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Welcome to the FinCoNet newsletter

Welcome to the fourth 2019 edition of the FinCoNet newsletter.

Following the FinCoNet Annual General Meeting, held in November 2019, we are delighted to introduce you to the newly appointed FinCoNet Chair and Vice Chair, Ms. Maria Lúcia Leitão and Mr. Christopher Green.

More information on these appointments can be found in the 'In Focus' section of this Newsletter.

We would also like to extend our sincere thanks to the team at the Bank of Italy for their kind hospitality in hosting the AGM 2019, which was extremely well attended and a great success!

In focus

FinCoNet Chair and Vice Chair

At the FinCoNet Annual General Meeting, held on 13-14 November 2019 in Rome, Italy, FinCoNet members appointed as its new Chair Ms Maria Lúcia Leitão, Head of the Banking Conduct Supervision Department at the Central Bank of Portugal. Previously Ms Leitão served as FinCoNet Vice-Chair and was Acting Chair of the organization since May 2019, following the expiration of the term of Lucie Tedesco of the Financial Consumer Agency of Canada.

Mr Christopher Green, Group Senior Manager–Credit at the Australian Securities and Investments Commission was appointed Vice-Chair of FinCoNet.

Assuming the role of Chair, Ms Leitão said:

“I am filled with pride and joy to take on the role of FinCoNet Chair and to continue the important work of the organisation in promoting robust and effective supervisory guidelines and best practices to enhance financial consumer protection, trust and confidence. The success of FinCoNet is a result of our members’ strong belief in the benefits and power of peer-to-peer relationships across the global community, which I am honoured to lead as we work together to fulfil our objectives and promote the best interests of financial consumers around the world.”

“FinCoNet has always been actively engaged with other international organisations in order to mutually benefit from each’s experiences and insights. At the same time FinCoNet’s ambition has always been to raise awareness of the importance of business conduct supervision in financial consumer protection. We [market conduct supervisor authorities] deserve to have a say on this agenda in parallel with the regulators and financial literacy authorities.”



Maria Lucia
Leitão,
Chair of
FinCoNet



Chris Green,
Vice Chair of
FinCoNet

FinCoNet Annual General Meeting 2019

On 13-14 November 2019, FinCoNet's Annual General Meeting (AGM) was held in Rome, hosted by the Bank of Italy. The meeting was held back-to-back with an international seminar on behavioural insights for conduct supervision co-sponsored by FinCoNet and the Bank of Italy. The seminar focused on key insights and experiences from academics and supervisory authorities alike.

Representatives from 31 jurisdictions around the world and international organisations participated in the AGM, including several non-members who wanted to observe and better understand FinCoNet's role. The AGM provided an opportunity for FinCoNet members to come together, share information and advance work on issues of great importance to financial consumer protection supervisors worldwide.



In terms of key outcomes from the AGM, FinCoNet members confirmed Ms Maria Lúcia Leitão as its new Chair. Mr Chris Green, General Manager – Credit at the Australian Securities and Investments Commission as its new Vice-Chair. (See previous article on the Chair and Vice Chair.) FinCoNet also announced the reappointment of the following members to the Governing Council: the Banco de Portugal, the Bank of Spain, the Central Bank of Brazil, the Bank of Italy and the Financial Services Agency of Japan.

The AGM confirmed the National Bank of Ukraine as an Associate member of FinCoNet and the Bank of Mozambique as a Member were confirmed.

Standing Committees

The standing committees updated members on their progress, key issues and next steps. The main outcomes were:

- **Standing Committee 2—Creditworthiness assessments:** The committee conducted a preliminary survey in 2019 to inform development of a more comprehensive questionnaire designed to solicit information about members' supervisory approaches regarding creditworthiness assessments; this was discussed by members. This project will continue in 2020; members will be asked to complete the survey, results from which will be compiled in a detailed report.
- **Standing Committee 4—Supervisory technology (suptech):** The committee presented findings from a survey that asked members about their suptech strategies and examples of the application of suptech tools either already in use or in the trial phase. A final report will be prepared in 2020. Related to this project, FinCoNet members participated in an interactive workshop with experts from the Bank of International Settlements, the World Bank and the OECD. In addition, a number of FinCoNet members shared their experiences in implementing or testing cutting edge suptech tools, such as machine learning and web-scraping tools, to support specific supervisory activities in their jurisdiction.
- **Standing Committee 5—Financial advertising:** The committee had conducted a member survey seeking key information and supervisory approaches to financial advertising. This included monitoring compliance with relevant rules and taking action in the event of misleading or incorrect advertisements. A final report will be prepared in 2020.
- **Standing Committee 6—Financial product oversight and culture:** FinCoNet's Standing Committee 6 had conducted a survey to gather key information about jurisdiction approaches and challenges. The survey was also conducted among members of the G20/OECD Task Force on Financial Consumer Protection in order to enhance the reach and impact of the project. A final report will be prepared in 2020.

Member updates

The AGM also provided an excellent opportunity for FinCoNet members to update each other about current risks and priorities they face relating to the themes of consumer credit, digitalisation, oversight tools, the evolving perimeter of supervision and inducements and incentives. This session is a critical part of the AGM as it allows members to ask questions and share experiences.

International Seminar on Behavioural Insights for Conduct Supervision

The AGM was followed on 15 November 2019 by the FinCoNet—Bank of Italy International Seminar on Behavioural Insights for Conduct Supervision. The seminar brought together FinCoNet members, academics and other external stakeholders to hear from experts in the field and join an engaging discussion on the topic. The seminar included the following:

- a range of academic insights to better understand how behavioural insights can inform conduct supervision approaches and related activities
- sharing the experiences of financial conduct supervisors on the latest application of behavioural insights to their conduct supervision approaches, including lessons learned

The Chair and Secretariat extend their sincere thanks to Magda Bianco and her team at the Bank of Italy for their kind hospitality in hosting the AGM 2019.

Looking ahead—next meetings

The next meeting of FinCoNet will be held jointly with the G20/OECD Task Force on Financial Consumer Protection on 16-18 March 2020, hosted by the OECD in Paris, France.

The FinCoNet AGM 2020 will be held in Lisbon on 11-13 November 2020, hosted by the Banco de Portugal.

Current issues forum

New market conduct regulatory approach for the insurance system of Peru

Contributor: Elias Roger Vargas Laredo, SBS Peru

Peru's Superintendency of Banks, Insurance Companies and Private Pension Fund Administrators (SBS), as part of its institutional mandate, protects the interests of the public by ensuring consumers protection with regard to their needs. In line with this goal, in 2017, SBS enacted a regulation on corporate governance and risk management, which imposes the obligation to maintain an adequate market conduct on regulated entities as a fundamental element of their organizational culture and business strategy. Moreover, SBS enacted a specific regulation to the financial system, which indicates general principles and some rules that companies have to comply to reach the same goal.

To continue reinforcing the current regulatory framework, in September 2019 the SBS published the Market Conduct Management Regulation for the Insurance System. It promotes a preventive approach in market conduct and consumer protection, and equals regulatory requirements with those already enforceable to the financial system.

Market Conduct Principles and Management Framework

According to this new regulation, insurance companies and their brokers are required to demonstrate proper market conduct by adopting fair business practices; by providing relevant, clear and timely information to consumers; and by managing customer complaints efficiently.

There are three main aspects of fair business practices. First of all, product design must be aligned with consumer needs and interests. Second, sales and distribution mechanisms should consider the features and complexity of the insurance products. Insurers must fulfill the conditions agreed with the consumer when they accepted the product. During the process of settling a consumer claim, they must provide information about the procedures, ensure that additional requirements are consistent with the risks, and avoid hindering or delaying the process.

As for disclosure and transparency, access to clear, accurate and relevant information is expected to improve customer decision-making. Also, regarding complaints-handling, insurance companies are expected to manage (not just resolve) complaints, identifying opportunities to improve efficiency and adopting corrective measures.

In order to promote adoption of these principles within the business strategy and the organizational culture of insurance companies, boards of directors and managers are directly responsible for establishing and implementing market conduct policies and procedures. Moreover, they must nominate a full-time Market Conduct Officer responsible for overseeing the relationship with customers. As a second line of defence, this officer must provide the client's perspective to business and support managers and participate in the decision-making process regarding new products and services.

Transparency and contracting in a digital environment

SBS pursues a regulatory development process based on evidence, including its own quantitative and qualitative research that provides consumer insights to help guide the design of regulatory requirements. Drawing on such research, the new regulation requires insurers to simplify the information disclosed in contractual documents (main contract and its annexes) and other communications. These are to exclude unnecessary information so that customers can identify the main and relevant characteristics of the products. Likewise, it improves access to the information provided to the insured and their beneficiaries as part of the claim settlement process, requiring that companies maintain permanent interaction with them and help them monitor the insurance claim during the process.

To promote the use of technological innovations, insurance companies are allowed to use digital means to contract with customers. For example, authentication mechanisms to validate the identity of the policyholder have moved beyond handwritten signatures to include those provided via physical and virtual devices, biometrics, digital signatures, etc. Moreover, policies and certificates may be delivered to customers by electronic means instead of the traditional ones. In this way, contracting mechanisms could be more flexible and even safer.

In conclusion, this new regulatory framework aims to strengthen consumer confidence in the insurance market by promoting insurer adoption of market conduct principles and prevent unnecessary barriers to the development and innovation of insurance products, while preserving financial stability.

Central Bank of Brazil – The Agenda BC# promotes efficiency, cost reduction and regulation enhancement in the Brazilian Financial System

Contributor: Marcelo Hiramatsu Azevedo, Central Bank of Brazil

Launched on May 2019, the Agenda BC#¹ is an institutional initiative that aims to promote the reduction of the cost of credit, the enhancement of banking regulation, and improved financial system efficiency, from 2020 onward. It will do so by promoting inclusion, competitiveness, transparency and financial education, which are Agenda BC#'s four dimensions.

Reduction of the cost of credit

The National Monetary Council (CMN) enacted Resolution 4,765 on November 27, 2019 to establish a monthly cap of eight percent on overdraft credit. It also limited to 0.25 percent the fee on credit in excess of R\$500². The regulation's main objective is to reduce any regressive aspects of using overdraft. The regulation further determines that any increase in the overdraft credit limit requires the client's prior authorisation.

¹ <https://www.bcb.gov.br/en/about/bcbhashtag>

² R\$ is the symbol for the Brazilian real; B\$500 equalled about US\$115 at the time of writing.

Enhancement of banking regulation

The central bank introduced the following regulations to enhance banking regulation:

- Resolution 4,753, of September 26, 2019. It is to simplify account opening and closing in bank branches. The account closure process must not exceed 30 days from the date of the client's request. Requests to open or close accounts may be received by the financial institution's service channels, including digital ones.
- Resolution 4,762, of November 27, 2019, renders overdraft credit eligible for credit portability.
- Draft regulations regarding open banking³ and sandbox regulation⁴ were released for public consultation in 2019, closing on January 31, 2020.

Improved financial system efficiency

Agenda BC# promotes adequate pricing by favouring competitive access to markets. There are several innovations—driven by technology—that encourage competition, to the benefit of consumers.

In consequence, throughout 2019, the Central Bank of Brazil introduced changes in the financial market intermediation structure to bear fruition in 2020. These should improve competition and efficiency through restructuring, open banking and sandbox regulation.

Restructuring: competition and financial market structure department's inception.

A new department was created to adapt the institution to the new dynamics of the Brazilian National Financial System (SFN). The Department of Competition and

³<https://www3.bcb.gov.br/audpub/DetailharAudienciaPage?5&pk=322>

⁴<https://www3.bcb.gov.br/audpub/DetailharAudienciaPage?6&pk=321>

⁵https://www.bcb.gov.br/en/about/bcbhastag_competitiveness

Financial Market Structure (Decem)⁵ will seek to foster competition in the financial intermediation processes by supervising initiatives such as instant payments.

Open banking Along with data sharing, open banking⁶ will provide other practical functions such as

- promoting the emergence of new business models that will facilitate comparison in financial products and services
- fostering innovation and new areas of competition between banks and non-banks
- encouraging providers to render a number of services of value to both consumers and providers, especially for credit and payment transactions

Sandbox regulation The sandbox⁷ will be accessible to companies developing innovations geared primarily to the market, be it by launching new or improved products and services. During the testing period, Brazilian regulators will have access to the results and to the risks associated with innovative proposals. In allowing companies to test products and services in a controlled environment, the consequences of failure can be contained and its causes analysed.

Instant payment Following the worldwide trend, the BCB is developing an instant payment system⁸ that will confirm transactions within a few seconds, without restrictions regarding the date or time of day. The Brazilian instant payments ecosystem will have a flexible and open participation structure. It will be similar to the existing interbank electronic funds transfer (TED), with greater availability, speed and

⁶ <https://www.bcb.gov.br/en/pressdetail/2284/nota>

⁷ <https://www.bcb.gov.br/en/pressdetail/2280/nota>

⁸<https://www.bcb.gov.br/en/financialstability/instantpayments>

more intuitive addressing of payments. Transactions will be performed in a simple and fast manner for different beneficiaries within a single settlement infrastructure developed by the central bank.

LIFT Learning Launched on May 9, 2018, the Financial and Technological Innovations Lab (LIFT) is part of BCB's efforts to foster technological innovation. This is a joint initiative with the National Federation of Central Bank Civil Servants Associations (Fenasbac) and with the support of tech companies.

In this context, on 28 November 2019, the BCB launched the LIFT Learning program to foster innovation in prototype and benchmark solutions that can later on be expanded to better respond to client needs, based on the Agenda BC# dimensions.

The purpose is for the LIFT partnership to enter into agreements with higher education institutions, technology businesses and development agencies to conduct projects. Through an open collaborative platform, companies with specific needs in developing innovative financial solutions will be supported by universities—creating opportunities for experimental learning, as well as fostering entrepreneurship within college education. The projects will be undertaken in one of three ways:

- without any financial contribution, whereby the intellectual property rights belong solely to the owner
- sharing intellectual property rights between proponent and developer
- through research grants, awards or other incentives provided to developers

Basic standard for investment advisers in Russia

Contributors: Bank of Russia

The Basic Standard for Investment Advisers' Operations in the Financial Market was drafted by sectoral self-regulatory organizations (SRO) and approved by the Bank of Russia in November 2019.

The Basic Standard drives a dividing line between investment consulting and other financial market activities, characterizes individual investment advice and defines requirements for investment advisers' activities.

Under the Standard, investment advisers may not misuse their rights and infringe upon the interests of clients. Advisers may provide consultation services to a client according to the latter's investment profile. Where information provided by an adviser may be regarded as investment advice even though it does not fully meet the criteria set out in the Basic Standard, it must be

accompanied by a disclaimer. Moreover, when signing contracts with investment advisers, clients shall be informed that advisers are not liable for loss or damage suffered by clients who implement the recommendations.

One of the key consumer-protection aspects of the Basic Standard is delivering an approach to how an adviser is to determine a client's investment profile. Advisers must be guided by the client's purposes, obligations during the investment period and knowledge and experience in investing.

This should help investment advisers to give greater consideration to client preferences regarding acceptable risks and to comply with "good faith" and other requirements of reasonableness and fairness and therefore meet the client's needs with greater precision.

As required by the Basic Standard, investment advice must describe the risks related to relevant securities and derivatives, transactions and agreements concluded on securities and (or) derivatives and indicate conflict of interests (or its absence) on the part of investment adviser. An agreement signed by the adviser and the client shall specify how advisers should represent this information in the advice: in form of a link to its webpage or to the

universal declaration of general risks attributed to transactions in the securities market or in some other way.

The Basic Standard does not prohibit one client from having several profiles for different investment purposes.

The Basic Standard is mandatory for all professional participants in the securities market offering investment advice services.

ASIC updates responsible lending guidance

Contributors: Laura Dunbabin, Australian Securities and Investments Commission (ASIC)

ASIC has published updated guidance on the responsible lending obligations contained in the National Consumer Credit Protection Act 2009 (the National Credit Act).

Following extensive consultation, ASIC has updated Regulatory Guide 209 (RG 209) to provide greater clarity and support to lenders and brokers in meeting their obligations. Importantly, ASIC has maintained principles-based guidance that supports flexibility for licensees.

The changes include:

- a stronger focus on the legislative purpose of the obligations—to reduce the incidence of consumers being encouraged to take on unsuitable levels of credit, and ensure licensees obtain sufficient reliable and up-to-date information about the consumer’s financial situation, requirements and objectives to enable them to assess whether a particular loan is unsuitable for the particular consumer
- more guidance to illustrate where a licensee might undertake more, or
- fewer, detailed inquiries and verification steps based on different consumer circumstances and the type of credit that is sought. The updated guidance includes new examples of a range of credit products including large and longer-term loans, credit cards and personal loans, small-amount loans and consumer leases and different kinds of consumer circumstances. These may include first-time home buyers, existing customers, strata corporations, high-net-worth and financially experienced consumers.
- more detailed guidance about how spending reductions may be considered as part of the licensee’s consideration of the consumer’s financial situation, requirements and objectives
- more detailed guidance about the use of benchmarks as a way to check the plausibility of expenses, and additional guidance about the

HEM¹ benchmark

- clarity about more complex situations for some consumers such as income from a small business, casual employment, new employment, the gig economy, as well as joint and split liabilities and expenses.

ASIC has included a section on the scope of responsible lending, explaining the areas that are not subject to responsible lending obligations, such as small business lending irrespective of the nature of the security used for the loan.

The National Credit Laws provide consumers with important protections when seeking credit directly from a lender or through a broker. ASIC's revised guidance is intended to assist lenders and brokers in complying with their responsible lending obligations and ensure they do not recommend or provide credit that is unsuitable.

Background

RG 209 contains ASIC's guidance on responsible lending for consumer credit. It was issued in 2010 and last revised in November 2014. It reflects ASIC's view of the current state of the law.

ASIC's decision to update RG 209 followed several developments since 2014. These included:

- ASIC regulatory and enforcement actions, including court decisions
- ASIC thematic reviews on various

parts of the industry such as interest-only loans

- the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry
- recent and upcoming initiatives such as comprehensive credit reporting and open banking
- changes in technology

ASIC's consultation process

In February 2019, ASIC released a [consultation paper](#) on updating its guidance. CP 309 contained a number of proposals for changes to be considered during this update. Written submissions were due on 20 May 2019. ASIC received 74 submissions; it published all 64 non-confidential submissions on its website.

As part of the consultation process, ASIC held public hearings in August 2019 in Sydney and Melbourne to test particular issues raised in submissions. [Transcripts](#) are available on the ASIC website.

ASIC also held five roundtables in late October 2019 with representatives from consumer groups, banks and non-bank lenders, brokers, small-amount credit contract providers and consumer lessors.

¹ The household expenditure measure (HEM) is a benchmark Australian lenders use to estimate a loan applicant's annual living expenses. It makes up part of the calculation that determines borrowing capacity. It was developed by using

local survey data, is also linked to the consumer price index and factors in the type of household. (Source: [Precision Funding website](#))

Market conduct supervision oversees staff knowledge and competences: a new mandate assigned to Banco de Portugal

Contributor: Sandra Santos, Banco de Portugal

In Portugal, credit institutions and credit intermediaries are required to demonstrate compliance with knowledge and competence requirements. The requirement for an adequate level of knowledge and skills for people involved in the commercialisation of retail banking products and services is in line with the growing concern of market conduct supervisors to ensure that customers are properly informed and enlightened about the characteristics and risks of the products offered, so that they can assess whether they are appropriate to their needs, characteristics and objectives.

This concern is particularly relevant to products that have a significant impact on the financial life of bank customers, as is the case with mortgage loans. In this context, the EU's 2014 Mortgage Credit Directive¹ acknowledges the importance of ensuring the staff of credit institutions involved in the credit-granting process, as well as credit intermediaries, possess "an adequate level of knowledge and competence in order to achieve a high level of professionalism".

The directive was transposed into the Portuguese legal framework in January 2018. Now employees of credit institutions involved in manufacturing, offering or granting home loan agreements and other mortgage loans must demonstrate an adequate level of knowledge about those credit products. The requirements also apply to persons who exercise or intend to

exercise the activity of credit intermediary and the provision of consultancy services in relation to consumer or mortgage credit agreements.

The national legislator established a transitional period (until 21 March 2019) during which credit institutions and intermediaries could demonstrate compliance with the knowledge and competence obligations on the basis of professional experience.

With the end of the transitional period, the persons required to fulfil these requirements are now compelled to obtain professional certification. This is conferred after they have successfully completed training provided by entities certified by Banco de Portugal; it includes certain minimum content. For example, regarding mortgage credit, employees must prove they have appropriate knowledge of topics such as the features and risks of credit products and the ancillary services typically offered with them, the immovable property purchasing process, business ethics standards or the consumer creditworthiness assessment.

Since 1 January 2018, Banco de Portugal's Banking Conduct Supervision Department has been entrusted with the task of certifying the entities entitled to train staff of credit institutions and credit intermediaries under the legal framework of mortgage credit and the legal framework of credit intermediaries.

¹ Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014

To obtain this certification, the training entities must submit a request through the Bank Customer Website² by filling out a specific form and providing a set of documents to demonstrate fulfilment of the requirements set out by law. These concern the structure, resources and processes that training entities aim to implement in developing training activities. In particular, the department verifies whether the applicant entity's trainers have an academic background and professional experience in the provision of training related to legal, economic and financial issues. This will ensure they are qualified to provide adequate training.

During the application process, Banco de Portugal checks whether those requirements are met. If necessary, it may request additional information.

Banco de Portugal imposes high standards on training providers by requiring a minimum grade in the final assessment test, a limited number of possibilities for repeating the final test and, in the case of training through e-learning, by requiring the candidates take their final test in person.

The training entities certified by Banco de Portugal can perform their activities on-site or by distance learning (e-learning). However, if they want to provide e-learning training, they must comply with specific requirements related to the e-learning platform and the existence of staff with specific qualifications.

Between early 2018 until the summer of 2019, Banco de Portugal certified seven training entities. These have already trained about 30,000 trainees, most of whom are employees of credit institutions involved in granting mortgage credit. The task

assigned by the legislator to Banco de Portugal does not end with the act of certifying a training entity. It is a task that requires constant and systematic monitoring of the activities of the training providers in order to ensure the quality of the certification system and thus, the accomplishment of the knowledge and skills' requirements.

Banco de Portugal ensures that the training activity carried out by certified training entities promote the acquisition of an adequate level of knowledge and skills. Therefore, Banco de Portugal monitors the activity of the certified training entities through regular audits to check on compliance with the requirements to obtain the certification. Among other aspects, Banco de Portugal assesses compliance with the minimum training content, oversees trainees' evaluation tests and accesses the electronic e-learning platforms. The certified training entities are also required to carry out a self-assessment process on an annual basis and provide information to Banco de Portugal on the results of this process.

If Banco de Portugal concludes that the training provider does not comply with the requirements in the exercise of its activity, it may determine the partial or full revocation of the certification granted.

This competence assigned to Banco de Portugal reflects a new paradigm in market conduct supervision. It goes far beyond the oversight of the relationship between the bank and the customer and requires that credit institutions take preventive action to ensure the adequate and fair treatment of consumers. In line with obligations related to product oversight and governance and with remuneration of sales staff, the knowledge and competence requirements applicable to

² The Banco de Portugal's dedicated website for bank customers; it is managed by the Banking Conduct Supervision Department.

credit institution employees are deemed essential in supporting consumers in making

informed banking decisions.

The UK Financial Conduct Authority's Financial Lives survey

Contributor: Tim Burrell, United Kingdom Financial Conduct Authority

What is Financial Lives?

The Financial Conduct Authority (FCA) is committed to conducting research into consumer needs, attitudes and behaviour, to ensure that the consumer is at the heart of how we regulate and the consumer perspective is reflected in the decisions and actions we take. The [Financial Lives Survey](#) is a major consumer research project. It is the largest tracking study commissioned by the FCA and this is the first time the FCA has commissioned a survey of this kind in terms of its scale and design.

Financial Lives 2020

With the first iteration of the survey completed in 2017, we are repeating the survey to deliver new findings in 2020. The new survey will provide updates to the 2017 findings as well as providing new insight in areas where we have updated the survey to maintain relevance to the issues facing consumers today.

Why carry out this large-scale consumer survey?

The FCA is committed as part of its Mission to put the consumer at the heart of its work. To do this requires a data source that allows us to access the voices of a full range of consumers. This consumer insight informs the actions we take.

Large sample size

With a sample size of nearly 13,000 UK adults – mostly online but with face-to-face

interviewing to include consumers who are not internet users – the survey enables the FCA to look at groups of people in more ways than we have been able to do previously. We can look at UK adults by their many characteristics – for example, by age, by gender, and also by limiting long-standing illness, product holdings, assets and debt, and by how financially resilient they are.

Lots of questions

A survey containing over 1,000 questions enables us to look at areas of consumer interaction with financial products and services and to compare findings across the different financial services sectors in a way that we have not been able to previously. Asking about individual ownership of 80 different financial products we can say things about people by looking at combinations of product holdings, providing us with a full picture of consumers. For example, it is possible to draw some conclusions about how prepared people are for retirement based on their pension provision, their other investments and assets, alongside their attitudinal data and how confident they are that they will have the ability to maintain their lifestyle during retirement, should they want to.

How are the data being used?

In line with the FCA's intention to be more transparent, weighted data tables have been published and are available through the [FCA website](#). Here you can find 2 reports based solely on findings from the survey:

- [Understanding the Financial Lives of UK adults](#)
- [The financial lives of consumer across the UK](#)

These Financial Lives reports are two of many publications that focus on consumers. Others include the FCA's [Approach to Consumers](#) that sets out the FCA's vision for well-functioning markets for consumers. It was contributed to a discussion paper on [intergenerational differences](#) which helps to understand the changing financial needs across generations for UK financial services markets.

Results have provided evidence for policy development and monitoring markets. It has featured in our [Mortgage Market Study](#) while also being a major contributor to our [Financial Advice Market Review](#). Results are used to inform our FCA Annual Report and are used to track key objectives of the organisation.

What do the data tell us?

The results have provided a number of valuable insights into the behaviour of consumers in broad terms and within specific financial markets. The survey provides an evidence base to build our work upon and track change over time.

Financial Lives tells us, for example:

Consumer attitudes

- 24% of all UK adults have little or no confidence in managing their money, and 46% report low knowledge about financial matters

Pensions

- The lack of knowledge and engagement around pensions is extremely high amongst UK adults. 0.4 million UK adults who in the last two years have accessed a defined contribution (DC) pension (for example by buying an annuity) admit to not understanding their access options at all or even that options exist
- There is severe lack preparedness for retirement amongst UK adults. Less than half (46%) of those making a decumulation decision in the last two years thought about health or life expectancy

Access

- At least 4.5 million UK adults say they have been declined a financial product in the last two years. Around half say they were unable to get the product they needed at all, while some say they ended up paying more or being subject to different terms and conditions

Consumer Credit

- 12.9 million adults (25% of all UK adults) have been overdrawn in the last 12 months
- 3.1 million adults have used an unauthorised overdraft facility, either by exceeding their limit or never arranging one, in the last 12 months

For more information please contact: FinancialLivesSurvey@fca.org.uk

Regulation For Inclusive Digital Finance

Contributor: CGAP

An Enabling Regulatory Framework is Critical for Financial Inclusion

Digital financial services (DFS) have become the leading driver of inclusion for the unbanked around the world, particularly in developing countries. What makes this possible is not only innovation in products and technology but regulation. A complex set of rules underlies the ability of ordinary people to access financial services conveniently and safely through a few simple steps at the point of service – usually a mobile phone or a shop. For this to happen, legislators and central bankers must ensure that regulations in such areas as banking, payments, consumer protection, and anti-money laundering fit together to form an enabling framework.

How can regulation enable DFS for inclusive finance?

- A legal basis is necessary for a range of providers to serve the underbanked and unbanked, using a variety of delivery channels. These may include bank and nonbank providers as well as networks of agents – each with distinct strengths in serving clients across the country.
- Regulation deals collectively with the risks that DFS pose to customers and the financial system.
- The way DFS rules are developed and applied should accommodate innovation while promoting safety. The ideal is a balanced or proportionate regulatory system that enables and protects but avoids imposing undue compliance costs on

(often low-margin) DFS providers.

The Four Basic Enablers

What steps can regulators take to promote financial inclusion through digital financial services? [Based on its work in 10 countries in Africa and Asia, CGAP has identified four building blocks for creating an enabling and safe DFS regulatory framework. These basic regulatory enablers can play a role in increasing women's financial inclusion.](#)



E-Money Issuance by Nonbanks

A basic enabling condition for DFS is a special licensing window for nonbank e-money issuers (EMIs). [Like banks, EMIs collect funds from customers based on a promise to repay, but EMIs cannot extend credit or engage in risky banking operations.](#) Hence, EMIs have a much lower risk profile than banks and require less oversight. They issue e-money accounts free from many of the prudential safeguards applied to traditional banks. This opens the DFS market to new providers such as mobile network operators (MNOs) and specialized payment services providers (PSPs), which are often more successful in reaching the mass market. The EMIs store customer funds converted into e-money (“e-float”) in basic transaction accounts but are not authorized to intermediate those funds. [Special fund safeguarding rules are needed to protect the e-float](#) – e.g. requiring fund

isolation and investment in safe, liquid assets. [Some countries are exploring whether e-money should be covered with deposit insurance as a last line of defense.](#)

Use of Agents

Retail agents make inclusive DFS possible and are therefore a key focus of enabling regulation. Providers use agents – third parties such as retail shops – to provide customers easy access to their services close to where they live, thus expanding their outreach at low cost. The sheer number of these agents poses a challenge for regulatory oversight. Regulation targets the licensed DFS provider, which is legally responsible for actions taken on its behalf by agents. Supervisors assess providers' systems for monitoring agents, e.g. internal controls and risk management practices. Other issues of concern to regulators include setting eligibility standards – who can become an agent (or a certain type of agent) and what qualifications are required; setting uniform versus differentiated standards for DFS agents; [situations of agent exclusivity](#); [requirements for cash networks](#). Frequently, agency rules are adopted piecemeal, and agents dealing with different types of providers, accounts, or activities end up with separate and distinct rules.

Risk-Based Customer Due Diligence

DFS operate within regulatory contexts shaped by policies on anti-money laundering and countering the financing of terrorism (AML/CFT). Proportionate AML/CFT frameworks use a risk-based approach to protect the integrity of the system while imposing the least burden on DFS outreach. This means allowing [simplified customer due diligence \(CDD\) for lower-risk accounts and transactions](#), as recommended by the Financial Action Task Force (FATF) in its international guidance. Applying this approach eases providers' costs of customer acquisition and ongoing transaction monitoring while bringing more

people into the formal financial sector. A common risk-based approach is to create risk tiers in which CDD procedures of varying intensity are applied. The tiers are tied to the kinds of accounts or transactions provided, the types of clients, and the modalities of account opening and transacting (e.g., in-person or not). In the meantime, advances in ID systems in several countries are reducing cost and risk, while expanding inclusion; and [providers, regulators and financial intelligence agencies around the world are working more closely together on customer due diligence, often with the help of new technologies.](#)

Consumer Protection

In order to drive financial inclusion, DFS must cultivate trust and reliability, and this in turn depends on effective financial consumer protection (FCP). Absent such protection, services may expand, but achieving a sustainable, inclusive market over the long term would be difficult. [Transparency and disclosure](#) requirements are core features of FCP, along with standards of fair dealing. Accountability to customers and regulators demands that each provider set up a system for handling customer complaints. Further, electronic transactions pose some special risks to consumers. Providing certainty here requires standards of digital platform reliability and protection against mistaken or unauthorized transactions. The growth of DFS models based on massive collection and exploitation of customer data has also prompted regulation dealing with [protection of customer data](#), restrictions on its use, and localization of storage. Last, FCP rules are not always consistent for different providers and products (e.g., [digital credit](#)).

I-SIP

Successful development of DFS regulation pays careful attention to wider contextual factors and competing policy objectives. These objectives can be summarized as

inclusion, stability, integrity, and consumer protection (I-SIP). Policy processes should identify I-SIP linkages and work to maximize synergies while minimizing negative outcomes. Experience shows that achieving such a balance requires experimentation and iteration. CGAP's [I-SIP Toolkit](#) provides a how-to guide for financial sector policy makers on successfully managing the interplay among the four core I-SIP

objectives. [Case studies](#) illustrate how Pakistan, Russia, South Africa and the Philippines have applied the I-SIP approach to specific policies and regulations.

Find out more at:

<https://www.cgap.org/topics/collections/regulation-inclusive-digital-finance>

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.

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