FinCoNet
INTERNATIONAL FINANCIAL CONSUMER PROTECTION ORGANISATION

In this issue

Welcome

Dear FinCoNet Members,

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

I am pleased to share with you this third 2022 edition of the FinCoNet newsletter, which includes articles provided from the Financial Markets Authority of New Zealand, the Banco de España, and the Central Bank of Ireland.

The In Focus section of this Newsletter includes information on the FinCoNet Annual General Meeting and International Seminar to be hosted by the Banco de Portugal in Lisbon on 21-23 November 2022. Three new publications by CGAP are also highlighted.

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

Maria Lúcia Leitão
Chair, FinCoNet

This third 2022 issue of the FinCoNet Newsletter includes:

In Focus

FinCoNet Annual General Meeting & International Seminar

21-23 November 2022, Lisbon, Portugal

The FinCoNet Annual General Meeting will be hosted by the Banco de Portugal in Lisbon, Portugal on 21-22 November 2022, and will be directly followed by the FinCoNet/Banco de Portugal International Seminar on Financial Consumer Protection, on 23 November 2022.

FinCoNet AGM

The AGM open sessions will commence at 13.00 on 21 November 2022, and will be opened by the Chair of FinCoNet, Maria Lúcia Leitão. The FinCoNet Secretariat will provide an update on the joint work that FinCoNet is undertaking with other International Organisations and groups and then Standing Committees 2 and 3 will present their on-going work. Participants will also have the opportunity to engage in a roundtable session focused on forward looking supervisory risks, trends and priorities.

Day two, 22 November 2022, will start with a presentation of the FinCoNet Programme of Work 2023/4 and then continue with an update from Standing Committees 4 and 6. The rest of the session will be dedicated to a workshop focussed on the risks to consumers, the challenges facing supervisors and the supervisory tools used to monitor and respond to new forms of credit or credit-like products such as Buy Now, Pay Later.

FinCoNet/Banco de Portugal International Seminar on Financial Consumer Protection :

The Seminar, which will be held on day three, 23 November 2022, and co-hosted by FinCoNet and the Banco de Portugal will address the topic of ***Market Conduct Supervision: reviewing the fundamentals and facing challenges ahead.***

The first session of the Seminar will review the fundamental elements of what makes an effective and efficient market conduct supervisor, including the capabilities required and range of tools that can be deployed. The second session of the Seminar will explore market conduct supervision in the modern world – the challenges facing market conduct supervisors now and looking ahead.

In Focus

CGAP: Recent Publications

Customer Outcomes-Based Approach: A Guide to Measuring Outcomes

CGAP's recent pilot in South Africa with the Financial Sector Conduct Authority (FSCA) and five financial service providers (FSPs) is the first collaboration between a financial authority and FSPs on developing indicators that monitor the effects FSP actions have on customers—referred to by CGAP as "intermediate customer outcomes". These intermediate outcomes are then translated into business practices, policies and regulations, and design and accompanied by metrics that can track outcomes. By putting special emphasis on customer segmentation, the indicators empower authorities and FSPs to better identify and understand experiences, risks, and outcomes of segments of low-income customers including underserved women. With many actors in the financial inclusion space promoting consumer protection, this pilot demonstrates how regulators and supervisors, with collaboration from FSPs, can measure whether financial services are offered responsibly and are adapted to the immediate needs of customers.

Rethinking Consumer Protection: A responsible digital finance ecosystem (Leadership Essay)

With the rapidly changing digital finance market bringing new risks that can only be addressed through a new, holistic approach to consumer protection, this leadership essay argues that it is now time to build a "responsible digital finance ecosystem", where core market actors—consumers, providers, policymakers, and market facilitators—come together to find solutions to analyze, manage and mitigate consumer risks.

Peruvian Authorities Pilot Tool to Improve Consumer Listening

CGAP and Accenture LLP (Accenture) launched a pilot to help Peruvian authorities assess their consumer listening mechanisms and determine the necessary steps to design an integrated financial consumer protection platform.

New Zealand FMA review of ethical investing claims in managed funds

Contributor: Paul Gregory and Tammy Peyper, New Zealand Financial Markets Authority

The Financial Markets Authority (FMA) – Te Mana Tātai Hokohoko has undertaken a review of 14 KiwiSaver and other managed funds to establish how well they are applying the FMA's integrated financial product (IFP) guidance.

The review was conducted against a backdrop of FMA research that discovered retail investors find it difficult to make informed decisions about ethical investing.

FMA research[1,2] shows 68% of New Zealand investors prefer their money to be invested ethically and responsibly. However, of these investors who prefer their money invested ethically, only 26% have selected a fund manager based on ethical credentials; 51% have not, and 23% have looked into it but not taken action.

The findings complement separate, qualitative focus group research by the FMA to better understand how investors make decisions about ethical investments. The research found most investors do not fully read a Product Disclosure Statement (PDS), instead relying on fund managers' websites and marketing materials, as well as the opinions of friends.

Thematic disclosure report

The FMA conducted a high-level review of 14 KiwiSaver and non-KiwiSaver funds claiming to be ethical, responsible, sustainable or otherwise considered ESG-oriented[3], to evaluate fund managers' uptake of the FMA's integrated financial product (IFP)[4] guidance, issued in December 2020.

The review focussed on how well fund managers had applied the guidance to their formal and informal disclosures. It did not inspect ESG funds' actual investment allocations. Directors and supervisors are liable for ensuring the actual investment allocations match promises made in fund labelling.

Report findings include:

- The need for fund managers to explain why their funds had chosen to exclude certain companies or sectors, and also how they would decide whether to exclude companies based on future developments.

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[1] The FMA commissioned a nationwide survey online among a representative sample of 2,509 New Zealanders aged 18 and over between 15 March and 11 April 2022.

[2] The research contains findings from a qualitative study interviewing a range of New Zealanders about their experience with ethical investments.

[3] The sample of funds was selected based on keywords in the fund name or fund description indicating the fund's promotion as an IFP fund, such as socially responsible, impact, ESG and environmental.

[4] Integrated Financial Product is the FMA's term for the practice of considering ESG risks and opportunities within an investment process.

- We observed some "blurring of the line" between financial and non-financial factors, as many factors regarded as non-financial will have a financial impact over time. For example, it is commonly argued failing to address climate change will eventually affect company returns, or that a diversity or inclusion policy will reduce a company's staff turnover.

- Fund managers using a 'positive screening' approach (where a fund 'tilts' investment toward activities it regards as contributing to positive non-financial objectives or outcomes) need to do more to explain how the fund will select investments consistent with their approach.

- In some cases, descriptions of the fund's non-financial benefits or objectives were so high level or subjective as to be of no value, for example saying that "the fund's returns will be financial and a reduced climate impact", or that the fund will have a "climate impact" or engage in "active ownership".

- Funds failed to provide adequate information on measurement of performance, reporting and the consequences of breaches. Investors would find it difficult to understand what a fund would do in the event of a breach of its policies, and how, or even if, a fund is meeting its objectives.

Qualitative research

The focus group research revealed that, once committed, ethical investors generally do not monitor the ongoing ethical performance of their chosen fund, nor do they consider replacing it with another.

Other key findings from the focus group research included:

- While some investors consider an ethical investment because they want to choose something which matches firmly held values, or because they want to have a specific impact, others consider an ethical investment from a general sense of not wanting to 'feel guilty'.

- The ESG category is difficult to navigate and people are not confident about what to look for.

- The terminology used when describing ethical investment options is diverse and confusing to people. Most respondents use the word 'ethical' when describing these options, as opposed to ESG or 'green' and other similar terms.

- People are less likely to purchase an ethical product the longer it takes to conduct research.

- Smaller providers are more likely to be seen as ethical than larger ones.

Download:

- Report: Integrated financial products: Review of managed fund documentation

- Investor research: Ethical Investment Journey Research

- Guidance: Disclosure framework for integrated financial products (Dec 2020)

- Investor materials:

    - Ethical investing for investors

    - Ethical investing case studies: What kind of ethical investor are you?

New Zealand FMA Consumer Experience with the Financial Sector Survey

Contributor: Tammy Peyper, New Zealand Financial Markets Authority

The Consumer Experience with the Financial Sector survey is The Financial Markets Authority (FMA) – Te Mana Tātai Hokohoko's inaugural, nationally representative survey of New Zealand consumers.

The FMA commissioned the survey to gain a comprehensive understanding of consumer experiences with the financial sector. The research reveals insights into the mindset and motivations of consumers as they manage their money and deal with financial services firms.

The main research objectives were to:

- **Understand consumer mindset and context**: Understand and segment the demographic and psychographic profiles of a range of consumer and investor groups, including New Zealand adults with characteristics of vulnerability.
- **Identify emerging risks** to provide evidence on where the FMA needs to take action or shift focus and assist in informing future strategic decision making of the FMA
- **Product and service usage**: Understand consumers' current product holdings
- **Trust, confidence and fairness**: Measure consumer trust and confidence in the NZ financial sector and whether they think they are getting a fair deal
- **Consumer experience**: Understand the consumer experience, behaviour and attitudes towards the financial sector, products, and services
- **Impact of financial advice**: Understand who does and doesn't use financial advice, why they do or don't, and how they use it.
- **Trusted information sources**: Understand which information sources consumers and investors use and trust
- **Consumer knowledge of regulations and protections**: Evaluate consumer knowledge of financial regulations and protections.

This research is part of a commitment by the FMA to build a better understanding of consumers to help shape our regulation of the financial sector and deliver on our objectives. The data also provides valuable insights for the financial services industry, other Government agencies and consumer bodies.

The survey was conducted between 15 March and 11 April 2022 among a nationally representative sample of 2,509 New Zealanders covering a range of topics on financial products and services. More detail on the research approach and methodology can be found within the Technical Report in the appendix of the research report.

Download:

Report: Consumer Experience with the Financial Sector Survey

The Banco de España reviews the payment service provider procedures in place to help customers change accounts

Contributor: Fernando Tejada, Banco de España

The Banco de España has conducted a supervisory action in relation to 19 institutions which, as a whole, have a significant market share in payment accounts. The aim was to learn how institutions provide the payment account switching service and to verify compliance with the regulations.

The payment account switching service seeks to allow consumers to benefit from the market's most advantageous offers and to easily change their payment accounts for others better suited to their interests and needs. To this end, institutions should help customers switch accounts efficiently and swiftly, without imposing on them obligations which the institutions themselves should assume. The account switching service is regulated by Royal Decree-Law 19/2017 and implemented by Ministerial Order ECE/228/2019 of 28 February 2019. This legislation establishes a procedure for switching accounts. Specifically, it requires the two payment service providers involved to actively collaborate, exchange all the information necessary and carry out the actions set out in the legislation within 13 business days, free of charge. The legislation also addresses the possibility for banks to refuse to transfer the balance when there are outstanding payment obligations.

The Banco de España's supervisory action has enabled it to gain adequate knowledge about the functioning of the payment account switching service and the associated procedures carried out by banks. It has also enabled it to identify the conditions payment service providers must meet to facilitate an efficient and swift switching of accounts. These include, among others:

- Keeping their procedures updated.
- Making the account switching application form available to customers both on their website (duly visible) and in all the branch offices, with sufficiently clear, concise and comprehensive information.
- Providing for the switch to be carried out off-site when services are provided remotely.
- Being prepared to send a copy of the customer's authorisation to payers who regularly make incoming transfers and to the beneficiaries of direct debits, so that the customer does not have to directly manage the changes.
- Ensuring that the existence of outstanding obligations is no reason for denying the switch, but only for refusing to transfer the account's credit balance.
- Informing applicants of the reasons why the switching process may not have been possible.

As a result of the action conducted, best practice criteria have been identified. Certain weaknesses regarding compliance with transparency and consumer protection legislation have also been observed. Accordingly, the Banco de España has contacted the institutions to ensure that the account switching service is fully effective and compliant with the applicable legislation.

Central Bank of Ireland warns of risk of under-insurance

Contributor: Central Bank of Ireland

The Central Bank of Ireland has written to insurance firms, outlining findings from a review of the risk posed to consumers of not having sufficient home insurance cover. The Review was undertaken because consumers are currently facing increasing rebuild costs, which affects the level of insurance cover that a consumer should have on their property. This can leave consumers at risk of not being fully covered for their losses if they have to make a home insurance claim.

The Review found that:

- Under-insurance in the home insurance market has been steadily increasing over the last 5 years, from an average of 6.5% of paid claims being under-insured in 2017, up to 16.5% in 2021.[1]
- For those that have had their claim reduced due to under-insurance, the average reduction in the claim payment was approximately 19% in 2021, meaning that those customers would have incurred substantial costs to fully meet the cost of their claim.
- There are differences in the way insurance firms present and provide key information to consumers. Firms do remind consumers of the need to review their sum insured; however, more could be done by firms to highlight the practical consequences of under-insuring their home.

The Review identified areas where further action is expected from firms to ensure proactive steps are taken to lessen this risk and make consumers aware of the implications of under-insurance including:

- Communicate the risk of under-insurance to customers in a clear and understandable way
- Better manage the increased consumer risks

Firms are expected to be proactive in identifying emerging risks to consumers and to support their customers in mitigating those risks. This requires firms to have a fully embedded, and fit-for-purpose, Consumer Protection Risk Management Framework to identify and manage the risks that the firm's external operating environment, strategy, business model, internal processes and procedures pose to consumer protection. Taking a customer-centric approach to all issues ensures firms protect consumers' interests and prioritise customer needs and outcomes.

The Central Bank also encouraged consumers to check that they have adequate home insurance cover in place when renewing or switching their policy. When reviewing home insurance cover, consumers should not focus on the premium alone but also on the level of buildings and contents cover that is currently in place to ensure it remains appropriate. These details should be reviewed regularly, checking with their insurer or broker as appropriate, to avoid the risk of receiving a reduced payment in the event of a claim. To support consumers, the Central Bank also published a consumer explainer, to provide information to consumers on how to avoid being under-insured.

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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