agencies or retailers, play a significant role in marketing mortgage and consumer credit agreements in Portugal.

The Portuguese legislator has regulated this activity since 2017, tasking the Banco de Portugal, the national banking conduct supervisory authority, with the oversight of credit intermediaries involved in both mortgage and consumer credit agreements.[1]

During the first few years following the entry into force of the legal framework applicable to credit intermediaries[2], the Banco de Portugal focused on integrating these entities into its supervisory perimeter, granting admission to those who complied with the applicable requirements and denying it to those who did not. After this period, the Banco de Portugal focused on the supervision of credit intermediaries' conduct.

As of March 2022, there were over 5510 credit intermediaries, spread throughout Portuguese territory. Although most credit intermediaries have establishments open to the public, they are increasingly resorting to digital channels, such as social networks and other digital platforms to promote their activity and provide credit intermediation and advisory services.

To ensure the supervision of credit intermediaries, the Banco de Portugal implemented a set of supervisory tools, comprised of advertisement oversight, on-site and off-site inspections and handling complaints.

Credit intermediaries may advertise their credit intermediation activity to the public and if they have entered into a binding agreement with creditors, may also produce and release advertisements related to credit products, as long as the creditor responsible for that product previously approved those advertisements.

The Banco de Portugal collects these advertisements, which may be disseminated through various channels, such as social networks, television, radio, newspapers and magazines, and verifies whether they are compliant with the applicable legal and regulatory requirements.

The Banco de Portugal also conducts on-site inspections to the credit intermediaries' establishments open to the public located throughout Portuguese territory, as well as off-site inspections to credit intermediaries' websites.

Considering credit intermediaries' territorial dispersion, the on-site inspections are mainly conducted through the Banco de Portugal's regional network, comprised of a Branch, two Regional Delegations and six District Agencies that cover the entirety of Portuguese territory.

Through these inspections, the Banco de Portugal assesses information about the credit intermediaries' activity made available at those credit intermediaries' establishments open to the public. These inspections also verify whether Complaints Books are available[3] and adequately publicised and if there is information on the competent authority responsible for handling complaints.

[1] In accordance with Decree-Law No. 81-C/2017, of 7 July 2017.

[2] Decree-Law No. 81-C/2017, of 7 July 2017, entered into force on 1 January 2018.

[3] In Portugal, all goods suppliers and service providers, including credit intermediaries, must have a Complaints Book available at each of their establishments open to the public and are required to present it to consumers upon request.

Off-site inspections assess the information regarding the credit intermediaries' activity available on credit intermediaries' websites. When these inspections target credit intermediaries that conduct business exclusively via distance communication, the adequacy of their customer services channels is also assessed. Off-site inspections may also assess compliance with other rules governing credit intermediation and the provision of advisory services, such as the rules applicable to the advertising of credit intermediary activity and credit products.

The Banco de Portugal, as the national banking conduct supervisory authority, is the competent authority to handle consumers' complaints against firms under its remit (credit institutions, financial companies, payment institutions, electronic money institutions and credit intermediaries). Consumers can submit complaints about credit intermediaries through the Complaints Book, available in physical form at their establishments and in digital form at www.livroreclamacoes.pt, or directly to the Banco de Portugal, via the Bank Customer Website (https://clientebancario.bportugal.pt/en/formulario-nova-reclamacao).

Analysing complaints allows the Banco de Portugal to evaluate if credit intermediaries comply with the legal and regulatory framework applicable to their activity.

These supervisory tools are complemented by creditors' monitoring of credit intermediaries with whom they enter into a binding agreement. Creditors are required to inform the Banco de Portugal of any facts that may compromise compliance with the admission requirements by those credit intermediaries. They shall also inform the Banco de Portugal of any facts that may jeopardise the good repute, the knowledge and competence or the neutrality of the members of the credit intermediaries' management bodies or of those appointed as technical manager for the credit intermediaries' activity[4].

Whenever, in the course of its supervisory activities, the Banco de Portugal identifies breaches of the legal and regulatory framework applicable to credit intermediaries, it adopts the measures deemed appropriate to each situation.

These measures include issuing specific orders, requiring credit intermediaries to refrain from certain actions, correct the irregularities in question and comply with applicable rules. For instance, in advertisement oversight, the Banco de Portugal may issue specific orders demanding that the infringing advertisement be removed from circulation. The Banco de Portugal also initiates administrative proceedings and, in certain circumstances, starts procedures to withdraw the admission granted to infringing credit intermediaries.

The Banco de Portugal evaluated the impact of the legal framework governing credit intermediaries, publishing its conclusions in an impact assessment report (March 2021)[5]. In this assessment, the Banco de Portugal took into consideration its supervisory experience and the contributions put forward by representatives of all stakeholders – creditors, credit intermediaries and consumers – concluding that

[4] According to Portuguese law, the knowledge and competence requirements applicable to members of the management bodies of the credit intermediaries who engage in the activity of credit intermediary or provide advisory services only in relation to consumer credit agreements may be fulfilled with the appointment of at least one natural person as technical manager for the activity of credit intermediary.

[5] Relatório de Avaliação do Impacto do Regime Jurídico dos Intermediários de Crédito, available at https://clientebancario.bportugal.pt/pt-pt/publicacao/relatorio-de-avaliacao-do-impacto-do-regime-juridico-dos-intermediarios-de-credito (in Portuguese only).

the aforementioned legal framework had a positive overall effect on the functioning of the mortgage and consumer credit markets.

This assessment also highlighted that the digitalisation of the credit intermediary activity, namely through the increased use of digital channels to promote and provide credit intermediation and advisory services, poses relevant challenges to the supervision of credit intermediaries. Therefore, the Banco de Portugal will remain vigilant, in order to detect any need to improve and adapt its supervisory approach to the realities of the market.

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/

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