FinCoNet

INTERNATIONAL FINANCIAL CONSUMER PROTECTION ORGANISATION

Report

International Seminar

12 November 2021

Market Conduct Supervisors Responding to the Impacts of the COVID-19 Pandemic

Foreword and Acknowledgements

This document sets out the Agenda, Summary Report and Speaker Biographies for the FinCoNet International Seminar on Market Conduct Supervisors Responding to the Impacts of the COVID-19 Pandemic, held on 12 November 2021.

FinCoNet would like to acknowledge and thank everyone who organised and participated in the Seminar, and particularly all Speakers, Panellists and Moderators for their valuable contribution to the discussion.

About FinCoNet

In November 2013, International Financial Consumer Protection Organisation (FinCoNet), was formally established as an international organisation of market conduct supervisory authorities with responsibility for financial consumer protection. FinCoNet is recognised by the Financial Stability Board and the G20. The goal of FinCoNet is to promote sound market conduct and enhance financial consumer protection through efficient and effective financial market conduct supervision, with a focus on banking and credit. FinCoNet Members see the organisation as a valuable forum for sharing information on supervisory tools and best practices. By sharing best practices and by promoting fair and transparent market practices, FinCoNet aims to strengthen consumer confidence and reduce systemic consumer risk.

Disclaimer

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- Mr. Yuji Yamashita, Deputy Commissioner for International Affairs, Financial Services Agency of Japan

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- Professor Tomasz Piskorski, Professor of Real Estate in the Finance Division at Columbia Business School and Research Associate at the National Bureau of Economic Research. Professor Piskorski is the co-author of Government and Private Household Debt Relief During COVID-19
- Ms. Loretta Michaels, is an independent consultant with a focus on policy strategy around digital financial inclusion. She works closely with the World Bank/IFC, the Consultative Group to Assist the Poor (CGAP). Ms. Michaels is the co-author of Regulatory Flexibility During the Pandemic: Emerging Lessons for the Center for Financial Inclusion
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Moderator:

- Ms. Teresa Frick, Director of Supervision at the Financial Consumer Agency of Canada

Panellists:

- Mr. John Salomon, Director for Europe, the Middle East and Africa (EMEA) at the Financial Services Information Sharing and Analysis Center (FS-ISAC)

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- Ms. Magda Bianco, Head of the Directorate General for Consumer Protection and Financial Education, Bank of Italy and Chair of FinCoNet Standing Committee 3: Supervisory challenges relating to the increase in digital transactions (especially payments), including mitigating cybersecurity risks and tackling financial scams

14.50-15.00 **Closing Remarks**

Mr. Chris Green, Vice-Chair of FinCoNet.

SUMMARY REPORT – INTERNATIONAL SEMINAR

Market Conduct Supervisors Responding to the Impacts of the COVID-19 Pandemic

12 November 2021, 12.00-15.00 CET

Welcome & Opening Remarks

Ms. Maria Lúcia Leitão, Chair of FinCoNet, opened the International Seminar on Market Conduct Supervisors Responding to the Impacts of the COVID-19 Pandemic, and welcomed all attendees on behalf of FinCoNet, a network of market conduct supervisors from around the world dedicated to financial consumer protection. Ms. Leitão introduced the structure and topics of the Seminar, which would address credit moratoria and the management of pre-arrears and arrears, as well as the impact of increasing digitalisation of financial services on cybersecurity risks, scams and frauds. She noted the challenges faced by the financial impact of the pandemic on financial consumers' resilience and welfare, emphasising how lockdown restrictions and physical distancing measures had led to an abrupt decline in economic activity, threatening jobs and incomes around the world on a previously unforeseen scale. She also highlighted that conduct of business supervisors have been called upon to help, overseeing the implementation by financial institutions of the temporary measures adopted (e.g. payment holidays).

Ms. Leitão described how FinCoNet Members had been working together to assess relevant approaches and establish a more comprehensive approach to financial consumer protection, considering the advantages of strengthening cooperation with other international organisations.

She further noted that, in some jurisdictions, COVID-19 response measures were ending, which meant that regulators and supervisors had to focus their attention on the management of pre-arrears and arrears situations, ensuring an adequate level of financial consumer protection and preventing foreclosure and judicial enforcement of debts. In addition, she noted the acceleration of the use of digital financial services, which had required business conduct supervisors to be vigilant and act on the mitigation of risks for consumers.

Ms. Leitão underlined how FinCoNet had been considering the importance of such topics in its Programme of Work, with the support of the OECD Secretariat. In particular, she highlighted the recently published FinCoNet Report, produced by Standing Committee 2, on "Supervisory Approaches to Consumers' Creditworthiness Assessments." She noted that the Report had benefitted from the previous year's FinCoNet International Seminar on "Creditworthiness Assessments: Current Issues and Challenges", and that the current Seminar would contribute to the development of Standing Committee 2's upcoming workstream on exit strategies from payment holidays: supervisory approaches and challenges regarding the management of pre-arrears and arrears.

She also highlighted the work of Standing Committee 3, dedicated to supervisory challenges related to mitigating security risks of digital payments. In particular, she noted the recently established workstream to explore the impact of digitalisation and the increase in digital transactions, mainly payments, accelerated by the COVID-19 pandemic.

Ms. Leitão concluded by thanking the panellists, speakers and moderator for their contributions.

Presentation and Q&A: Global insights into regulatory and supervisory approaches to consumer risks resulting from COVID-19

Mr. Miles Larbey, Acting Head of the Consumer Finance, Insurance & Private Pensions Division, OECD, presented global insights into regulatory and supervisory approaches to consumer risks resulting from COVID-19. Mr. Larbey began his presentation with an overview of OECD's leading role since the start of the pandemic in supporting countries by gathering and sharing information about measures implemented by jurisdictions to protect and support financial consumers in response to COVID-19. He indicated that his remarks would draw from a range of work carried out by the OECD, but in particular the G20/OECD Report on Lessons Learnt and Effective Approaches to Protect Consumers and Support Financial Inclusion in the Context of COVID-19. This report was prepared for the G20/OECD Task Force on Financial Consumer Protection and the Global Partnership on Financial Inclusion (GPFI), in support of the Italian Presidency of the G20. The effective approaches and lessons learnt presented have provided input for the development of the Menu of Policy Options for enhancing digital financial inclusion "Digital financial literacy and financial consumer and MSME protection beyond the COVID-19 crisis" developed by the GPFI.

The findings of the report that Mr. Larbey presented was based on 126 responses to a Questionnaire, representing 164 organisations from 81 jurisdictions. In the first portion of his presentation, Mr. Larbey highlighted the impact of the COVID-19 pandemic on financial consumers. Key findings included:

- Overall, reduced resilience and scams/frauds ranked as top risks faced by financial consumers.
- The ranking of risks differed by the income level of responding jurisdictions. Respondents representing high-income jurisdictions were more likely to rank financial scams and frauds as the most significant risk; whereas respondents from low and middle-income jurisdictions ranked reduced financial resilience as the most significant risk.
- Online frauds and scams increased significantly since the start of the COVID-19 pandemic, for most respondents.
- The most common forms of fraud were phishing and fake schemes designed to tempt consumers to transfer, pay or invest money.
- One of the most significant impacts reported by jurisdictions is the accelerated digitalisation of the financial services sector – a trend that was already underway, but turbo charged by COVID-19 related restrictions.

In the next portion of his presentation, Mr. Larbey highlighted measures to support financial inclusion and protect financial consumers. Key findings included:

- More than half of respondents adopted measures to support financial inclusion. The most common measure was promoting the use of digital financial products and services.
- Seventy-seven respondents (around 60%) adopted policy or regulatory changes relating to financial consumer protection. Most changes were implemented as temporary measures in response to the emergency, although around a quarter of responses represented structural or long-term policy changes.
- COVID-19 affected the form and the substance of supervision. More than half of respondents reported that their organisation had made changes to their market conduct supervision practices as a result of the COVID-19 pandemic.
- Regarding banking & payment services, the most effective measures were ensuring access to banking services and encouraging contactless/remote payments.
- Regarding banking and payment services, the most common complaints received were from consumers experiencing difficulty understanding and/or accessing relief measures
- Regarding credit, the most effective measures were restructuring of repayment terms and payment holidays, credit moratoria and deferrals. In many cases, loans modified through such programs were not to be reported as past due or non-performing.
- Regarding credit, the most frequent complaint was difficulty for consumers in understanding or accessing COVID-19 relief measures.
- Regarding insurance, effective measures included enhanced disclosure/providing extra information, followed by a focus on swift and fair claims handling.
- Regarding insurance, the most common complaints related to handling claims and exclusions in insurance coverage.

In conclusion, Mr. Larbey shared lessons learnt and effective approaches for policymakers, regulators and supervisors. Key messages included the following:

- The increased exposure of and attention to vulnerability may have had a secondary effect in some jurisdictions of strengthening support for financial inclusion and financial consumer protection policy agendas.
- The pandemic will have longer-term implications for financial consumer protection and financial inclusion. These include digitalisation, increased vulnerability, increased numbers of retail investors, closer coordination among regulators and a shifting perspective on risk crisis-preparedness.
- The Report identifies 10 Effective Approaches, which Mr. Larbey highlighted in his presentation. These effective approaches build on existing, foundational policy frameworks and guidance, in particular, for financial inclusion, the G20 High-Level Principles on Digital Financial Inclusion and, for financial consumer protection, the G20/OECD High-Level Principles on Financial Consumer Protection.

Finally, Mr. Larbey outlined next steps, which include feeding the lessons learnt and effective approaches into the ongoing strategic review and update of the G20/OECD High-

Level Principles on Financial Consumer Protection. He also noted that the research would inform other projects including deep dive analyses on key themes or trends.

Question & answer session

Ms. Laura Dunbabin, Policy Analyst, OECD, thanked Mr. Larbey for his presentation. Ms. Dunbabin moderated a Q&A session with Mr. Larbey as follows:

Q: At the end of your presentation, you spoke about the lessons learnt and effective approaches that have been identified through the research regarding financial consumer protection and financial inclusion. Regarding supervision specifically, how do you see this experience changing the way that supervisors approach their work going forward?

Mr. Larbey noted that he expected a continued increase in the use of SupTech. Many people working for market conduct supervisors had been working remotely, and many still were. He noted that this had a number of benefits for staff themselves and also allowed new SupTech tools to be deployed. But he also said there were challenges – communication, coordination, finding and testing adequate technology.

Q: What are your thoughts about the role of market conduct supervisors in terms of tackling frauds and scams, which have significantly increased during the pandemic?

Mr. Larbey noted that the issue of tackling frauds and scams was very important to market conduct supervisors. He stressed that it presented a real challenge, given the public expectation for regulators and supervisors to respond, while in many cases supervisors could not solve the issues by themselves and in fact addressing the issues would involve working closely with other regulators and law enforcement agencies. This tension was exposed by the pandemic. He noted that financial education and technology to detect fraud were important tools, as this issue went well beyond financial market conduct supervisors. He noted that it could involve cross-border collaborations, as perpetrators might not have been located in the same jurisdiction as the victim.

Panel Session 1: Exiting payment holidays, credit moratoria and the management of pre-arrears and arrears: the challenges now and looking ahead

Mr. Yuji Yamashita, the Deputy Commissioner for International Affairs at Japan's Financial Services Agency, moderated a panel session on exiting payment holidays, credit moratoria and the management of pre-arrears and arrears. To begin the session, Mr. Yamashita noted that an important role of supervisors and regulators is to protect consumers, however credit moratorium cannot last forever as countries enter the recovery phase, and that this is the perfect time for FinCoNet to consider the effects, lessons and challenges in this area.

Professor Tomasz Piskorski, Professor of Real Estate in the Finance Division at Columbia Business School and Research Associate at the National Bureau of Economic Research, was the first panellist to present. Prof. Piskorski is the co-author of Government and Private Household Debt Relief During COVID-19, and he shared an American experience of this large scale study. The lessons learnt from the Global Financial Crisis (GFC) meant that the response to the COVID-19 pandemic was focused more on the consumer side. Lessons learnt from the GFC included that:

- Household debt distress during crises spills over to real economy.
- Importance of temporary household financial relief and recovery.

- In implementing relief, there are frictions which lower and slow down take-up.

In the US a debt forbearance (not forgiveness) programme was implemented, which meant that debt repayments were postponed, they were not considered delinquent, it was considered to be a temporary credit line, which would still have to be repaid. The main findings of the study, which was on the largest debt relief programme in US history included:

- The programme affected 70 million US consumers and postponed $86 billion of payments to significantly reduce debt distress.
- The programme was quite well targeted and the moral hazard small. It was less costly than other transfer payments because mostly it was a loan that would still be required to be repaid, and it did not induce significant social transfers. The programme was well distributed, in that less creditworthy and lower income get forbearance at higher rates, while higher-income borrowers got much larger amounts of forbearance per individual, largely reflecting their higher loan balances
- The programme was fairly effective. At this time, there were still 40% of loans in forbearance. The typical consumer accumulated more than $14,000 in debt payments (equivalent of about 3.4 times their monthly income).
- The programme was implemented quickly. It took two weeks for the US Federal administration to put the program in place, which is much quicker that the programme implemented during the GFC, which took 1.5 years to be implemented.
- The process for applying for the debt forbearance programme was very simple. The biggest debt in the US is mortgages and all consumers had to do was request the relief from their provider, there was no documentation that they were required to submit. Student loans were automatically put into forbearance. Regarding credit cards, this was up to the provider, there was no government mandate in relation to this.

The outcome of the programme was evident in the absolute irregularity found in the usual relationship between unemployment and defaults. Rather, in this case, unemployment rose and defaults went down, which is not the usual relationship. The delinquency gap can be predicted and mortgage defaults were 1.5-2.5 times less than what would have been expected if the programme had not been implemented.

The importance of financial intermediaries was observed, that in more than half of mortgages handled by shadow banks they initially had a lower rate of forbearance (i.e. the programme did not reach those consumers as quickly).

The unwinding of the programme is very simple, instead of asking consumers to repay the loan up front, the amount is just added to the principle, and it spreads the additional repayment over time, meaning it is a much more manageable amount for consumers to plan for and repay.

Prof. Piskorski concluded by observing that the change relating to the measures to support consumers in responding to the COVID-19 pandemic was that the government and the private sector had internalised the lessons learn from the GFC in developing the COVID-19 response. This resulted in well targeted policy, with less than 10% of eligible consumers applying for it. It was also a relatively cheap policy, with most of the $86 billion of postponed payments already repaid, which suggests that debt forbearance programmes can be much better alternative to direct payments.

Ms. Loretta Michaels is an independent consultant with a focus on policy strategy around digital financial inclusion. She works closely with the World Bank/IFC, the Consultative Group to Assist the Poor (CGAP). Ms. Michaels is the co-author of Regulatory Flexibility During the Pandemic: Emerging Lessons for the Center for Financial Inclusion, and she shared the findings from this work.

Ms. Michaels began by observing that the COVID-19 pandemic was a regressive crisis, with the biggest impacts being people with the lowest incomes. The most impacted people were in a few key industries (e.g. hospitality, tourism) and the rest were typically micro and small entrepreneurs. Many support and relief measures were taken around the world, and the speed of implementing measures was very impressive. Over 3,400 regulatory measures were taken in the financial sector to combat pandemic shocks, including a number of fiscal relief measures, prudential and non–prudential measures and rent and eviction moratoria measures.

The health crisis led to rushed planning, with little coordination. Reflecting on the lessons learnt from the response to the COVID-19 pandemic, all actors did their best and the measures were well-intentioned, but they were not necessarily well-designed, coordinated or communicated. Most of the decisions taken were aimed directly at consumers and banks, however intermediary players such as microfinance institutions (MFIs) or credit unions were often overlooked. At the same time, many of these players were deemed to be "non-essential services," which only exacerbated their ability to serve their clients. Microfinance institutions typically have a lower digitalisation rate, which further added to the challenge of repaying loans, and unrelated foreign currency rules inhibited investor support. Many non-bank financial institutions had trouble getting funding, as the liquidity facilities were aimed at banks.

Communications was another challenge, with poor communications sometimes leading to massive confusion. Challenges included that multiple programs were announced one after the other, it was not always clear who the programs were aimed at (for example, bank customers or microfinance institutions) and sometimes details were not announced or left to financial service providers to figure out. There was a lack of clarity of roles relating to relief payments (for example, hotlines and recourse) and there were insufficient anti-fraud warnings for consumers.

There were many other unintended consequences arising from the measures, including:

- Many customers unaware they still needed to pay once moratoria ended. Moratoria/suspensions did not erase obligations, merely transferred them to other institutions such as non-bank financial institutions (NBFIs) who still needed to meet their own obligations to their bank funders.
- Microfinance institutions and landlords caught in middle between non-paying clients/tenants and banks expecting to be paid.
- Many micro, small and medium enterprises (MSMEs) wanted to keep repaying but had no choice.
- Blanket lockdowns exacerbated problems as critical financial service provider branches/agents were deemed non-essential and forced to close.
- Fee suspensions put pressure on payments systems providers at a time when governments needed them to distribute relief payments.
- Suspended credit reporting meant that there are data gaps now in credit histories.

- Payments systems providers were caught in middle of recourse disputes.

Looking ahead, the lessons learnt from this crisis include:

- Make moratoria optional: let financial service providers work with customers as needed, and build recourse systems for any disputes.
- Financial service providers serving low-income, MSME segments need customised flexibility programs: need to differentiate between banks and microfinance requirements.
- Regulators need more efficient monitoring & evaluation systems: lets them customise flexibility programs without adding to compliance/reporting obligations of financial service providers.
- Liquidity facilities should be available to all financial service providers, not just banks. It's also important that non-bank financial institutions can meet conditions, which are usually designed for banks (e.g., fixed collateral).
- Deposit-taking financial service providers fared better indicating there is a need for a smoother regulatory path for deposit-taking non-bank financial institutions: accumulated liquidity ensures breathing room to design customer solutions.
- Regulatory measures must be matched by fiscal support: need efficient means of reaching low-income beneficiaries.
- Co-ordination, crisis preparedness and business continuity are critical.

Mr. Pedro Dias is the Head of Division, Banking Conduct Supervision Department, Banco de Portugal and the Chair of FinCoNet Standing Committee 2, which is examining *Exit strategies from payment holidays: supervisory approaches and challenges regarding the management of pre-arrears and arrears*. Mr. Dias commenced his presentation by highlighting FinCoNet's role to identify regulatory and supervisory approaches and tools for supporting responsible lending practices.

Mr. Dias gave an overview of FinCoNet's outputs since 2014 on this topic, ranging from a review of supervisory tools for suitable consumer lending, sales incentives, the impacts of the digitalisation of short-term high-cost consumer credit and the most recent work in 2021 on supervisory approaches to consumers' creditworthiness assessments and, in this regard, the challenges of a growing use of automated models, resorting to new technologies and alternative sources of data. Responsible credit should embrace responsible lending, borrowing and management of pre-arrears and arrears and cover all phases of the credit life cycle. This draws on the principle that all financial consumers should be treated equitably, honestly and fairly at all stages of their relationship with financial service providers, as set out in the G20/OECD High-Level Principles on Financial Consumer Protection.

Mr. Dias observed that the impact of COVID-19 pandemic required extraordinary responses to protect borrowers. The impact on the financial resilience of consumers required policy makers to take prompt action to avoid the escalation of credit default rates and protect the stability of the financial system. Credit moratoria and payment holidays were considered to be effective measures, ensuring immediate debt relief and preventing credit default. Those measures were designed as extraordinary and temporary responses to an emergency situation. Market conduct supervisors played an important role in the implementation and monitoring of credit moratoria.

Regulators and supervisors around the world are concerned about the impact of the exit from credit moratoria on borrowers affected by the COVID-19 pandemic. In anticipation to the end of credit moratoria, many jurisdictions have been adopting:

- Measures specifically targeted to support consumers who would have to resume the repayment of their credit agreements.
- Structural and long-term solutions aimed at reinforcing the procedures adopted by credit institutions in the management of pre-arrears and arrears situations.

Mr. Dias gave an overview of the measures approved by the Portuguese Government in August 2021, to protect borrowers of credit agreements covered by the public credit moratoria upon their termination. This involves contacting all borrowers 30 days before the end of the credit moratoria, assessing the financial situation of borrowers, and proposing forbearance solutions, 15 days before the end of the credit moratoria, where necessary and possible. Where borrowers fail to comply with their obligations following the exit from credit moratoria, consumers will benefit from specific protection against legal action to prevent lenders from redeeming the credit or selling of the credit to third parties.

Mr. Dias also outlined how the Portuguese Government has reviewed the legal and regulatory framework on the management of pre-arrears and arrears. Credit institutions are required to:

- Monitor the execution of credit agreements on a regular basis and to have systems and procedures that allow the detection of early warning signs.
- Take immediate action following the detection of early warning signs in order to assess whether the consumer is at risk of entering into default.
- Where necessary and viable, propose adequate forbearance solutions (within 15 days of receiving the necessary information from the consumer).
- Monitor the efficiency of the solutions implemented and present new proposals to the consumer, whenever necessary.

Banco de Portugal was actively engaged in the preparation of the exit strategy, and has been assigned with a clear mandate to oversee the new rules and empowered with new tools. Institutions are now required to report regular information about all credit agreements covered by the legal procedures governing the management of pre-arrears and arrears. There is also European Union legislation that reflects the importance of proper management of arrears, for example, the Mortgage Credit Directive, the proposal for a Consumer Credit Directive and European Banking Authority Guidelines on arrears and foreclosure and EBA Guidelines on non-performing and forborne exposures.

Many of these relevant topics will be addressed by the next FinCoNet Standing Committee 2 workstream. Mr. Dias concluded his presentation by reiterating that the collaboration and sharing of experiences among supervisors is invaluable for developing the best approaches and practices to ensure robust financial consumer protection.

Question & Answer Session

Mr. Yamashita began the discussion with the following question:

Q: Have payment holidays or credit moratoria been successful and effective in minimising the risk of consumer hardship?

Mr. Dias shared his views that in the case of Portugal he thought the measures had been effective in minimising the consumer hardship, particularly in relation to stress from debt.

Prof. Piskorski also agreed that, as shared in his presentation, overall they are successful and well targeted, but there is a certain qualifiers from the US experience, including the importance of borrower self-selection and that it took longer for the measure to reach consumers of non-banks. The risk of forbearance needs to be carefully handled in the exit.

Q: What are the challenges for financial consumers and financial system as a whole when credit moratoria programmes expire?

Ms. Michaels observed that it was important to determine the health of borrowers and financial institutions, and this will not really be known until we start coming out of forbearance. There are likely to be challenges in dealing with consumer and institution confusion as the measures are unwound and measures increasing the number of hotlines may assist to mitigate this. Some programmes may not have had the intended impact - a practical example in the US is the provision of rent support to states, but every state conducted the process of authorising and issuing the payments differently, leading to confusion. The result was that most of the money never reached landlords.

Prof. Piskorski observed that governments may need to provide guidance and more prescriptions to consumers and firms to assist them to navigate the exit from the relief measures.

Q: How can regulation and supervision assist firms to navigate these impacts to ensure good consumer outcomes?

Mr. Dias observed that credit moratoria were optional for borrowers in Portugal, so they only benefited if they applied. The crisis and recovery may take longer and have long-term effects, indicating that policymakers might need to reflect on the structural arrangements to protect those in pre-arrears and arrears.

Ms. Michaels observed it was key to have a co-ordinated approach to policy to prevent unintended consequences. Banks want to protect their own credit ratings, so they will not necessarily want to reissue loans to microfinance institutions with low repayment rates, she said. This pressure could easily result in coercive practices by desperate MFIs. Firms may also be under pressure to maintain staffing support during times of moratoria, so regulators could consider funding mechanisms to help mitigate this shortfall.

Mr. Yamashita concluded the discussion with the following question:

Q: What should policymakers and regulators be thinking about for the next crisis or emergency response around this issue?

Prof. Piskorski emphasised that quick implementation of measures was essential and can be done in an incentive-compatible way. There is permanent moral hazard and intermediary friction should be considered as well as borrower self-selection.

Ms. Michaels highlighted that business continuity planning was essential for businesses. It should also be essential for policymakers and regulators, she noted. Some aspects of industry and government had well-established emergency plans in place, for example telecommunications or power plants and grids. Financial policymakers and regulators need to also have similar programmes in place for the next emergency response. The next crisis will likely involve increasing digitisation and the need for rapid payment relief and forbearance.

Mr. Dias observed that the best approaches work where a long term perspective has been taken. Structural and long-term measures should require credit institutions to reinforce the procedures adopted in the management of pre-arrears and arrears situations, meaning that there will be preparedness if there is another shock that necessitates the implementation of extraordinary measures, such as the ones adopted for the COVID-19 pandemic.

Panel Session 2: Increasing digitalisation, cybersecurity risks, scams and frauds: the challenges now and looking ahead

Ms. Teresa Frick, the Director of Supervision at the Financial Consumer Agency of Canada, moderated a panel session on increasing digitalisation, cybersecurity risks, scams and frauds. To begin the session, Ms. Frick noted how the digital revolution was changing, creating opportunities and introducing challenges. The pandemic accelerated the pace of digital transactions and cybersecurity risks surged globally, ranging from phishing attempts to more sophisticated attacks on network and information flows.

Mr. John Salomon, the Regional Director for FS-ISAC in continental Europe, the Middle East, and Africa, was the first panellist to present. Mr. Salomon briefly introduced FS-ISAC, a not-for-profit industry consortium that builds risk management and robustness through exercises, events, cyber-threat intelligence sharing and analysis. FS-ISAC is member-governed and open to any regulated financial services firm, and it counts members in over 70 countries.

Ms. Fredes Montes, Senior Financial Sector Specialist at the World Bank, presented on cyber security: a critical challenge to the financial sector. Ms. Montes began by providing a definition for digital financial services (DFS): payments, transfers, savings, credit insurance and even securities using a mobile phone or other digital technology to access financial services (Source: World Bank). She also defined cyber risk as: operational risks to information and technology assets that have consequences affecting the confidentiality, availability, or integrity of information or information systems (Source: Taxonomy of Cyber Risks). Cybersecurity was defined as: the collection of tools, policies, security concepts, security safeguards, guidelines, risk management approaches, actions, training, best practices, assurance and technologies that can be used to protect the cyber environment and organization and user's assets (Source: ITU).

Ms. Montes noted that cyberattacks could have significant impact, and that DFS presented an opportunity for bad actors to intervene. She emphasised that the ecosystem of DFS was built on trust, and that violating that trust could lead to loss of clients, financial losses and reputational losses. She explained that the main assets targeted were financial institutions, financial market infrastructures and official institutions, all of which needed to be protected from a cybersecurity perspective. The risks affect not only the business but also the applications, the devices, and the sessions (insecure connections, SMS forwarding, mobile account takeover).

Ms. Montes explained how the “work from home” economy induced by COVID-19 posed further challenges and vulnerabilities. She noted the increased incidence of cyber threats against the banking industry during confinement and an extreme reliance on the cloud and the internet-of-things. She showed how hackers had targeted vulnerable customers and the supply chain.

Ms. Montes highlighted examples of international responses, starting with the G7 Fundamentals of Cybersecurity and citing work from the Bank for International Settlements/Committee on Payments and Market Infrastructures (CPMI), International

Organization of Securities Commissions (IOSCO), European Central Bank, the Network and Information Security (NIS) Directive, the European Union Agency for Cybersecurity (ENISA), the Financial Stability Board, the World Bank, the G20, the Financial Action Task Force (FATF), and Payment Aspects of Financial Inclusion (PAFI) guidance. She also provided examples of frameworks on data protection for financial services, including G20 Principles and OECD Guidelines, among others. She provided an overview of a framework to assess cyber resilience in the financial sector, developed by the National Institute of Standards and Technology of the U.S. Department of Commerce; she also provided an overview of the European Central Bank's cyber risk oversight expectations.

Finally, Ms. Montes presented suggested measures for the improved cyber resilience of DFS, which would include: operationalising existing standards and frameworks; developing standards and protocols where they do not exist; integrating cyber security as a core function of oversight; sharing intelligence and information; engaging financial authorities in National Cybersecurity Strategies; unlocking the potential of technology to support cyber resilience; and sustaining the efforts over time.

Ms. Magda Bianco, Head of the Directorate General for Consumer Protection and Financial Education, Bank of Italy and Chair of FinCoNet Standing Committee 3, presented on work from the GPFI, the Bank of Italy, and FinCoNet.

Ms. Bianco noted that the GPFI's aim in 2021 was to ensure that the push toward digitalisation during COVID-19 was an opportunity for a leap forward in financial inclusion, and that challenges associated with this shift were addressed. She highlighted the six reports that had been produced by GPFI's implementing partners, including three with the OECD, one with the World Bank, one with the World Bank and IFAD, and one with IFC and the SME Finance Forum.

Ms. Bianco explained GPFI's decision to concentrate on two areas of policy which are also enabling factors for financial inclusion: financial consumer and MSME protection and digital financial education and literacy. She recognised that Mr. Larbey had spoken earlier in the seminar about the financial consumer protection policies enacted during COVID-19.

Ms. Bianco introduced the G20 Menu of Policy Options for Digital Financial Literacy and Financial Consumer and MSME Protection, based on the reports of implementing partners and the experiences of jurisdictions. The document highlights key policy options to leverage digitalisation for a leap forward in financial inclusion. In particular, Ms. Bianco presented the following policy options to help leverage digitalisation for a leap forward in financial inclusion:

1. Favouring 'protection by design' for new digital financial products and services
2. Supporting inclusive financial innovation by embedding financial inclusion objectives in innovation policies
3. Deploying data collection and enhancing market monitoring to improve financial services
4. Using behavioural insights to improve financial consumer and MSME protection and financial education
5. Designing inclusive digital financial information and education

She also presented the following policy options to address new and exacerbated risks and vulnerabilities:

1. Stepping up efforts to identify groups at risk of financial exclusion
2. Addressing risks of online fraud and scams and mismanagement of personal data
3. Introducing and strengthening effective redress mechanisms to protect consumers and MSMEs
4. Enhancing the use of digital tools to assist public authorities in favouring inclusion and protection

Ms. Bianco then provided an overview of banking conduct supervision in Italy. She noted an increase in complaints and ombudsman claims for frauds and scams in payments, which reflected various types of scams (phishing, vishing, SIM swap frauds, etc.). She noted that ombudsman decisions in Italy were based on Payment Services (PSD2) directive, which was very supportive of consumers. The ombudsman decides in favour of consumers whenever the scam or fraud could not be detected easily. Whereas they decide against the consumer if the fraud should be sufficiently known to the public and a normal duty of care should have allowed the consumer to detect the fraud.

Ms. Bianco described supervisory initiatives being conducted by the Bank of Italy, including inspection campaigns, the use of complaints data, collaborations with other regulators (telecom regulators, in particular), and the development of education campaigns with consumer associations.

In conclusion, Ms. Bianco highlighted the work of FinCoNet Standing Committee 3, which addresses supervisory challenges relating to the increase in digital transactions, especially payments. She shared initial findings from Standing Committee 3's research, including:

- Governance: central banks often perform a dual prudential and market conduct oversight function vis-à-vis providers of digital payments
- Legal and regulatory framework: banks and payment institutions are subject to supervision; this is less often the case for platforms or payment aggregators
- Security incidents, scams and frauds: most authorities are monitoring this data, but not all
- Market conduct supervision tools and consumer awareness interventions: the tools most often used and considered effective include on-site inspections, complaints analysis and off-site inspections. Evidence indicates that most are hiring IT experts within conduct supervision to help more directly.

Question & Answer Session

Ms. Frick began the discussion with the following question:

Q: What do you see as the most significant developments related to the increase in digitalisation for financial consumers?

Ms. Bianco responded and agreed that the explosion of digitalisation was a possible source of inclusion. She also highlighted an issue regarding MSMEs. During this period, MSMEs received significant support by governments and in a large number of cases that was delivered through digital instruments, which allowed for a history of data that is a door into the financial system. She also noted the development of other sources of finance – crowdfunding or other non-traditional lenders. In conclusion, Ms. Bianco highlighted that digitalisation would allow for new ways of credit scoring, another way to help people without credit histories to enter the market.

Ms. Montes echoed Ms. Bianco and celebrated the increased access to transaction accounts that could be opened remotely. This would allow for greater space for those in rural or remote areas to transact. Ms. Montes also highlighted that the shift came with additional risks, such as fraud and particularly ID theft. She stressed that a very important aspect in moving into digital services was the authentication. She underlined the importance of paying attention to how authentication was built, how users access their own accounts and how to make sure they are who they claim to be. She also touched on innovation in the areas of fintech and open banking, moving beyond only the financial sector into open data, new entrants including BigTechs, and how to ensure better security.

Ms. Frick continued the discussion with the following question:

Q: How has the COVID-19 experience affected cybersecurity risks, scams and/or frauds, and how do you see regulators and supervisors responding to these threats?

Mr. Salomon noted the rise in COVID-related abuse (mostly fraud), mainly postulated on the idea that any major disruptive event is likely to bring out opportunists. He noted a dramatic rise in breaches and malwares, although these were mainly COVID-independent. He said that his organisation had recorded a rise in executive fraud – which then flattened out. Mr. Salomon explained that a lot of these attack trends tend to be very regionalised. In the Middle East, for example, they saw Denial of Service (DoS) attacks. Other regions witnessed COVID-related benefits fraud. Given that people were staying at home, not working and receiving benefits, it was natural to assume that there would be victims falling to that kind of abuse, he said. He also pointed out that the rise in attacks could be based on increased reporting. While there was definitely a significant amount of COVID-related incidents such as fraud, much of what was reported may be attributed to increased awareness and publication of COVID-themed threat intelligence, such as phishing lures, rather than having a purely causal relationship. He also noted an increase in state-affiliated misinformation.

Mr. Salomon posited that there would be no post-pandemic world. The pandemic would continue, he said, in a reduced form. In the same way, many of the threats and attacks that may have been linked to these developments would stick around as well.

On the regulatory side, Mr. Salomon noted that both regulatory structures and governmental operations had seemed to have done a good job staying the course. In the EU especially, DORA (Digital Operational Resilience Act) and NIS2 (Network and Information Security Directive), a major area where regulators could have been more aggressive would have been pushing financial institutions to invest more in cybersecurity, he said. He also warned of the risk of burnout among cybersecurity professionals, due to increased workloads. As regulators push more requirements onto organisations, he said, they should also push them to invest more in the people addressing these requirements.

Ms. Montes supported Mr. Salomon's call for action in investing more, not only regulators but all the participants in the financial ecosystem. She said it was critical to move away from fear of sharing information about incidents, since institutions fear reputational loss. But withholding such information can create even bigger damages, she warned. She championed efforts to share information in a controlled environment – to help learn from these incidents and act in a coordinated manner.

Mr. Salomon supported proactive engagements with regulators and supporting the industry by breaking down fears and breaking down barriers, for example by issuing constructive guidelines (he noted that the Monetary Authority of Singapore had done this very well). He revisited Ms. Michaels' point about crisis response, noting that many of those activities were in progress. When fostering crisis-response activities, he said it was important is to understand: why are you doing what you're doing, what is the goal, and can we use this to help the sector, society, and customers defend themselves? His final point touched on education and the importance of digital literacy, especially concerning fraud.

Ms. Bianco stated that exclusion was one of the big risks, and a particular challenge because it was not often within the regular mandate of the relevant authorities. She noted that there was no specific institution with most jurisdictions dealing with this, and thus a risk that it could fall out of our perspective. She also noted regulators faced challenges when certain institutions or instruments fell out of their mandate – such as platforms or crypto assets – and agreed that digital and financial education were major challenges.

Closing Remarks

Mr. Chris Green, Vice-Chair of FinCoNet, thanked the speakers and moderators, and thanked the OECD Secretariat for organising the event. Mr. Green noted how the seminar had explored important issues coming out of COVID-19. He noted how the panellists had spoken about digitalisation and its opportunities to increase inclusion, while recognising the challenges, including exclusion for some groups, as well as frauds and scams. Mr. Green reflected on Session 1, which discussed the challenges for everyone, regulators and supervisors, but also lenders and consumers, coming out of payment holidays. He noted that we may have learned lessons from previous crises and we have applied some of those lessons from the GFC to the current situation. The seminar also expanded important discussions among FinCoNet Members regarding cyber security, scams and frauds linked to digital financial services. Mr. Green noted that the seminar had been extremely interesting and useful as the world moved into the next phase of the pandemic. Within FinCoNet, he said, the discussions would continue. Mr. Green encouraged attendees to make use of the resources available through FinCoNet.

SPEAKER BIOGRAPHIES

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Maria Lúcia Leitão, Head of Banking Conduct Supervision Department, Central Bank of Portugal (Banco de Portugal).

With a background in Economy and European Studies, Maria Lúcia Leitão is since its inception (in 2011) the Head of Banking Conduct Supervision Department at the Banco de Portugal following her appointment as Deputy Head of Banking Supervision Department in 2007.

Mrs. Maria Lúcia Leitão is also the Chair of the Steering Committee of the Portuguese National Strategy for Financial Education lead by the three financial supervisory authorities.

Mrs. Maria Lúcia Leitão actively participates in several international fora dedicated to financial consumer protection and financial education. At the international level, Lúcia Leitão is Chair of the International Financial Consumer Protection Organisation (FinCoNet) and she is a member of the Advisory Board of OECD/INFE (International Network on Financial Education). At the European level, she participates as a member in the Standing Committee on Consumer Protection and Financial Innovation of the EBA (European Banking Authority). She also participates in the G20/OECD Task Force on Financial Consumer Protection. She also participated in the Joint Committee of the European Supervisory Authorities (ESAs).

Mrs. Maria Lúcia Leitão often participates as speaker at international gatherings invited by organizations such as the OECD, G20/GPFI, United Nations Conference on Trade and Development (UNCTAD), World Bank, Alliance for Financial Inclusion, Child and Youth Finance International.

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Miles Larbey is the Acting Head of the Consumer Finance, Insurance & Pensions Division at the OECD. Among other things, he is responsible for the OECD's work on financial consumer protection policy, as well as supporting the G20/OECD Task Force on Financial Consumer Protection and FinCoNet, a network of market conduct supervisors. Particular areas of focus include the protection of consumers who may be vulnerable, the impact of digitalisation, demographic changes, financial inclusion, sustainability, and, in recent times, the impact and response to COVID-19.

Miles has over 25 years' experience of working in financial regulation, law and policy; banking and insurance supervision; and financial education across a number of jurisdictions. Before his role at the OECD, Miles held positions as the Senior Executive Leader for Financial Capability at the Australian Securities and Investments Commission; General Manager of the Investor Education Centre in Hong Kong; and worked on consumer protection law reform at the Financial Conduct Authority in the UK.

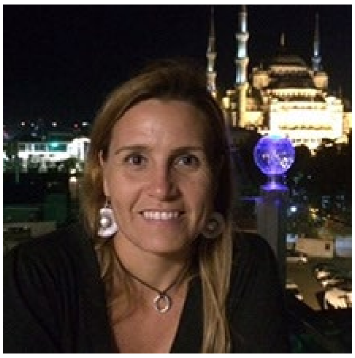
Yuji Yamashita is currently the Deputy Commissioner for International Affairs at Japan's Financial Services Agency (JFSA).

Mr Yamashita started his career at the Bank of Japan (BoJ) in 1993. He has been engaged in various financial and monetary policy related functions. He also worked at International Accounting Standards Board (IASB) to develop accounting standards for Financial Instruments. Before the current position, he was the Chief Representative in Paris of BoJ.

Mr. YAMASHITA has a bachelor's degree in Economics from University of Tokyo and master's degree of Public Financial Policy from London School of Economics (LSE).

Professor Piskorski is the Edward S. Gordon Professor of Real Estate in the Finance Division at Columbia Business School. He is also a Research Associate at the National Bureau of Economic Research and a member of the Academic Research Council of the Housing Finance Policy Center at the Urban Institute. Professor Piskorski's research explores issues in real estate finance, financial intermediation and banking, market structure and regulation, and housing policy. His recent work centers on the impact of consumer credit markets on the broader economy, financial technology, shadow banking, and financial regulation. Professor Piskorski's research has been published in top academic journals in economics and finance as well as featured in major media, including the Wall Street Journal, the Financial Times, Bloomberg Businessweek, and the Economist. His research and market views have been presented at an array of academic, governmental, and financial institutions, including the U.S. Congress, the U.S. Treasury, the U.S. Department of Housing and Urban Development, the Federal Deposit Insurance

	Corporation, the Securities and Exchange Commission, the London Stock Exchange, the Federal Reserve Banks, the European Central Bank, the National Association of Home Builders, the Brookings Institution, the Cato Institute, and the Woodrow Wilson Center. Professor Piskorski has been awarded funding from the National Science Foundation, the Pew Charitable Trusts, and the Real Estate Research Institute. He received the AQR Insight Distinguished Paper Award that recognizes research that provides the most significant, new practical insights for tax-exempt institutional or taxable investor portfolios and the Jensen Prize awarded for the best papers published in the Journal of Financial Economics in the areas of corporate finance and organizations.
	**Loretta Michaels** is an independent consultant with a focus on policy strategy around digital financial inclusion. She works closely with the World Bank/IFC, the Consultative Group to Assist the Poor (CGAP) and the Better Than Cash Alliance (BTCA), amongst others, and has supported the Global Partnership for Financial Inclusion (GPFI) since 2014. Previously, she was the Senior Policy Advisor for Financial Inclusion for the US Treasury, where she was the subject matter expert on technology-enabled financial inclusion, working with officials across the US government to promote enabling policy environments and capacity building programs in low-income countries. Prior to becoming an independent consultant, Loretta served in a number of management positions in the telecommunications industry, leading the development of new venture initiatives worldwide. She also managed the Telecoms & IT consulting unit at Cap Gemini Ernst & Young.
	**Pedro Dias** is Head of the Regulation, Legal Affairs and Complaints' Division of the Banking Conduct Supervision Department at the Central Bank of Portugal (Banco de Portugal). With a background in Law, Pedro Dias joined the Banco de Portugal in 2011, after having performed as lawyer and legal consultant in several entities from the private and public sectors in Portugal. Mr. Pedro Dias was appointed Head of the Legal Affairs Division of the Banking Conduct Supervision Department at the Banco de Portugal in 2019. At the European level, he participates as a member in the Sub-Group on Consumer Protection of the EBA (European Banking Authority). Mr. Pedro Dias is the chair of FinCoNet's Standing Committee 2, which has been actively working on issues related to responsible lending, especially in the digital environment.

	**Teresa Frick** is the Director of Supervision, Supervision and Enforcement Branch at the Financial Consumer Agency of Canada (FCAC). As Director of Supervision, she leads a dedicated team of compliance professionals who work with federally regulated financial institutions to promote, monitor and enforce compliance with federal consumer provisions as well as monitoring industry Codes of Conduct and Public Commitments. Ms. Frick has had a varied career in both the public and private sectors. After almost ten years working in the financial industry, in both retail and commercial banking, Ms. Frick joined the FCAC in 2005 and has achieved substantial experience in regulatory oversight, policy development and enforcement. She has held a variety of roles of increasing responsibility at the Agency in the Supervision and Enforcement, Consumer Education and Research, and Executive branches. Teresa has been a member of the governing council of FinCoNet since 2015 and has chaired several standing committees during that tenure.
	**John Salomon** is an information security professional who has worked for over 20 years in financial services, healthcare, and other critical infrastructure sectors. John has both a technology and management background, with extensive international experience in network security, authentication and crypto, incident response, risk management, security assurance, and threat intelligence. He is based in Spain, and currently manages the activities of FS-ISAC in continental Europe, the Middle East, and Africa.
	**Fredes Montes**, a Spanish National, is Senior Financial Specialist at the World Bank. She joined the World Bank in 2007 as a credit reporting systems specialist and since then has supported policy reforms in more than 40 projects worldwide. Currently also serves as Secretariat to the International Committee on Credit Reporting (ICCR) and recently co-authored the book "Responsible Finance and Credit Reporting Systems" which focuses on the links between insolvency and credit information. Ms. Montes centers on credit reporting policy including legal and regulatory framework, consumer protection and oversight. Previously, she was legal director at Experian Spain, where she was responsible for the consumer protection and compliance unit of the credit bureau and value added services business lines. Ms. Montes earned her five year degree in Law at the Universidad Complutense and studied Political Science at Universidad Nacional de Educación a Distancia in Madrid. Additionally she holds a Masters degree in Data Protection and New Technologies Law.

	**Magda Bianco** is Head of the Bank of Italy Consumer Protection and Financial Education Department since June 2020. She is responsible for banking conduct supervision, complaints management, the banking ombudsman, financial education programs. She holds a PhD in Economics from the LSE. At the Bank of Italy since 1989, she worked in the Research Department until 1999. She then moved to the Law and Economics Unit, which she headed since 2007. Since 2014 she had been responsible for the Consumer Protection and Anti-Money Laundering Directorate. She has published articles on corporate governance, corporate finance, bankruptcy, economics of civil justice, regulatory matters and gender issues. She served as economic advisor to the Italian Minister of Justice in 2012-2013. She is consultant for economic and financial matters for the President of the Republic. She is a member of FinCoNet, the OECD International Network for Financial Education, the Italian Committee for financial education. She is Co-Chair for the G20-Global Partnership for Financial Inclusion for the years 2021-23. Married, with a daughter and a son, she has coordinated the Bank of Italy's Equal Opportunity Committee for the years 2014-2020.
	**Chris Green** is the Group Senior Manager - Credit for the Australian Securities and Investments Commission's (ASIC) Credit and Banking team, with responsibility for ASIC's consumer credit jurisdiction. Chris is also ASIC's Regional Commissioner for Tasmania. Chris is a lawyer and has worked for ASIC in senior enforcement, regulatory and policy roles focusing on Financial Services and Consumer Credit regulation. Chris is the Vice Chair of FinCoNet and Chairs FinCoNet Standing Committee 6.