NEWSLETTER ISSUE 1 March 2024

FinCoNet
INTERNATIONAL FINANCIAL CONSUMER PROTECTION ORGANISATION

Welcome

Dear FinCoNet Members,

I hope that you, your colleagues and your families are keeping well.

I am pleased to share with you the first 2024 edition of the FinCoNet newsletter, which includes articles provided by CGAP, Superintendencia de Banca del Peru, Banco de España and the Financial Services Regulatory Authority of Ontario, Canada.

The In Focus section of this Newsletter includes information on the Joint Meeting of FinCoNet and the G20/OECD Task Force on Financial Consumer Protection, and the International Seminar on Tackling Frauds and Scams & Launch of Global Money Week 2024, held on 18-20 March 2024 in Paris, France.

I hope you will find this edition of the FinCoNet newsletter an interesting and enjoyable read!

Juliana Mozachi Sandri
Chair, FinCoNet

In this issue

This first 2024 issue of the FinCoNet Newsletter includes:

CGAP:

- Supply-Side Gender Disaggregated Data for Advancing Financial Inclusion: Insights and Areas for Further Research.
- CGAP Digital Credit Collection.
- Climate Risk and Financial Inclusion: Climate Adaptation, Resilience, and Financial Inclusion: A New Agenda.

SBS, Peru

- Improving Market Conduct Supervision and Social Media Monitoring through the Usage of Artificial Intelligence and Machine Learning – a prototype for monitoring social media using artificial intelligence (AI) and machine learning as part of an SBS project to enhance our market conduct supervisory framework.

Banco de España

- Publication of the “Guidelines on the governance and transparency of revolving credit for institutions subject to Banco de España supervision”.

FSRAO, Canada

- The Financial Services Regulatory Authority of Ontario conducted a consultation on strengthening the protection of vulnerable consumers.

In Focus

Joint Meeting of FinCoNet & G20/OECD Task Force on Financial Consumer Protection and International Seminar

18-20 March 2024, Paris, France

Joint Meeting

FinCoNet and the G20/OECD Task Force on Financial Consumer Protection held a Joint Meeting 18-20 March 2024, in Paris, France.

On the first day of the Meeting, Members noted updates on the OECD/INFE International Survey of Adult Financial Literacy, the OECD Consumer Finance Risk Monitor, the Brazilian G20 Presidency and the Global Partnership for Financial Inclusion, and the Updated G20/OECD High-Level Principles on Financial Consumer Protection. Members also discussed ongoing work on financial well-being, consumer vulnerability and sustainable finance. During a Roundtable Discussion on Consumer Credit, three academics presented their research on consumer credit and participated to a Q&A session moderated by Carmine Di Noia, Director for Financial and Enterprise Affairs at the OECD. Several Delegates and FinCoNet Members shared developments in consumer credit markets in their jurisdictions, and presented policy, regulatory and supervisory developments relating to new forms of credit or credit-like products (such as Buy Now, Pay Later products), digital lending and debt collection practices. The OECD Secretariat presented an update on the assessment of the Recommendation on Consumer Protection in Consumer Credit.

On the second day of the Meeting, each of the four FinCoNet Standing Committees presented their workstreams:

Standing Committee 2: Buy Now Pay Later: Risks for Consumers and Regulatory and Supervisory Approaches

A Report on Buy Now Pay Later is being developed by SC2 and should be published later this year.

Standing Committee 3: Challenges of supervising new entrants/non-financial institutions

Delegates and FinCoNet Members took note of proposed topics for future workstreams for SC3.

Standing Committee 4: Revisiting the foundations of market conduct supervision

Delegates and FinCoNet Members took note that SC4 held the first Webinar on the topic of Risk Based Supervision in February 2024. The Chair of SC4 shared details on the next webinar, which will focus on Thematic Reviews.

Standing Committee 6: Market Conduct Supervision in Challenging Times

Delegates and FinCoNet Members took note of the Report on Mortgage Distribution published in November 2023 and the next phase of SC6's work. This will be a Workshop-based approach toward market conduct supervision in challenging times. The first Workshop will be held in April 2024 and the second planned for June 2024.

Finally, the Secretariat presented an outline of the development of the FinCoNet Programme of Work 2025/26, and Members provided updates on issues and developments relating to financial consumer protection during a Tour de Table.

International Seminar on Tackling Financial Scams and Frauds

On the day preceding the Meeting, FinCoNet and the OECD co-hosted an International Seminar exploring the theme of tackling Financial Scams and Frauds. The International Seminar was held in conjunction with the launch of Global Money Week 2024: *Protect your money, Secure your future*!

Yoshiki Takeuchi, Deputy Secretary-General of the OECD, opened the Seminar. The keynote address, delivered via video by Mairead McGuinness, European Commissioner for Financial Services, Financial Stability and Capital Markets Union, discussed the role of financial education in protecting children and young people from financial scams and frauds.

Swaminathan Janakiraman**,** Deputy Governor, Reserve Bank of India, delivered a special address on safe banking practices and educating the youth.

The first Panel Session highlighted examples of effective ways to protect consumers, especially young people, from financial scams and frauds. Speakers shared their countries' approaches and experiences in raising awareness and increasing the financial literacy of consumers, especially young people, in relation to protecting their money from potential financial scams and frauds. The session was chaired by Magda Bianco, Banca d'Italia (Member of the FinCoNet Governing Council and Chair of Standing Committee 3), and featured interventions from representatives of the following FinCoNet Members: Indonesia Financial Services Agency (Friderica Widyasari Dewi, Chief Executive of Market Conduct Supervision, Education and Consumer Protection), and Central Bank of Brazil (Luis Gustavo Mansur Siqueira, Head of Financial Citizenship Promotion Department).

Matthew Soursourian from the OECD Secretariat presented on emerging risks for consumers related to financial scams and frauds, drawing from findings from the OECD Consumer Finance Risk Monitor (to which many FinCoNet Members contributed data). Based on data collected from over 40 participating jurisdictions, the OECD Consumer Finance Risk Monitor analyses the constantly evolving issues and risks facing consumers of financial products and services. It examines consumer harms and complaints in five product markets (banking and payments, credit, insurance, investments and pensions) and describes regulatory and supervisory responses to address market conduct risks.

In the second Panel Session, panellists representing a range of sectors shared their perspectives and experiences in terms of the trends and developments they are seeing and effective responses to financial scams and frauds. The session was chaired by Nisha Arora, Chair of the G20/OECD Task Force on Financial Consumer Protection and Director of Cross-Cutting Policy and Strategy and the Financial Conduct Authority (UK).

In the final Panel session, chaired by FinCoNet Chair Juliana Mozachi Sandri, financial consumer protection policymakers, regulators and supervisors from around the world shared their countries' experience in terms of financial scams and frauds, and latest developments in terms of regulatory and supervisory approaches and actions they are pursuing to protect consumers. The panel featured FinCoNet's Vice Chair, Yuji Yamashita (Financial Services Agency, Japan), as well as FinCoNet Members from Autorité des marchés financiers (Québec), ASIC, and SBS Perú.

Current Issues Forum

Supply-Side Gender Disaggregated Data for Advancing Financial Inclusion: Insights and Areas for Further Research

Contributor: Lamis Daoud, CGAP, World Bank

The gender gap in financial inclusion continues to be unacceptably high in most developing countries, highlighting the need to prioritise policies that promote gender equity in the financial sector more effectively. Policies must be informed by high-quality gender-disaggregated data (GDD) generated from both the demand side and supply side of the market. Gender data is also essential for financial service providers to understand the market opportunity for serving women and to build strong business cases for designing products and services tailored to women's needs.

The financial inclusion community has supported the gender data agenda since the early 2010s through several global initiatives and country-level efforts. These efforts range from raising awareness about the need for and potential benefits of gender-disaggregated data in the financial sector, documenting countries' experiences in collecting and using such data, developing gender data toolkits for regulators, sharing lessons, and advocating for the collection and use of gender data to promote women's financial inclusion. While these initiatives have contributed to a notable increase in the availability and use of gender-disaggregated data in the financial sector, especially on the demand side, significant gaps continue to exist in the generation and, especially, in the use of administrative (supply-side) data.

This paper examines these efforts, focusing on supply-side gender-disaggregated data (S-GDD) initiatives. It explores how S-GDD has been collected and used, mainly by financial sector authorities but also by providers, and the challenges and opportunities associated with this work. It highlights lessons to date, identifies existing gaps, and proposes next steps for future work to unlock S-GDD's potential to support women's financial inclusion and economic empowerment.

Learn more : Supply-Side Gender Disaggregated Data for Advancing Financial Inclusion: Insights and Areas for Further Research | CGAP Research & Publications

CGAP Digital Credit Collection

Contributor: Lamis Daoud, CGAP, World Bank

Digital credit is fast, private, and convenient for consumers. It is also potentially risky. In Kenya and Tanzania, millions have borrowed small amounts with a quick tap on their mobile phones since 2012, making the region the first to achieve high penetration rates for digital credit. Meanwhile, in Côte d'Ivoire—where less than 8% of adults borrow from a formal source—digital credit has presented an important opportunity since 2018 for many Ivorians to borrow formally for the first time. In India, about 500 legal digital lending apps were already available in the market by 2021, making it easier for consumers to borrow money.

While digital credit can help people living in poverty meet their short-term household or business needs, it could potentially lead to a range of risks—such as fraud, data misuse, and lack of transparency—which could, in turn, result in over-indebtedness, financial losses, and other negative experiences for consumers. CGAP's research over the years has found that around three-quarters of digital borrowers in Cote d'Ivoire and around half in Kenya and Tanzania are repaying their digital loans late. In India, our research has identified several risks related to hundreds of digital credit apps that have entered the market, such as lack of transparency on pricing and abuse of personal data for debt recovery.

More needs to be done to protect consumers from irresponsible digital credit practices and ensure the market develops in a way that supports low-income users. Several innovative approaches to digital lending show that providers can improve the customer experience and better protect consumers from risks while delivering better business value. CGAP is currently exploring practical solutions that can help guide financial sector authorities and providers in addressing consumer risks in digital credit and contributing to a responsible digital finance ecosystem.

Learn more : Digital Credit | CGAP

Focus Note on Climate Adaptation, Resilience, and Financial Inclusion: A New Agenda

Contributor: Lamis Daoud, CGAP, World Bank

Climate change poses risks to the real economy. This may drive a retrenchment of the financial sector away from serving the least profitable and most climate-exposed clients, namely low-income, rural households, and micro, small, and medium enterprises. Moreover, new reporting and disclosure requirements for increased environmental due diligence, along with other necessary regulatory actions, can unintentionally exacerbate financial exclusion if they are not implemented with a risk-based approach.

This working paper outlines how inclusive green finance policies can enhance financial stability by creating a more resilient real economy and reducing the risks facing the financial sector. It offers suggestions for governments on their regulatory and policy responses, including for financial instruments that mitigate climate risk without exacerbating financial exclusion; reduce transaction costs linked to climate risk management and green financing; and scale up affordable green finance.

Learn more : Climate Adaptation, Resilience, and Financial Inclusion: A New Agenda | CGAP Research & Publications

For your interest:

- Guidance for Regulators: Applying Gender-Intentional Approaches
- 4 Major Challenges Faced by Mobile Money Users in Senegal
- Toronto Centre podcast - the key messages of CGAP's recent technical guide "Digital Financial Services for Financial Inclusion: Tools for Supervisors".

Improving Market Conduct Supervision and Social Media Monitoring through the Usage of Artificial Intelligence and Machine Learning

Contributor: Elias Roger Vargas Laredo, SBS, Peru

The Superintendence of Banking, Insurance and Private Pension Fund Administrators (SBS) seeks to ensure that users receive relevant and comprehensive information as well as fair treatment throughout the life cycle of their acquired products and that providers address users' complaints in a clear, timely, and complete manner.

To ensure the proper fulfilment of this mandate and to strengthen the market conduct supervision model, SBS analyses various sources of information that capture users' experiences at every stage of their interaction with supervised institutions regarding financial products and services. This process encompasses operational data from users who engage with those products and services, management and grievance reports issued by supervised institutions, complaints filed with the National Institute for the Defense of Competition and Protection of Intellectual Property (Indecopi), qualitative and quantitative market research, and feedback shared by users on social networks.

Recognizing the global trend of utilizing social media to express dissatisfaction and publish complaints against companies is crucial. In Peru, a 2019 survey revealed that 30% of frequent or heavy social media users had posted negative comments about companies or brands. Given that trend, since 2020 SBS has started monitoring and analysing content on social media platforms (Facebook, X, Instagram, and YouTube) and digital media. This initiative has yielded valuable insights into users' experiences with financial products and services offered by supervised institutions, in addition to identifying behaviours that may require supervisory actions. Notably, 52% of the Peruvian population is active on social media and publishes posts related to the financial system, among other topics[1].

To enhance SBS's market conduct supervision framework, the financial regulator hired an international provider in 2023 to evaluate the existing model and devise new SupTech tools. As a result, developing a prototype for monitoring social media using artificial intelligence (AI)[2] and machine learning[3] stands out, in line with international best practices and efforts already undertaken by supervisory bodies around the world[4].

This tool is designed to extract mentions in social media (data scrapping) and to accurately assign a positive, neutral, or negative sentiment to each mention, using a trained model based on natural language processing (NLP)[5]. Furthermore, negative mentions are segmented into specific categories and grouped with similar instances to automatically identify recurring patterns related to possible

[1] In the case of the financial system, approximately 893 thousand posts were published in 2023, 69% of them by users under 35 years old.

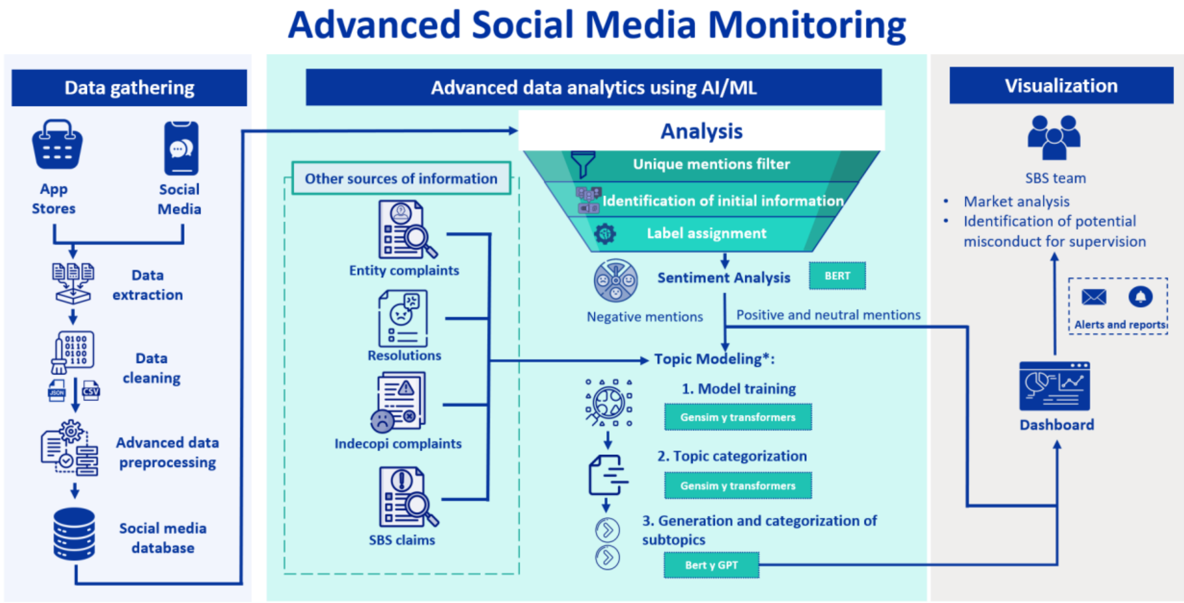
[2] Artificial Intelligence (AI) refers to the simulation of human intelligence in machines that are programmed to think like humans and mimic their actions, applicable to any machine that exhibits traits associated with a human mind such as learning and problem-solving.

[3] Machine Learning, a branch of artificial intelligence, focuses on the development of algorithms and models that enable computers to learn patterns and make decisions without being explicitly programmed for specific tasks. Instead of relying on predefined rules, machine learning uses data to train and improve the ability of machines to perform tasks.

[4] For example, in countries such as England, Switzerland, Portugal, the Philippines, Indonesia, and Ireland.

[5] Natural Language Processing (NLP) is a subfield of linguistics, computer science, and artificial intelligence concerned with the interactions between computers and human (natural) languages, involving programming computers to process and analyse large amounts of natural language data.

misconduct from supervised institutions toward their users, potentially requiring supervisory actions. These enhanced market monitoring tools extend SBS' capacity, surpassing basic sentiment analysis to discover trends, anomalies, and other significant patterns.



*Each source of information has its own training model

In 2024, SBS is evaluating the implementation of this tool, with the potential to broaden its application to include advanced text analysis of additional sources of unstructured data, such as traditional user complaints.

Such development significantly improves the efficiency of information gathering and processing for supervisory purposes and accelerates SBS' identification of potential misconduct and the implementation of preventative measures. Finally, it promotes the goal of enhancing proper market behaviour, thereby contributing to the integrity and stability of the supervised systems.

Publication of the “Guidelines on the governance and transparency of revolving credit for institutions subject to Banco de España supervision”

Contributor: Isabel Torre and Elena Martín-Valdepeñas, Banco de España

In recent years, Banco de España has been paying special attention to the proper marketing of revolving credit, defined by Spanish legislation as an interest-bearing consumer credit granted to natural persons, with no fixed maturity or an automatically renewable fixed maturity date, in which the credit drawn down is not repaid in full at the end of the agreed settlement period. Revolving credit, due to its particular characteristics, can sometimes leave debtors unable to meet their financial obligations.

The growing number of complaints and lawsuits against financial institutions in this area led Banco de España to include in its annual supervisory programme from 2018 onwards a series of supervisory actions focused on the marketing and commercial practices of this type of credit. In addition, in 2020, Spanish sectoral legislation was modified to reinforce the information and creditworthiness assessment requirements applicable to supervised institutions offering revolving credit.

As a result of these supervisory actions, and after the enactment of the new regulation, it was detected a need to draw up supervisory guidelines to enable institutions to better comply with and implement the rules applicable to the governance and transparency of revolving credit while also contributing to the best practices and procedures for this type of credit. The “Guidelines on the governance and transparency of revolving credit for institutions subject to Banco de España supervision” (hereafter, “the guidelines”), that were published on 13 December 2023, aim to ensure that the products brought to market are appropriate, and to reduce the risk that the credit may remain outstanding for an excessive length of time and that the debt burden ultimately borne by borrowers is higher than might reasonably be expected.

The guidelines have been developed taking into account guidance issued by other supervisory authorities and standardisation bodies, such as the European Banking Authority (EBA) guidelines on “product oversight and governance arrangements for retail banking products”, on “remuneration policies and practices related to the sale and provision of retail banking products and services”, and on “loan origination and monitoring”, which the Banco de España has adopted as its own, as well as the EBA Opinion on “disclosure to consumers buying financial services through digital channels”, and the FinCoNet supervisory guidance on the “digitalisation of short-term, high-cost consumer credit” .

Regarding the structure of the document, the guidelines are organised in eight sections and two annexes, as following: 1) Guidelines on revolving credit: governance and transparency (subject matter, scope and definitions); 2) Revolving credit governance and oversight procedures (marketing policies, product design, marketing channels and remuneration criteria); 3) Contractual amendments; 4) Information and actions prior to entering into a revolving credit agreement (advertising, pre-contractual assistance and information, creditworthiness assessment and periodic information); 6) Ancillary revolving credit insurance; 7) Content and format of the information on the revolving credit; 8) Entry into force; Annex 1, that includes, by way of example, a possible pre-contractual disclosure model in addition to the European Standardised Information Sheet (ESIS); Annex 2 that, also by way of example, contains possible periodic disclosure models on revolving credit to be provided to customers.

One of the most relevant aspects of the guidelines is the one related to the manner in which instalments are broken down into amortisations of the principal and payments of interest, fees and other associated expenses. In this regard, institutions are expected to take account of the best interests of their customers, ensuring that the debt is not prolonged excessively and enabling the credit to be amortised within a reasonable time frame.

The guidelines, that shall apply as from 31 December 2024, are expected to enhance the regulatory compliance culture and governance of all supervised institutions in relation to revolving credit, and can be found in the following link: https://app.bde.es/clf_www/leyes.jsp?id=224014&tipoEnt=0

FSRA's consultation on strengthening protection for vulnerable consumers

Contributor: Stuart Wilkinson, FSRAO, Canada

The Financial Services Regulatory Authority of Ontario conducted a consultation on strengthening the protection of vulnerable consumers from 8 January to 8 March 2024. This included consulting on the definition of Vulnerable Consumers ensuring a shared understanding amongst FSRA, its regulated entities, its stakeholders and the public. Consumers are those who purchase or benefit from products and services delivered by the sectors that FSRA regulates, including pension plan beneficiaries and credit union members.

FSRA's Proposed Approach to Strengthen the Protection of Vulnerable Consumers focuses on two goals:

- Promoting inclusive and fair treatment of vulnerable consumers and preventing targeted financial mistreatment.
- Improving consumer education, engagement, and awareness building efforts.

FSRA promoted the consultation through a public webinar on 8 February 2024 that attracted over 1,000 registrants. It received 26 written submissions in response to the consultation, including submissions from individual consumers and organizations in the public interest community. After reviewing and considering the feedback it received, FSRA will publish a consultation summary report and next steps in finalising and implementing its proposed approach.

Learn more: Proposed Approach to Strengthen Protection of Vulnerable Consumers and Webinar on Proposed Approach to Strengthen Protection of Vulnerable Consumers.

About 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.

Visit our website at www.finconet.org and find us on LinkedIn.

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