Market Monitoring

Enabling customer-centric conduct supervision in digital finance

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What is a Responsible Finance Ecosystem?

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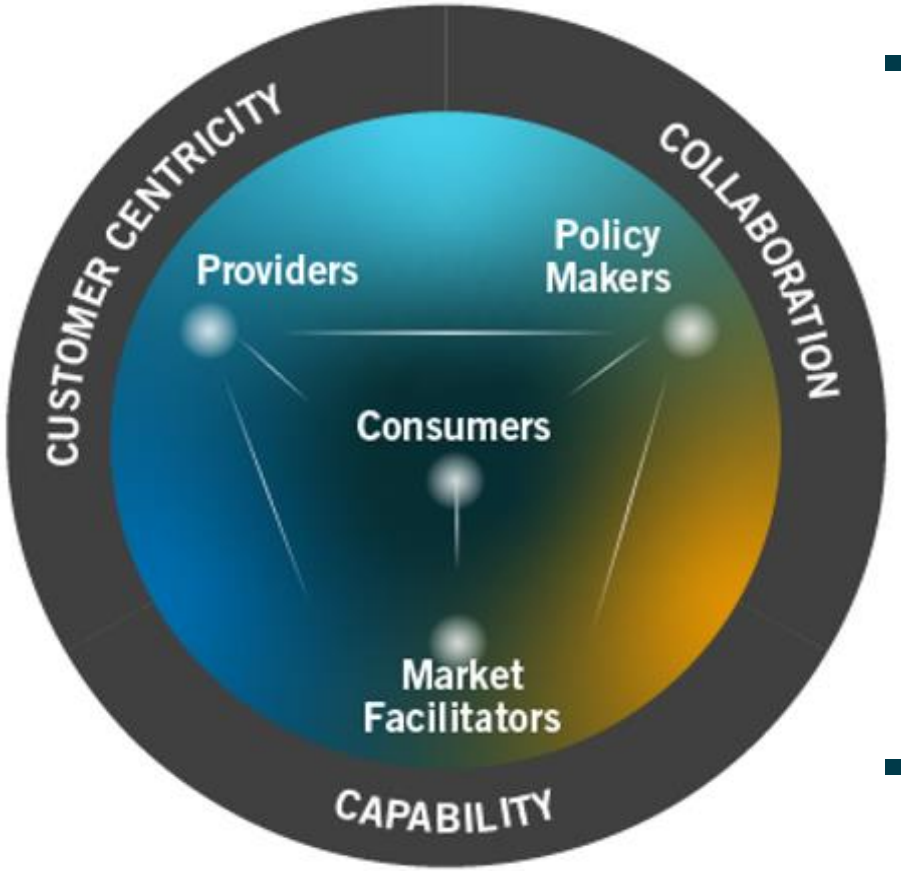
A responsible finance ecosystem approach

A responsible finance ecosystem approach takes a holistic approach to protecting consumers, whereby all key actors interact in a way that protects and ensures positive outcomes for customers using financial services, especially women and vulnerable consumers.



- Three conditions (3Cs):

  1. **Customer-centricity** better protects consumers by putting them at the core of any initiative.

  2. Key actors have the **capability** to contribute to a responsible ecosystem.

  3. **Collaboration** involves structured and constructive relationships between actors in the ecosystem.

- Monitoring collective progress and measuring success through customer outcomes will tie the 3Cs together.

Why is market monitoring important for supervisors in RFE?

- Holisticness: Takes a broader look at a sector, as opposed to a narrow focus on individual providers
- Customer centricity: Helps better understand consumer risks, behaviors, experiences
- Capability: Helps proactively identify and act on issues that deserve attention, as well as prioritizing resources
- Staying current: Gathers insights before they may be reported by providers or consumers
- Forward-looking: Identifies innovative products, services and providers, and emerging risks
- Moral suasion: Lets lightly-supervised institutions know they are monitored
- Collaboration: Enables evidence-based dialogues

How Can Supervisors Act on Market Monitoring?

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Identifying where you are in your monitoring journey…

- Add a market perspective to your institution-focused analyses of regulatory reports
- Produce market-focused outputs

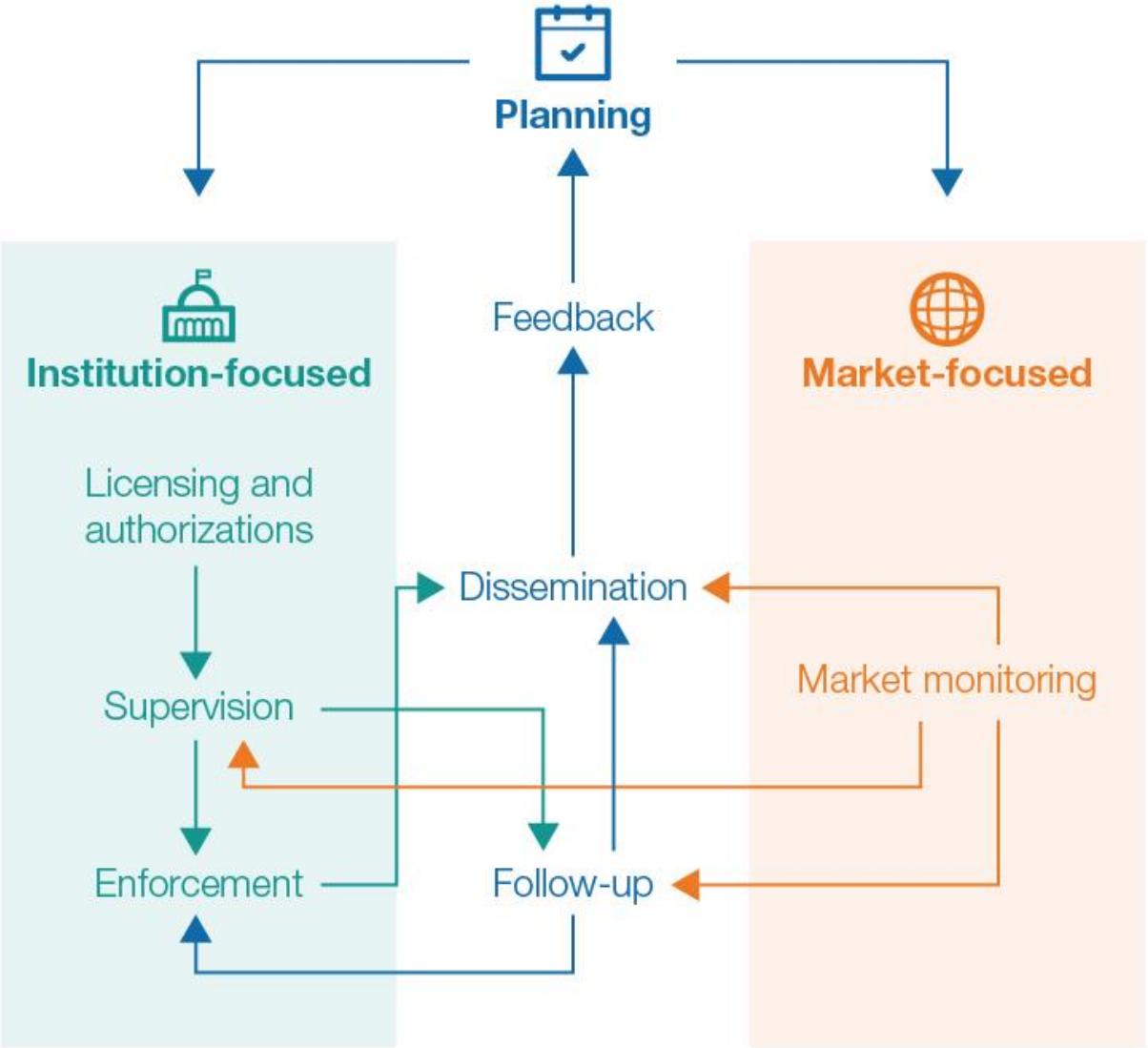
- Identify gaps in resources and skills
- Plan use of staff and budget
- Clarify objectives and scope
- Consider gradual expansion of scope

- Assign activities to supervisors
- Rotate assigned staff and assign market monitoring to dedicated staff
- Coordinate with institution-focused supervision

- Market monitoring and entity supervision can coexist in the early stages
- Evolve to a dedicated expert or team

- Plan for improved data quality and data analytics
- Start with strong regulatory reporting
- Progress toward a mix of tools and use of suptech

… And how market monitoring fits your supervisory activities



Who can do market monitoring?

- Dedicated monitoring or research
- Macro or sector supervision
- Institution-focused supervision

Establishing a strong foundation for market monitoring

Market monitoring		
Legal mandate	Staff adequacy	High-quality data

A. <u>Assess regulatory reporting data quality</u>

1. Map data needs & gaps
2. Assess the appropriateness of reporting
3. Identify preliminary data needs for MM

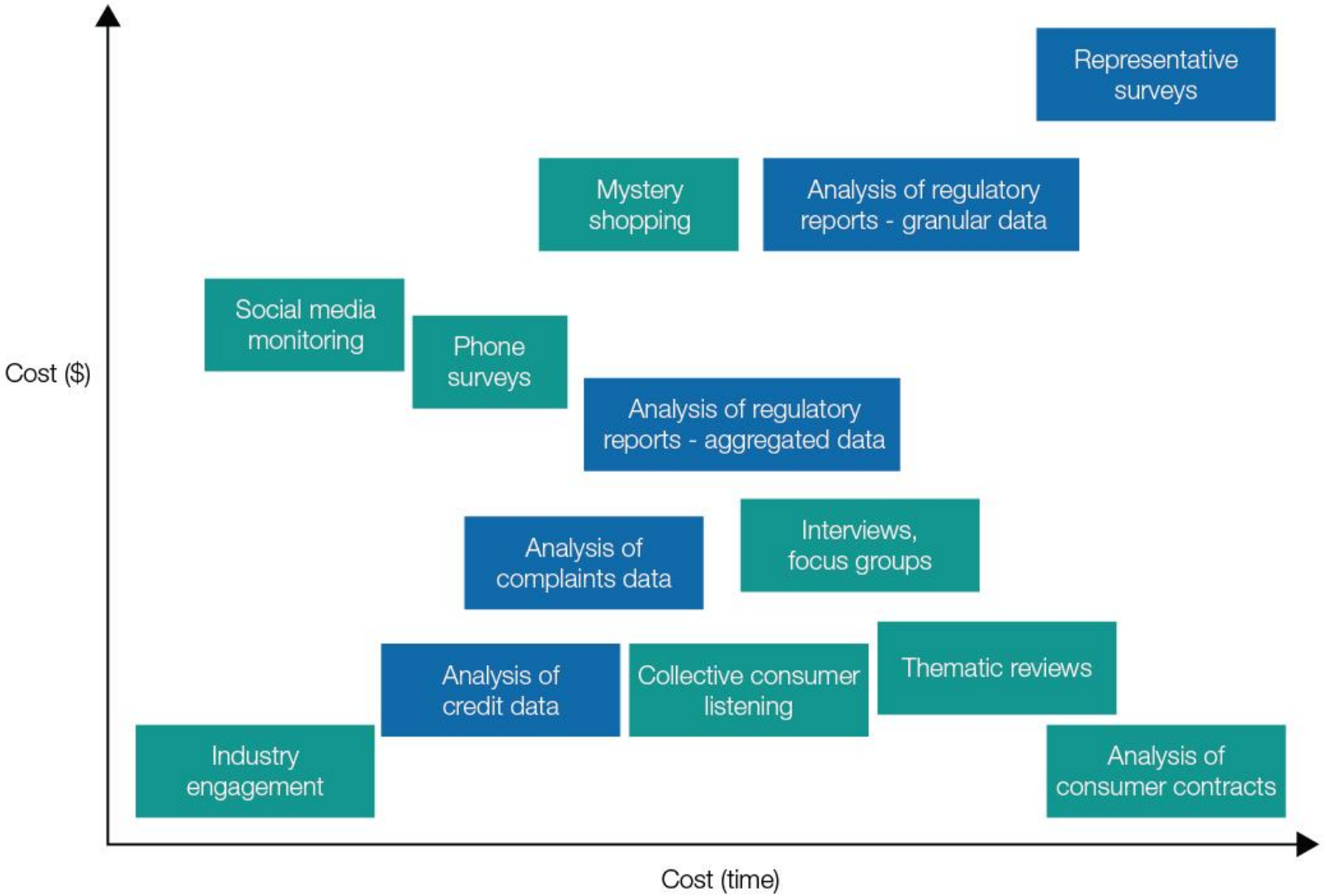
B. <u>Use data strategy to prioritize actions</u>

1. Identify approach to data collection, storage, management, analysis and visualization
2. Set priorities for improvements
3. For each improvement:
    1. Identify benefits, limitations, weaknesses
    2. Assess needed analytical and technical resources
    3. Develop budget and timeframe

Selecting an appropriate mix of tools based on objectives…

Supervisory objective	Analysis of regulatory reports	Analysis of complaints data	Social media monitoring	Analysis of consumer contracts	Mystery shopping	Industry engagement	Thematic reviews	Phone surveys
Monitor indicators of consumer risk	✓	✓						
Monitor over-indebtedness	✓					✓		✓
Monitor sales and marketing practices		✓		✓	✓	✓	✓	
Monitor products in the market			✓	✓	✓	✓	✓	✓
Monitor consumer complaints	✓	✓	✓	✓			✓	✓
Monitor gender-based risks	✓		✓	✓	✓		✓	✓
Monitor consumer sentiment toward FSPs			✓					✓
Monitor emerging consumer issues			✓	✓		✓	✓	

… and costs


Representative surveys
Mystery shopping
Analysis of regulatory reports - granular data
Social media monitoring
Phone surveys
Analysis of regulatory reports - aggregated data
Cost ($)
Analysis of complaints data
Interviews, focus groups
Analysis of credit data
Collective consumer listening
Thematic reviews
Industry engagement
Analysis of consumer contracts
Cost (time)

How to Implement Market Monitoring Tools for Consumer Protection?

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Market Monitoring Toolkit – Tools & Cases

Analysis of regulatory reports	Analysis of complaints data	Phone surveys	Social media monitoring
Analysis of consumer contracts	Mystery shopping	Industry engagement	Thematic reviews

Mexico	Tanzania	Kenya
Ireland	Portugal	Russian Federation

Tools and cases that refer the use of Suptech

- Introduction
- Market Monitoring Tools
- Country Cases
- Taking Action
  - Supervisors
  - Other stakeholders
- Further Resources
  - Market monitoring FAQ
  - Suptech FAQ
  - What standard setters say
  - Other resources

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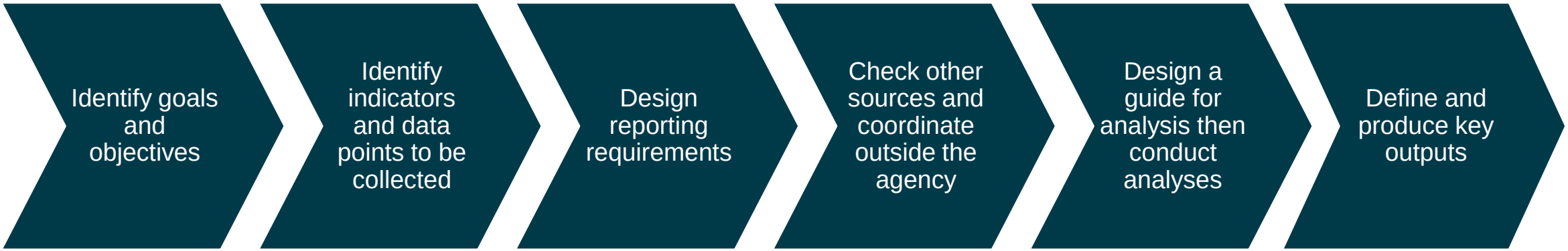
Analysis of Regulatory Reports – Implementation guide

How to use this tool?



Which risks and developments do we need to monitor and why?

Which indicators give information about those risks and develop-ments and which data points are needed?

Which additional data points do we need to complement those the agency already collects?

Which additional data points do we need that other agencies are not collecting?

What type of analysis may the specialists carry out based on the type of collected data?
What data can help?

What type of outputs –and with what frequency– are most useful for different internal and external audiences?

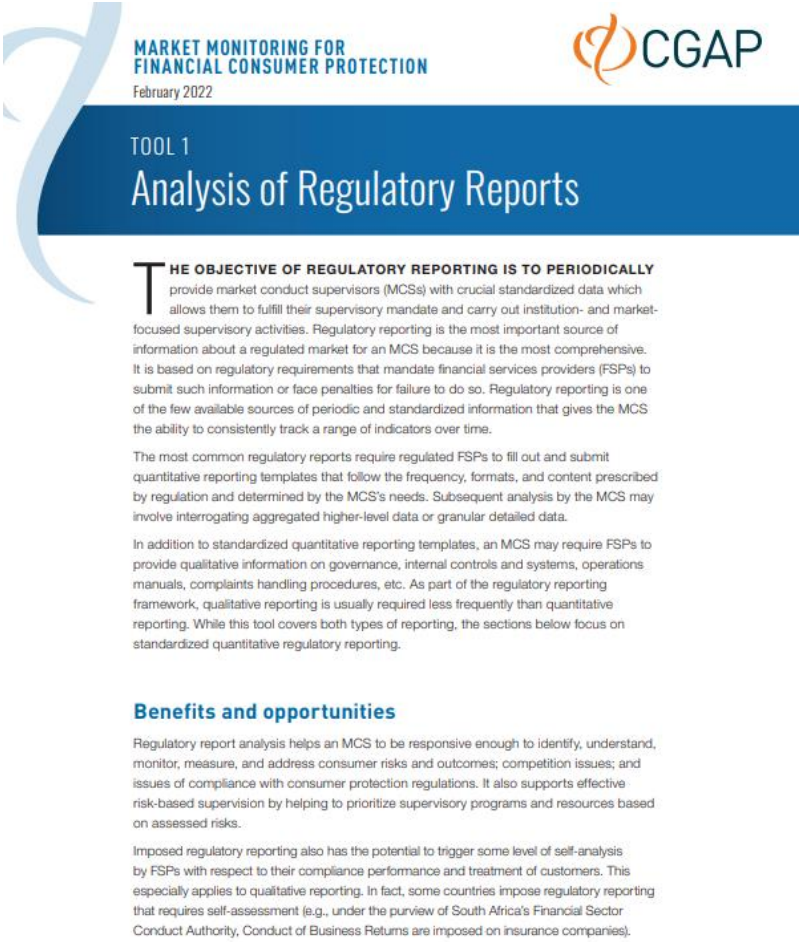
Analysis of Regulatory Reports – Granular Data

Benefits and opportunities

- Depth (eg deeper insights into conduct issues)
- Flexibility (eg ad hoc indicators based on supervisory needs)
- Comprehensiveness (eg mix of data on consumer issues, business practices, and market developments)
- Segmentation (eg insights on segments or clusters like low-income women)

Limitations

- Compliance costs (eg legacy systems)
- Resource intensiveness (eg data storage, analytics, expertise, transfer)
- Data protection issues (eg personal data)



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TOOL 1

Analysis of Regulatory Reports

THE OBJECTIVE OF REGULATORY REPORTING IS TO PERIODICALLY provide market conduct supervisors (MCSs) with crucial standardized data which allows them to fulfill their supervisory mandate and carry out institution- and market-focused supervisory activities. Regulatory reporting is the most important source of information about a regulated market for an MCS because it is the most comprehensive. It is based on regulatory requirements that mandate financial services providers (FSPs) to submit such information or face penalties for failure to do so. Regulatory reporting is one of the few available sources of periodic and standardized information that gives the MCS the ability to consistently track a range of indicators over time.

The most common regulatory reports require regulated FSPs to fill out and submit quantitative reporting templates that follow the frequency, formats, and content prescribed by regulation and determined by the MCS's needs. Subsequent analysis by the MCS may involve interrogating aggregated higher-level data or granular detailed data.

In addition to standardized quantitative reporting templates, an MCS may require FSPs to provide qualitative information on governance, internal controls and systems, operations manuals, complaints handling procedures, etc. As part of the regulatory reporting framework, qualitative reporting is usually required less frequently than quantitative reporting. While this tool covers both types of reporting, the sections below focus on standardized quantitative regulatory reporting.

Benefits and opportunities

Regulatory report analysis helps an MCS to be responsive enough to identify, understand, monitor, measure, and address consumer risks and outcomes; competition issues; and issues of compliance with consumer protection regulations. It also supports effective risk-based supervision by helping to prioritize supervisory programs and resources based on assessed risks.

Imposed regulatory reporting also has the potential to trigger some level of self-analysis by FSPs with respect to their compliance performance and treatment of customers. This especially applies to qualitative reporting. In fact, some countries impose regulatory reporting that requires self-assessment (e.g., under the purview of South Africa's Financial Sector Conduct Authority, Conduct of Business Returns are imposed on insurance companies).

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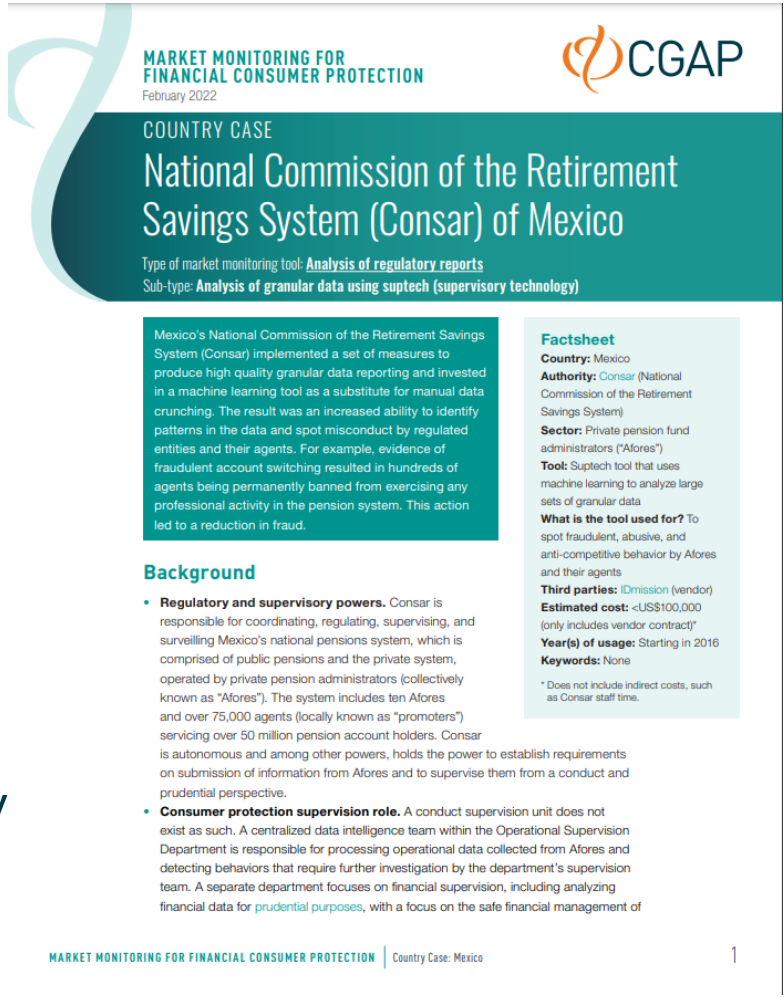
Analysis of regulatory reports is the most important market monitoring tool. Business conduct and customer outcomes can further improve when a supervisor uses different tools and takes timely action

Analysis of Regulatory Reports – Mexico's pensions authority

Suptech-based analysis of granular data

- Purpose: Spot fraudulent, anti-competitive and abusive behavior by pension fund administrators and agents
- Benefits/impact: Reduced fraud incidences, prosecution of fraudsters
- Limitations/challenges: Skilled data analysts, confidence in ML results
- **Technical methodology & data ecosystem**
  - Set up new electronic data collection system and agent database
  - Standardize data terms and formats for customer interactions
  - Define minimum information requirements for customer interactions
  - Standardize how account switching could be completed
  - Require direct customer interaction data input from agent's device and constant updates to authority
  - Set up an Excel dashboard mapping transactions across the country
  - Engage analytics company to automate risk monitoring and warning system via ML application, and set up deep learning application



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COUNTRY CASE

National Commission of the Retirement Savings System (Consar) of Mexico

Type of market monitoring tool: Analysis of regulatory reports
Sub-type: Analysis of granular data using suptech (supervisory technology)

Mexico's National Commission of the Retirement Savings System (Consar) implemented a set of measures to produce high quality granular data reporting and invested in a machine learning tool as a substitute for manual data crunching. The result was an increased ability to identify patterns in the data and spot misconduct by regulated entities and their agents. For example, evidence of fraudulent account switching resulted in hundreds of agents being permanently banned from exercising any professional activity in the pension system. This action led to a reduction in fraud.

Factsheet
Country: Mexico
Authority: Consar (National Commission of the Retirement Savings System)
Sector: Private pension fund administrators ("Afores")
Tool: Suptech tool that uses machine learning to analyze large sets of granular data
What is the tool used for? To spot fraudulent, abusive, and anti-competitive behavior by Afores and their agents
Third parties: IDmission (vendor)
Estimated cost: <US$100,000 (only includes vendor contract)*
Year(s) of usage: Starting in 2016
Keywords: None

* Does not include indirect costs, such as Consar staff time.

Background

- **Regulatory and supervisory powers.** Consar is responsible for coordinating, regulating, supervising, and surveilling Mexico's national pensions system, which is comprised of public pensions and the private system, operated by private pension administrators (collectively known as "Afores"). The system includes ten Afores and over 75,000 agents (locally known as "promoters") servicing over 50 million pension account holders. Consar is autonomous and among other powers, holds the power to establish requirements on submission of information from Afores and to supervise them from a conduct and prudential perspective.
- **Consumer protection supervision role.** A conduct supervision unit does not exist as such. A centralized data intelligence team within the Operational Supervision Department is responsible for processing operational data collected from Afores and detecting behaviors that require further investigation by the department's supervision team. A separate department focuses on financial supervision, including analyzing financial data for prudential purposes, with a focus on the safe financial management of

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For more information

Check the webpage: Market monitoring for financial consumer protection. https://www.cgap.org/market-monitoring

(Navigate through the different tabs and download the implementation guides and country cases along the way.)

Contact: Juan Carlos Izaguirre at jizaguirre@worldbank.org for questions, feedback, or requests.

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