New practices and emerging solutions in response to the challenges facing market conduct supervisors now and in the future

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Agenda – Challenges

01
Facing the (digital) market evolution

02
Reducing the «time to market»

03
Beyond disclosure

04
Developing cooperation and synergies

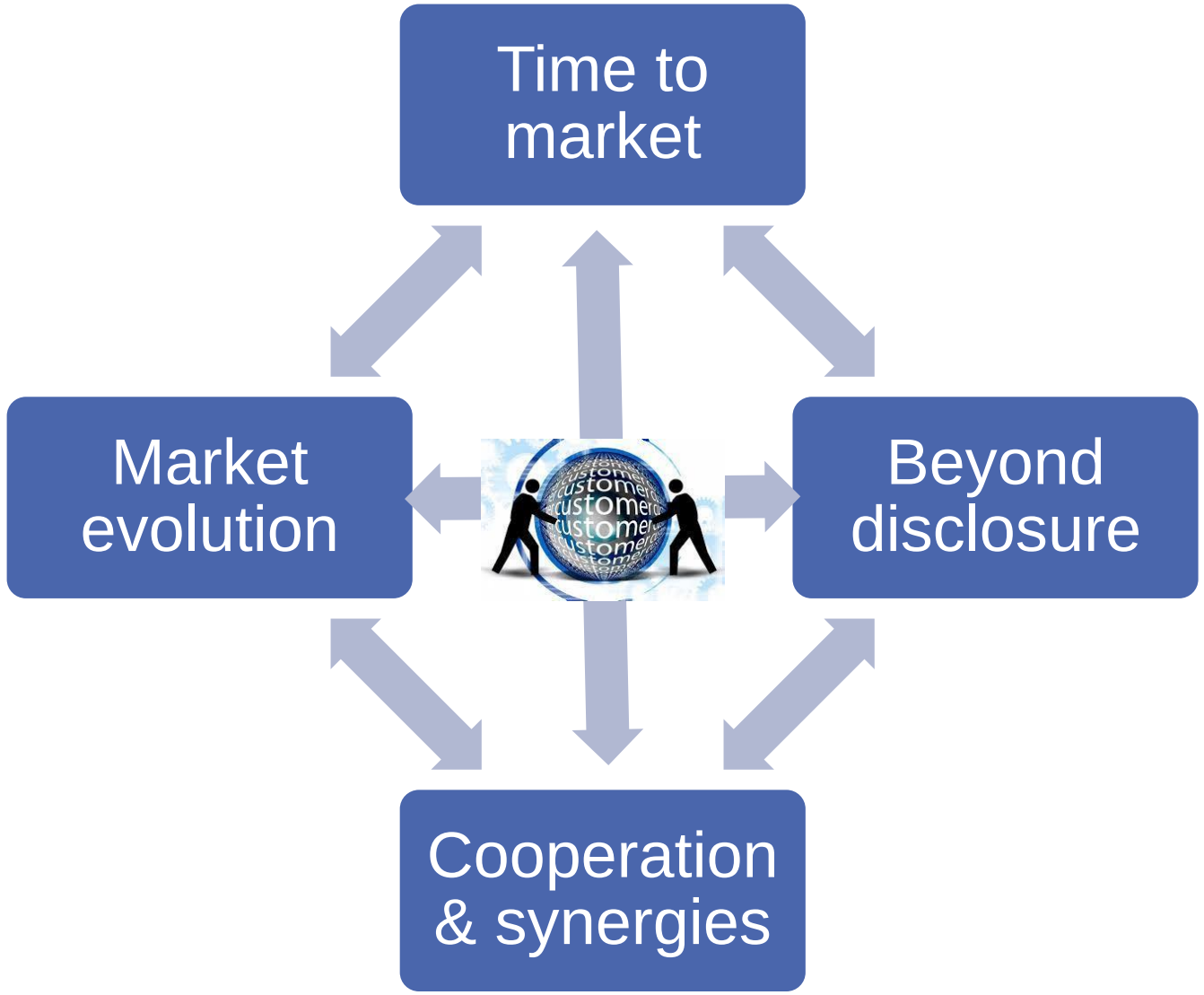
A circular agenda

Market conduct supervisors are facing extraordinary challenges driven by innovation.

Innovation is both a driver of opportunities and risks for customers

A proactive attitude is requested to Authorities

- Reinforce traditional tools
- Implement innovative solutions
- Dialogue with the market



1. Facing the (digital) market evolution

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The **rapid evolution** of the market (in particular, payment), pushed by **digital** innovation, poses new challenges for regulators and market conduct supervisors.

New **products** and new **actors** are populating the market.

We need to **monitor the market** and **accompany its evolution** in order to **anticipate** (and, possibly, avoid) detriment for consumers.

Why?

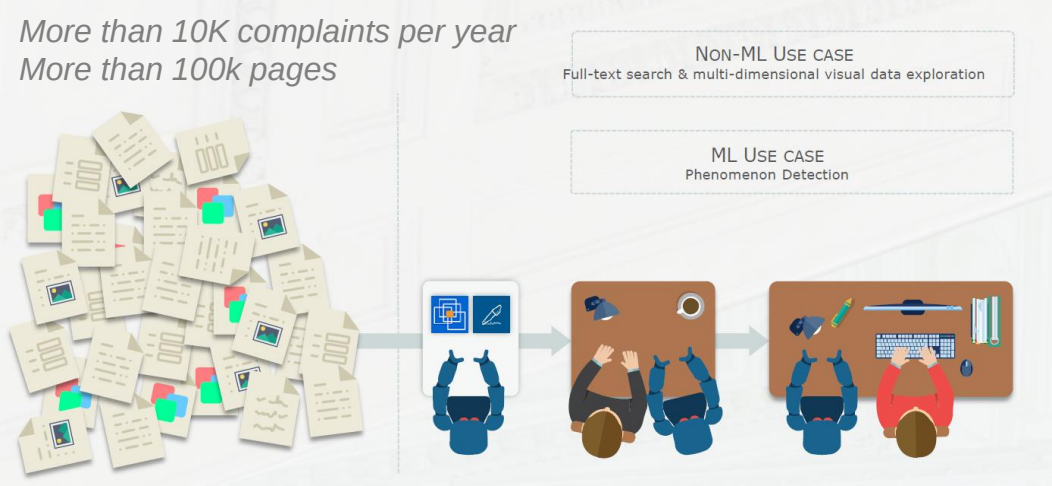
How?

- Developing **risk indicators** (exploiting existing data and set up new database)
- Exploiting the opportunities offered by technology (**SupTech** application)
- Defining a new strategy of **dialogue with the market**

Bank of Italy's SupTech initiatives in the field of consumer protection

EspTech (**Esp**osti = Complaints)

The EspTech tool is an IT solution based on text mining and machine learning technologies that is used for managing and handling the complaints directly reported from customers to the Bank of Italy.



The tool digitises, standardises and transforms the information into **machine-readable text.**

With a sophisticated machine-learning model, it automatically **detects common phenomena** based on the semantic content of documents and processes all the information.

The results are presented to supervision analysts by giving a quicker and easier access to information on complaints.

Bank of Italy's initiatives for the market

Fintech Channel

Discussion

A communication channel that can be easily identified on the Bank's website and an immediate contact point capable of supporting and responding to the various needs of the operators.

The discussion is multifunctional and involves the various Bank of Italy Directorates

Milano Hub

Development

A place to stimulate the adoption of the most advanced technologies in the banking and financial fields, to strengthen the level of knowledge and awareness of the opportunities offered by digitalization.

Analysis and design of solutions/models right up to the pre-marketing phase

Sandbox

Testing

(in coordination with Consob and IVASS)
A space to allow operators to test innovative products, services and business models in a defined (and possibly adapted) regulatory context and under the supervision of competent Authorities.

Testing of the solutions in a real but controlled environment

REQUESTS FOR EXPLANATION

ANALYSIS

PLANNING

DESIGN

EXPERIMENTATION

2. Reducing the «time to market»

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products, actors, customer journeys, complex ecosystem.

Supervisors should be able to address detected criticalities with the appropriate tools and in a timely manner.

Why?

Complementing regulation with:

- Supervisory expectations
- Guidelines
- Best practices
- Warning to consumers

How?

Proven EBA tools for consumer protection purposes

Communication by Banca d'Italia on Decentralized Technology in Finance and Crypto-assets

Bank of Italy - Communication by Banca d'Italia on Decentralized Technology in Finance and Crypto-assets (bancaditalia.it)

The communication:

- ✓ **anticipates** upcoming regulation and **extends** principles to actors and technological solutions that will not be included in the scope of application of the new rules;
- ✓ highlights the importance of **principles** and **good practices** which, although not binding, **mitigate the risks** associated with the use of Decentralized technologies;
- ✓ stimulates market participants to identify **mitigation actions** to monitoring critical issues;
- ✓ emphasizes the **importance of technology** – distributed register technologies and smart contracts – for connecting different actors even in the absence of mutual contractual relations.

3. Beyond disclosure

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Disclosure is not enough to protect consumers in a digital financial ecosystem:

- ✓ adapt rules to the new customer journey;
- ✓ risks of financial exclusion for non-digital clients;
- ✓ need to raise awareness (on risks, rules and rights) when approaching banking and financial products and services.

Why?

How?

- ❖ Rules and controls focused also on **fairness** (e.g. POG, mystery shopping/surfing)
- ❖ Strengthening **self-protection tools** and their knowledge by consumers;
- ❖ Developing targeted programs of **financial education** and **awareness** compaign;
- ❖ All protection «pillars» work together.

Mystery shopping

Regulation 1093/2010
Establishing the
European Banking Authority

Article 9

Tasks related to consumer protection and financial activities

1. The Authority shall take a leading role in promoting transparency, simplicity and fairness in the market for consumer financial products or services across the internal market, including by:

(g) coordinating mystery shopping activities of competent authorities, if applicable.

REGULATION (EU) 2017/2394 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

of 12 December 2017

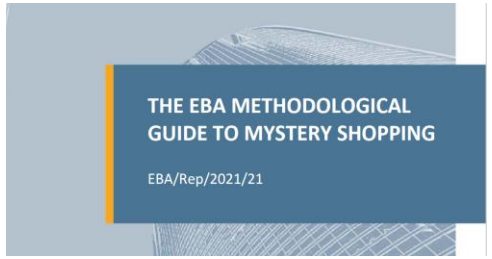
on cooperation between national authorities responsible for the enforcement of consumer protection laws and repealing Regulation (EC) No 2006/2004

Article 9

Minimum powers of competent authorities

1. Each competent authority shall have the minimum investigation and enforcement powers set out in paragraphs 3, 4, 6 and 7 of this Article that are necessary for the application of this Regulation and shall exercise those powers in accordance with Article 10.

(d) the power to purchase goods or services as test purchases, where necessary, under a cover identity, in order to detect infringements covered by this Regulation and to obtain evidence, including the power to inspect, observe, study, disassemble or test goods or services.



A fundamental investigation
power for conduct authorities (already in use or under development)

4. Cooperation and synergies

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Digitalization transcends geographical boundaries

New actors in the ecosystem are of different nature and often non regulated

Best practices and principles must be shared, technically feasible, flexible

Why?

How?

- **Sharing experiences** with peers and building on best practices: the relevance of international bodies;
- **Dialogue** with the market and all relevant stakeholders;
- **Cooperation** public and private sector to develop best practices and common standards.

Smart contracts - Memorandum of understanding

The Bank of Italy, **Università Cattolica del Sacro Cuore and Roma Tre University** have signed a memorandum of understanding (MoU) to carry out research on the characteristics of **smart contracts** used by distributed ledger technology (DLT) infrastructures for the **provision of banking, financial and insurance services**.

The initiative - which follows up on what was set out in the Bank's Communication of 15 June 2022 on decentralized technologies in finance and crypto-assets - also aims to define **good practices to be offered as a reference point** to market operators, including technology intermediaries and algorithm developers.

Other public or private entities, including foreign ones, wishing to contribute to the development of the project may join in the memorandum of understanding.

Thank you!

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