

## CONTENTS

Welcome	1
In Focus	2
Current Issues Forum	3
Consumer warning: the risks of initial coin offerings	3
IAIS application guidance for product oversight in inclusive insurance	4
Bank of Russia financial literacy website	5
New market conduct regulatory framework for the Peruvian financial system	7
Central Bank of Ireland proposes new rules on how financial intermediaries can be paid	8

## Welcome to the FinCoNet Newsletter

Happy New Year and welcome to the first 2018 edition of the FinCoNet newsletter!

This year, FinCoNet will commence new projects to look at issues relating to financial product governance and culture, and financial advertising, which are important topics for supervisory authorities charged with the protection of financial consumers. This is in addition to ongoing work on issues relating to high-cost lending and risk-based supervision in a digital age.

As we move into 2018, FinCoNet will also continue its efforts to expand the membership of FinCoNet, and encourages any interested parties to contact the Secretariat [[sally.day-hanotiaux@oecd.org](mailto:sally.day-hanotiaux@oecd.org)] for further information on how FinCoNet Membership can benefit your authority.

## In Focus

### FinCoNet Treasurer profile – Mr. Fernando Tejada



Since July 2013, Fernando Tejada has been the Director of the Market Conduct and Claims Department at Banco de España.

From the time he joined the Banco de España as an Economist in 1987, he has acquired increasing responsibility and management authority in these positions:

- Economist, Research and Economics: monetary policy and financial regulation
- Head, Human Resources Development: recruitment, training and career development
- Head, International Technical Cooperation: technical assistance and international projects vis-à-vis central banks, financial supervisory agencies and international organisations
- Advisor, DG Operations, Markets and Payment Systems: cross coordination of the DG duties for central bank operations, payment systems and issuing cash banknotes
- Head, Claims Service: redress mechanisms and financial education
- Director, Market Conduct and Claims Department: regulation and supervision of bank conduct, transparency and best practices; oversight of advertising; redress mechanisms; and financial education.

Highly experienced in the international arena (*inter alia*, European Central Bank, International Monetary Fund, World Bank, Inter-American Development Bank, European Banking Authority, OECD, European Commission, Bank for International Settlements, Center for Latin American Monetary Studies), he currently participates in the following organisations: Governing Council, FinCoNet; G20 Technical Committee, International Network on Financial Education, OECD; CEMLA Financial Literacy and Inclusion Committee; and Latin American and the Caribbean (LAC) Regional Network of the OECD International Network on Financial Education.

Since 2010, he has been an active member of the Permanent Financial Literacy Group within the Spanish Financial Education Plan.

He holds a degree in Economics and Business Administration (Universidad Autónoma de Madrid, June 1982), and has successfully completed the following programmes: Management Programme (IESE, June 2006) and Leadership & Change Management Programme (IESE, June 2014).

# Current Issues Forum

---

## Consumer warning: the risks of initial coin offerings

Contributor: Matthias Aust, BaFin, Germany

The acquisition of cryptocurrency coins – also referred to as tokens, depending on their form – as part of so-called "initial coin offerings" (ICOs), may present substantial risks for investors. ICOs are a highly speculative form of investment. Investors should therefore be prepared for the possibility of losing their investment completely. As is the case with most new trends, the high level of public interest in ICOs is also attracting fraudsters.

The term "initial coin offering" stems from the term "initial public offering" (IPO) – to illustrate, a flotation on a stock exchange. The apparent similarity between the terms can create the impression that ICOs are comparable to the issuance of shares. This, however, is not the case from either a technical or legal standpoint.

### Numerous risks

Tokens acquired in an ICO often experience significant price fluctuations. In this, there is the risk that there will not be a liquid or other secondary market where investors can sell the tokens at a profit.

Typically, projects financed using ICOs are still in their very early and, in most cases, experimental stages. Therefore, their performance and business models have never been tested. Additionally, it is difficult for the investor to verify the descriptions of how the tokens function based on the underlying program code (smart contract) outlined in the accompanying white papers or terms and conditions. The code might also prove vulnerable to attack and manipulation.

Furthermore, the information from token providers is often insufficient. In contrast to regulated prospectuses, the white papers and terms and conditions are often insufficient, incomprehensible and even misleading. Due to the lack of legal requirements and transparency rules, consumers are left on their own when it comes to verifying the identity, reputability and credit standing of the provider, and understanding and assessing the investment on offer. Moreover, it cannot be guaranteed that personal data will be protected in accordance with German standards.

The systemic vulnerability of ICOs to fraud, money laundering and terrorist financing increases the risk of investors losing their investments. Investors should also keep in mind that authorities are expected to take necessary measures against operators or other persons or enterprises that are involved in such illegal dealings.

### Notes for consumers

Before consumers decide to participate in an ICO, they should make certain that they fully understand the benefits and risks of the project or investment. They should also ask the issuer as many questions as necessary, and verify the issuer's information from independent sources. Investors should likewise ensure that the characteristics of the project or investment match both their investment needs and their appetite for risk.

BaFin has published an [expert article on ICOs](#) and their risks. Further notes on [blockchain technology](#) and [virtual currencies](#)

are provided under the menu item, [Company start-ups and fintech companies](#). In addition, the websites of many other national supervisory authorities and that of

the [European Securities and Markets Authority](#) (ESMA) also provide information and warnings about this topic.

---

## IAIS application guidance for product oversight in inclusive insurance

Contributor: Peter van den Broeke, IAIS

On 23 November 2017, the International Association of Insurance Supervisors adopted the Application Paper on Product Oversight in Inclusive Insurance. Product oversight by insurance supervisors aims to ensure that insurers treat customers fairly and that their other business activities do not conflict with this obligation.

The paper provides guidance on the application of product oversight in markets where a significant part of the population lacks access to suitable insurance products (also known as inclusive insurance markets).

### Background

This paper has been developed to guide and inform supervisors, policymakers and market participants on ways to implement and apply the IAIS Insurance Core Principles (ICPs) relevant to product oversight in inclusive insurance. An important objective of the ICPs is to protect customer interests. To achieve this protection, the outcomes intended by the relevant ICPs need to be achieved. Based on the proportionality principle, the regulation and supervision of jurisdictions should be tailored to the specific conditions and characteristics of each jurisdiction, allowing solutions that are adequate to achieve these outcomes without becoming excessive. This will help prevent unnecessary barriers to market development in regulation and supervision, and will promote access to insurance products for customers.

### About product oversight

The primary objective of product oversight is to ensure fair treatment for customers and to support proper management of conflicts of interest. Additionally, it is important that consumers' objectives, interests and characteristics are accommodated. Proper product oversight can therefore strengthen consumer confidence in the insurance sector as a whole.

Effective oversight of products offered to customers is fundamental to maintaining fair, safe and stable insurance markets. As such, effective oversight is considered a key responsibility and activity of the insurance supervisor. Requirements for effective monitoring of products can support the market's development by ensuring that products are fair, sustainable, provide value and build a positive reputation for insurance among customers.

### Product oversight approaches for insurance supervisors

In respect to a supervisor's product oversight mandate, there are three main approaches:

- the principle-based approach
- the file and use approach
- the prior-approval approach.

There may be different approaches for different products, depending on considerations such as the financial capability of the customer, the complexity of

the product or the mandatory nature of the insurance contract. Many jurisdictions use a combination of these approaches.

Supervisory approval of contract conditions or pricing is likely to be more appropriate in certain circumstances, such as where the insurer is dealing with less financially capable or vulnerable customers, where products are new to the market or complex, or where insurance contracts are required by law (i.e. third-party motor liability insurance, health insurance).

Product oversight is one part of consumer protection. It can render guidance for achieving a balance between consumer protection and market development objectives. This is important, especially in light of the vulnerability of the typical inclusive insurance customer – that is, an individual with low or no education, an irregular and low income, particular needs for protection, sometimes remote living conditions and no experience with or a negative perception of insurance.

#### **Fair treatment of customers by insurers**

In respect to requirements for insurers, the ICPs provide various provisions for treating

customers fairly throughout stages of the insurance product lifecycle, including development, sales, promotion, and all other activities connected to the sale of the product.

Insurers should follow a robust product design process that accommodates the specific needs of the target market when developing inclusive insurance products. Being able to identify and understand the needs of the target market is crucial when designing inclusive insurance products.

The design process should focus both on the product itself (i.e. coverage, pricing, disclosures, advertising, etc.) and the manner in which the product will be distributed and serviced (e.g. identifying target markets, sales channels etc.). Once the product has been launched, there should be adequate monitoring to determine whether it performs as designed and allows for adjustments to the product.

To view the paper on the IAIS website please visit this address:

<https://www.iaisweb.org/page/supervisory-material/application-papers>

---

## **Bank of Russia financial literacy website**

Contributor: Daria Silkina, Bank of Russia

In August 2017, the Central Bank of the Russian Federation launched a new website, [Fincult.info](http://Fincult.info). This site has been created to boost financial literacy and strengthen financial consumer conduct and financial consumer culture.

Financial culture entails more than financial literacy alone. While it does involve building financial awareness, it is also about fostering responsible attitudes in regard to money, as well as the appropriate skills to manage a personal budget. A well-developed financial culture is integral to a

country's sustainable development, on which the wellbeing of each citizen ultimately depends.

The site is intended to reach a wide audience of consumers with various levels of economic awareness and financial capacity. The content features a range of simplified financial cases that are relevant to different life stages. The site offers recommendations for ways visitors can stay well-informed financially and make effective financial decisions.

The site also offers introductory information, most of it organized according to specific consumer needs. The [Money](#) section, for instance, gives readers an opportunity to learn about currency circulation, the impact of inflation in our lives and how to check banknotes for authenticity.

Potential borrowers may benefit from information in the [Borrowing](#) section. The emphasis in this section is on fraud prevention. Visitors are invited to evaluate and test their knowledge of all the topics on the site.

Text and video updates are posted on a daily basis.

News of practical importance, such as regulatory changes and financial product launches, are posted on the site. There is also information to guide visitors on managing their money during particular life events – for instance, articles like [Back-to-school shopping that suits family finances](#).

Besides informative materials, the site will include a number of tools like the [Loan Calculator](#) and [Deposit Calculator](#). These can help financial consumers estimate potential debt and interest on deposits.

Among other online resources is a [Check Page](#) where users can check a financial institution's legal status based on official information available on the Bank of Russia site. Before concluding a contract with a financial institution, for instance, customers can check whether the institution is licensed or included in the state register.

Teachers, training specialists and financial education volunteers may benefit from the [section](#) that provides learning materials, recommendations, and links to useful sites and special financial education events. The section includes the National Financial Literacy Competition's best-ranked financial literacy study programmes. There is also a forum where teachers can register and discuss matters of current interest.

The site will be expanded and enhanced as new tests, calculators and games are launched. There are plans for the 2018 version to present a wiki-catalogue of fraud schemes, which users will be able to update with their own stories – so that all such stories may serve as warnings to other customers in the financial sector.

---

## New market conduct regulatory framework for the Peruvian financial system

Contributor: Elias Vargas, Superintendence of Banks, Insurance Companies and Private Pension Funds, Peru

With a mandate including regulation and supervision, the Superintendent of Banks, Insurance Companies, and Private Pension Fund Administrators (SBS) is responsible for creating effective consumer protection policy in Peru. This government institution has the important role of protecting consumers with regard to their needs and interests, and ensuring they receive fair treatment from those trying to sell them financial products and services. The SBS also promotes public confidence in the market.

This year, the SBS updated its regulatory framework on corporate governance and market conduct (e.g. transparency of information). Under this regulation, market conduct is considered an essential element of the enterprise culture, its institutional policies and the design of sound management incentives. Boards of directors and managers are responsible for establishing market conduct policies and procedures and implementing them within their organizations.

Current market conduct regulation incorporates a new approach that depends less on rules and more on principles. This is very different from the previous approach, which set out detailed responsibilities and obligations for financial institutions. The new regulation positions objectives and principles to ensure consumers receive fair treatment throughout the life cycle of the products they own. This approach also enables institutions to conduct their business freely.

Under the regulation, financial institutions must develop responsible business practices at all stages – from when the products and services are designed and

promoted, to when they are sold and afterwards – taking into account the principles for disclosure and transparency, as well as complaints-handling mechanisms.

Business practices must respect the following: (1) proper design of products aligned with corporate policies and procedures, as well as the regulatory framework; (2) sales mechanisms that do not use misleading information; (3) appropriate compliance; and (4) requirements for users based on the nature of products and services. As for disclosure and transparency, access to clear, accurate and relevant information is expected. Finally, financial institutions are expected to manage (not just resolve) complaints, identifying opportunities to improve efficiency and adopting corrective measures, if needed.

Another important aspect of the new regulation is the requirement of a full-time Market Conduct Officer to manage relationships with users; advise business and support managers from the user perspective; and participate in the decision-making process regarding new products and services. In terms of risk management, then, the officer provides a second line of defence,

At SBS, we pursue a regulatory development process based on evidence, rather than anecdotes from the supervision experience. Quantitative and qualitative research has been conducted to identify consumer insights regarding the design of regulatory requirements. The results were incorporated, for example, in the part of the new regulation concerning formats and content that respect consumer

understanding and communication preferences. As a result, regulatory provisions regarding the promotion of products and services have been fine-tuned and enhanced according to user feedback. For contracting digital financial services, security mechanisms and information adapted to available channels are required.

As a next step, the SBS is planning a similar regulatory design for the insurance market. Work to create a new vision for market

conduct that involves principles-based regulation and the appropriate management of business practices is ongoing. In 2018, former working groups integrated by members of the SBS and the industry are going to review our current regulation regarding market conduct to incorporate this new vision. Quantitative and qualitative research is also planned to determine how best to simplify information in contractual formats and channels.

---

## Central Bank of Ireland proposes new rules on how financial intermediaries can be paid

Contributor: Sinéad Cawley, Central Bank of Ireland

The Central Bank of Ireland has published a [consultation paper](#) including proposals for enhancing protections for consumers seeking advice from financial intermediaries, along with the results of consumer-focused research conducted to gauge consumer understanding, perceptions and expectations with respect to this topic.

The proposals are the outcome of analysis of and research on how financial intermediaries are paid, including a review of the position in other jurisdictions, emerging European-level standards, industry practices in Ireland and specific consumer-focused research. In 2016, the Central Bank published a [Discussion Paper on the Payment of Commission to Intermediaries](#), which invited views from interested parties on the risks and benefits to consumers of the practices of insurance companies, banks and other financial firms paying commissions to intermediaries that distribute their financial products.

The consultation paper includes proposals for stricter rules on how financial intermediaries can be paid commission (or other inducements) by the firms whose products they sell. The proposed measures require firms to avoid conflicts of interest

created by poorly designed inducement arrangements and to provide greater transparency for consumers about how a financial intermediary, whose advice they are relying on, is getting paid. The proposals will also introduce restrictions on financial intermediaries who describe themselves as 'independent'.

The proposals can be summarised as follows:

- prohibiting firms describing themselves as independent when they receive inducements from financial institutions whose products they advise on and sell
- prohibiting inducements that give rise to conflicts of interest, and should no longer be acceptable – such as inducements linked to the size of a mortgage loan or inducements linked to targets that do not take into account consumers' best interests. (Examples of such inducements include targets linked to volume, profit or business retention.)
- any inducements that are not restricted by the proposal above must pass the test for permissible



inducements set out in the EU Markets in Financial Instruments Directive and must be disclosed to consumers.

The Central Bank has also published the [results of the consumer-focused research](#) it conducted to gauge consumer understanding, perceptions and expectations with respect to this topic. The research, which surveyed 506 consumers (who sought financial advice and/or purchased a financial product in person through a financial adviser/broker in the past five years), found that:

- Seventy-three percent of respondents stated that it was important for a financial adviser/broker to describe themselves as independent and 63 percent stated a preference for choosing a financial adviser who described themselves as independent.
- Twenty-nine percent of respondents did not know how an independent adviser/broker was paid.
- Forty-seven percent of respondents said they preferred a once-off, upfront fee based on it being cheaper/more affordable or based on knowing how much they would pay. However, just 24 percent of respondents said they would be prepared to pay a fee to each financial adviser they consulted while shopping around for financial advice.

- While 55 percent of respondents said they understood that financial advisers/brokers were remunerated by means of a commission payment, 57 percent also agreed with the statement that financial advisers/brokers were often paid an additional level of commission by financial service providers for reaching specific sales targets.
- Sixty-one percent of respondents agreed that financial advisers/brokers primarily provide advice based on what products will earn them the most commission. However, 63 percent said they trusted their financial adviser/broker to understand their needs and to advise on a product that best suits their needs.

The consultation paper provides an opportunity for industry participants and other interested stakeholders to highlight any implementation issues or unintended consequences arising from the proposals, as well as any suggestions to enhance the proposals to ensure they achieve their stated aim.

---

## 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 practices and clear disclosure to consumers of financial services.

### Contacts

#### FinCoNet Chair

Ms. Lucie Tedesco  
[Lucie.Tedesco@fcac-acfc.gc.ca](mailto:Lucie.Tedesco@fcac-acfc.gc.ca)

#### FinCoNet Vice-Chair

Ms. Maria Lúcia Leitao  
[mleitao@bportugal.pt](mailto:mleitao@bportugal.pt)

#### FinCoNet Secretariat

Ms. Flore-Anne Messy  
[Flore-anne.messy@oecd.org](mailto:Flore-anne.messy@oecd.org)

Mr. Andrea Grifoni  
[Andrea.grifoni@oecd.org](mailto:Andrea.grifoni@oecd.org)

Ms. Sally Day-Hanotiaux  
[Sally.day-hanotiaux@oecd.org](mailto:Sally.day-hanotiaux@oecd.org)