FinCoNet

INTERNATIONAL FINANCIAL CONSUMER PROTECTION ORGANISATION

Report

International Seminar

29 November 2024

Quality financial products: what are the roles of product oversight and SupTech?

Forward and Acknowledgements

This document sets out the Agenda, Summary Report and Speaker Biographies for FinCoNet's International Seminar on Quality financial products: what are the roles of product oversight and SupTech?, held on 29 November 2024.

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, the 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 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.

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Summary Report – International Seminar

Quality financial products: what are the roles of product oversight and SupTech?

29 November 2024, 09.00-13.00

Address: Chair of FinCoNet

Ms. Juliana Mozachi Sandri, Chair of FinCoNet, welcomed everyone to the International Seminar on Quality Financial Products. She expressed her deepest gratitude to the entire team at SBS Peru for hosting this event and welcoming everyone to Lima. She noted that the International Seminar followed two days of meetings with excellent discussions on market conduct supervision and would provide a unique opportunity to bring to the table major concerns and to hear from peers around the world on how they work to ensure financial consumers have access to financial services and quality financial products.

She posed the following questions, which would be explored during the Seminar: How can market conduct supervisors support and assure that financial products and services are delivered in a suitable, adequate, timely and fair manner? How can we induce financial service providers to incorporate quality as part of their own governance and culture? Furthermore, how can technology help us as market conduct supervisors to assure products and services are designed and tested with consideration to the well-being and interests of consumers?

The Chair concluded by thanking the colleagues that accepted the invitation to share their experiences and thanked the participants in-person and virtually for their attendance and engagement.

Address: Superintendent of SBS Peru

Mr. Sergio Espinosa, Superintendent of SBS Peru, delivered welcoming remarks and thanked members of the SBS team for their work to organise this event. Mr. Espinosa shared that his organisation was working to improve their oversight of the financial sector, as SBS is responsible for the oversight of financial institutions as well as pension fund administrators, other banking agencies, savings developments and cooperatives. He noted that it was therefore an honour to host events like the FinCoNet AGM and International Seminar, allowing SBS to engage in knowledge sharing with other market conduct supervisors around the globe. Mr. Espinosa concluded by formally opening the Seminar.

Keynote Presentation

Mr. Nathan Bourne, ASIC, delivered a keynote presentation. Mr. Bourne began by thanking all the attendees as well as FinCoNet and SBS Peru for the opportunity to deliver the keynote address. Mr. Bourne shared that the purpose of his remarks was to provide a brief overview of the approach taken in Australia to supervising product governance and oversight. The key points of his presentation included the following:

- Improving consumer outcomes is a key strategic priority for ASIC. This is achieved by addressing misconduct that has the potential to cause significant consumer harm, including conduct that results in consumers entering into an unsuitable financial product. ASIC plays a central role in ensuring that firms have effective governance, controls and processes in place to make sure their products are reaching the appropriate consumers and intervening where necessary.
- Two regulatory tools emerged from a series of inquiries following the global financial crisis which found that consumers were holding financial products that were not appropriate to their needs or circumstances, thereby causing consumer harm. These two tools are ASIC's product intervention powers and the design and distribution obligations (DDOs). The product intervention powers enables ASIC to directly intervene in the market and temporarily ban a financial product if the use of such product is likely to result in significant detriment. In the past few years, there have been two product intervention orders: an interim product intervention order regarding short term credit and continuing credit contracts, which was introduced in July of 2022 and extended to October 2032. There was also an interim product intervention order regarding contracts for difference, introduced March 2021 and extended to May 2027.
- The design and distribution obligations, or DDOs, are a permanent set of requirements set into law that provide governance framework and require firms to design financial products to meet the needs of consumers and distribute products in a more targeted manner. In other words, DDOs require issuers to define appropriate target market as well as set out the type of market and distribution conditions and information related to reviews and monitoring of the financial product. The expectation is that firms monitor, on an ongoing basis, that consumers are accessing products that are suitable for them and that they are getting the quality that is intended. DDOs therefore require firms to take a consumer-centric approach across the life cycle of financial products and to design and distribute products in line with the objective financial situation and needs of their targeted consumers. Since the introduction of this DDO regime in 2019, ASIC has issued 88 stop orders and commenced five civil proceedings related to the enforcement of the design and distribution obligations.

Mr. Bourne shared that ASIC had also published the results of seven reviews, which were carried out across multiple sectors and included Buy-Now-Pay-Later, crypto products, credit cards, superannuation and managed investments. These reviews focused on where the product issuers are ensuring the products are distributed to the appropriate market, as well as the methods and metrics employed by firms to collect and monitor consumer outcomes. Mr. Bourne provided a brief overview of some of the key findings of these reviews. To conclude, Mr. Bourne shared that ASIC has found both of these regulatory tools extremely useful in its recent work; he looked forward to the coming presentations to explore new ways to improve consumer protection measures in relation to financial products.

Panel Session 1: How can market conduct supervisors support the provision of quality financial products to consumers? The relevance of product governance and culture to deliver suitable products.

Mr. Miles Larbey, Head of Financial Consumer Protection, Education and Inclusion Unit, OECD, introduced the panel topic, explaining that the discussion would highlight how market conduct supervisors support the provision of quality financial products and the importance of product governance and culture in this process. Mr. Larbey introduced the panellists for this panel session:

- Mr. Alan Au, Executive Director, Banking Conduct, Hong Kong Monetary Authority
- Mr. Fernando Tejada, Director of Institutions' Conduct Department, Banco de España
- Mr. Fabio Augusto Pera de Souza, Head of Division, Department of Conduct Supervision, Banco Central do Brasil
- Ms. Rana Abu Naameh, Director General of Supervision, Financial Consumer Agency of Canada

Mr. Alan Au, Hong Kong Monetary Authority

The key points of Mr. Au's presentation were as follows:

- The Hong Kong Monetary Authority (HKMA)'s approach to the principle of quality financial products builds on the philosophy that the needs of bank customers are better served with more choices of quality financial products. The HKMA therefore supports market-driven product development as well as works to safeguard customer's interests amid the increasing variety and complexity of financial products with a balanced conduct supervision approach.
- Banks are responsible for conducting their own product oversight and approval. The HKMA has established a regulatory framework with great emphasis on proper discharge of responsibilities by the Board of Directors and senior management of banks to ensure their banks have a robust product governance framework. The HKMA issued a Supervisory Policy Manual that lays out a risk management framework wherein there are proper assessment and approval procedures by the bank and new products approval policy are endorsed by the Board. Furthermore, the Code of Banking Practice states that banks should have appropriate product oversight and governance to ensure quality financial products are designed and distributed.
- Additionally, it is important for banks to have sound governance and culture: there must be a culture to treat customers fairly at all levels at the banks and at all stages of the client relationship. Financial products and services should be designed to meet the needs of consumers, and banks should assess the financial capabilities and needs of consumers as well as consider consumer profiles before offering any service, advice or product.
- Since 2017, the HKMA has had various initiatives designed to promote responsible business conduct and culture. The Bank Culture Reform in Hong Kong was launched in 2017 focusing on three pillars: strong governance, appropriate incentive systems, and effective assessment and feedback mechanisms. In 2018, the HKMA announced a three-prong supervisory framework of culture dialogue,

self-assessment, and focused review, to support the culture reform journey of banks. In 2019, the dialogues and self-assessments on bank culture which covered thirty banks began. A report detailing the findings of the self-assessment was published in 2020. In 2021, the HKMA began a focused review on the incentive systems in front offices in twenty retail banks; the report detailing the findings was published in 2022.

Mr. Fernando Tejada, Banco de España

The key points of Mr. Tejada's presentation were as follows:

- In the Spanish context, suitability is a legal obligation wherein supervised entities must have product governance and oversight to ensure banking products and services are designed with the needs, characteristics and objects of the target market in mind. In addition to the legal obligation, Mr. Tejada noted there is also an impact of quality financial products on reputational risk of that entity; a financial service provider that does not provide quality products will then lose trust with the customer. Having suitable products therefore reduces litigation, disputes and claims and creates more client satisfaction.

- For supervised entities, suitability presents challenges. It requires entities improve processes of "know your customer" beyond the onboarding process. It also requires a modification and strengthening of the sales network commitments and incentive schemes that do not risk mis-selling of financial products and services. Supervised entities must also have a product oversight and governance strategy, as well as a focus on responsible lending.

- For supervisors, product suitability goes hand-in-hand with a focus on consumer detriment. A recent external review of conduct supervision function performed by the Banco de España highlighted the importance to include consumer harm and detriment when considering oversight strategies. The Banco is therefore working to enact a broader definition of risks, moving away from noncompliance with any rules towards a more flexible measure of (potential) harm to financial consumers.

- Mr. Tejada shared two main concerns in supervision at the Banco de Espana as they pertain to product oversight and supervision following dedicated reviews of the financing for the purchase of cars, financing by revolving cards, and Point-of-Sale Deferred Payment Solutions (i.e. BNPL). The first is having suitability considerations embedded across the entire product lifecycle, which includes ensuring that entities undertake impact analysis on the target audience, eliminate conflicts of interest that may lead to mis-selling, and monitor and test their financial products over different scenarios and not exclusively at the selling moment. The second main concern lies with managing distributors and intermediaries. It is important that supervised entities perform ongoing checks of any distributors or intermediaries they use, that there are alert systems in place to identify non-compliance, and that there are specialised service centres to support the network of intermediaries.

- Mr. Tejada concluded by stressing that product governance and oversight, as well as responsible lending principles, are important tools to promote quality financial products as both processes improve the suitability of financial products and services. Financial service providers must have strong internal procedures to ensure compliance with product oversight and governance obligations, as well as responsible lending principles. This includes appropriate sales incentives and inducement schemes, and where applicable, close oversight of any intermediaries or distributors.

Mr. Fabio Augusto Pera de Souza, Banco Central do Brasil

The key points of Mr. Souza's presentation were as follows:

- The Banco Central do Brasil has widened its approach to the supervision of quality financial products over the years. A central component of this approach is the Suitability Governance Framework, the main goal of which is to find a match between the product and consumer as well as what is expected of providers to do and how the central bank evaluates that.
- There are five main components of the Banco Central do Brasil's Suitability Governance Framework to promote the provision of quality financial products. The first component entails knowing the client; financial service providers should be aware of the risk profiles of financial consumers as well as consumers' current situation, needs, interests and financial goals. Furthermore, providers must recognise that these needs and goals can change over time. Therefore, the database of the provider must be up-to-date.
- The second component of the Suitability Governance Framework entails knowing the financial product: financial service providers should have a clear understanding of the risks, returns, and costs of the products they offer as well as make concerted effort to define target group(s) of consumers to which such products are (un)suitable. This means that providers must do a good product study. While the central bank found that many financial institutions have good practices in place for knowing their clients, this same granularity is not applied to their financial products; it is a challenge to ensure that providers are more precise in defining target audience(s).
- The third component of the Suitability Governance Framework is good disclosure and connection, in order to successfully match products to clients and make this connection clear to the consumer. It is crucial that financial service providers have clear disclosure practices in place and that they can justify why certain products are marketed and provided to certain clients.
- The fourth component of the framework entails adequate exposure and sales. This means that financial service providers are expected to have internal controls to prevent mis-selling of financial products. Financial service providers should also have procedures to ensure informed consent between the client and the provider, as well as proper incentives in place so that consumers are not sold products that do not properly suit their needs or financial goals. There is also an expectation that these processes are in place whether the customer engages with the financial service provider at a physical location or through digital channels.
- The fifth component of the Suitability Governance Framework is ensuring that suitability is maintained across the life cycle of the contract. Suitability assessments and active monitoring of the market ensure that, and adjustments can be taken in a timely and proactive manner. In sum, suitability is a dynamic process that should be seen and treated through the lens of product governance across the entire life cycle of a product.

Ms. Rana Abu Naameh, Financial Consumer Agency of Canada

The key points of Ms. Abu Naameh's presentation were as follows:

- In Canada, the implementation of the principle of quality financial products is through a legal obligation – the Bank Act – which was enacted in June 2022. This act states that banks must establish and implement policies and procedures to ensure that the products or services it offers or sells are appropriate for the consumer. The impetus for having this obligation came out of a thematic review conducted by the FCAC in 2019, which looked at how banks were selling products to consumers through the analysis of complaints data, bank documents, and interviews of bank employees. The review concluded that banks had a strong focus on sales and prioritised (and rewarded) sales success; this created a risk for mis-selling. Furthermore, the thematic review found that many banks did not have in place ways to monitor the risk of mis-selling.
- The Bank Act is a high-level obligation. To ensure that banks apply this correctly, the FCAC has a guideline that includes expectations for effective implementation of the Act. There are multiple elements of importance for how banks can comply with this provision. Banks must know their consumer, know their product, assess appropriateness, inform consumers and align remuneration. In particular, to "know the product" means having processes in place to assess the product's features, risks, charges and benefits to consumers, as well as considering distribution channels and assessing any consumer-facing materials.
- Looking to the future, the FCAC plans to carry out a thematic review on the topic of appropriate products to assess whether and how banks have been successful at implementing this new legislative requirement. Specifically, the FCAC plans to focus on expectations of "knowing the client" and "knowing the product", to look at how banks assess appropriateness, and to see what changes have been made to align remuneration policies. The FCAC plans to go to three of the six largest banks to check on specific products that complaints data suggest may lead to consumer harm.

Discussion

Mr. Miles Larbey thanked the panellists for their presentations and noted the importance of this topic. Mr. Larbey moderated a Q&A session with the panellists, inviting questions from the audience. The questions and responses included the following:

Question: What do you consider the most effective supervisory tool to support quality financial products and product governance? Have you needed to adapt your supervisory toolkit?

- **Mr. Au** explained that the supervisory framework varied depending on the product, with different statutes governing different financial instruments. He noted that while insurance policies and investment funds required dedicated regulatory approval processes, banks in Hong Kong could design and sell general banking products without prior regulatory approval. He stated that the HKMA has employed defensive supervisory tools, such as on-site examinations, off-site reviews, and thematic reviews. However, he acknowledged the challenge that such measures were often reactive, as products were already on the market by the time issues arose. To address this, he stated that the HKMA has also been deploying more proactive supervisory actions, including the introduction of pre-emptive requirements. As an example, he cited the Buy-Now-Pay-Later products, where the HKMA had engaged with the industry and issued requirements in September 2022 shortly after the product's introduction. He also emphasized the importance of fostering a strong culture within financial institutions to ensure that product design aligned with consumer needs and promoted high-quality offerings in the market.

- **Mr. Souza** explained that conduct supervision at the Banco Central do Brasil had evolved from a topic-oriented approach to a more general framework in 2016, with technology playing a critical role in this shift. He noted that, in Brazil, the market conduct supervision department was part of the Brazilian central bank, which allowed supervisors access to extensive information. He added that data collection included various aspects of service provision, such as service package fees and over-indebtedness. However, he pointed out that the challenge was the need to supervise a thousand providers with varying levels of maturity, complexity, and business models. He emphasized that technology was key to this process, enabling the transition from data gathering to data analytics and the development of indicators.
- **Mr. Tejada** stated that the Banco de España still lacked certain supervisory tools. He highlighted concerns that banks were either unaware of the full impact of their selling practices or that incentive structures could lead to product mis-selling. He acknowledged that banks were often reluctant to adopt new approaches to these issues. However, he stressed the importance of clear communication with banks to ensure they recognized the need to take the issue of quality financial products and institutional culture seriously.
- **Ms. Abu Naameh** highlighted two key factors that had significantly influenced the regulatory landscape in Canada. First, she explained that there was now a greater responsibility placed on banks. While product governance had previously been disclosure-based, the new framework recognized that disclosures alone were insufficient. Instead, banks were now required to ensure that their processes led to positive financial outcomes for consumers. Second, she noted that the FCAC had increased accountability at banks by strengthening the role of compliance teams. Under the new framework, banks were required to establish committees that reported to the board on a monthly basis regarding compliance matters. She emphasized that these two elements—greater accountability at the highest level and increased responsibility for banks—had been the most effective regulatory developments in Canada.
- **Mr. Bourne** explained that ASIC employed a variety of regulatory tools, with the choice of tool depending on the specific circumstances. He described regulatory enforcement as operating along a spectrum, noting that while most firms complied with legal requirements and supervisory guidance, there were always firms that disregarded regulations. He stressed that it was essential for regulators to ensure that the industry remained aware of the consequences of non-compliance. As an example, he mentioned that ASIC had the authority to issue stop orders on products being offered to consumers, which posed a significant reputational risk to firms.

Question: An important, but sometimes overlooked, element in the provision of quality financial products is the alignment of senior management incentives with financial consumer protection incentives and sales staff incentives. How do you see this issue in your current environment?

- **Mr. Bourne** replied that in Australia, there is a financial accountability regime that requires institutions to identify key people who are responsible for firms' activities as well as renumeration incentives. To put it more clearly, the remuneration of key executives will be affected if there are breaches that occur at the organisation. However, there is still a risk if the issue is not picked up in a timely manner and the person in the role has moved to a different role. Another challenge is with internal versus external communication. For example, ASIC would have communication with large, listed companies and their boards, who would report to us that things were running smoothly. However, we saw that there would be cases where internal parties would give a good news story to the board, and so the board did not even have an accurate picture about issues within their organisation. It should not be wholly reliant on the regulator to identify and call out problems. These processes should already be established at the banks.

- **Ms. Abu Naameh** responded that a big part of the culture and governance is the accountability at the highest level of the bank. Banks have a dedicated committee that reports to us annually on the state of the committee to make sure its aligned. Given this process is relatively new in the Canadian context, the FCAC is planning to conduct a thematic review on renumeration schemes.
- **Mr. Au** responded that in Hong Kong, some conduct incidents were not related to product design itself but misconduct of staff, such as investment funds churning and insurance policy replacements driven by inappropriate sales incentives. The HKMA therefore did a review of remuneration and incentive practices of frontline staff in 2021 and found that the incentive structures could actually be an important tool to promote good culture. It is not uncommon that banks would deduct the bonus of frontline staff if there are misconduct instances in the year, but some banks have gone further and adopted a welcoming practice to provide additional bonus if the staff member outperforms in regards to their conduct and culture. While not many banks are practicing this, within the firms that do, the staff seem to welcome these incentives and are more motivated to deliver good customer and conduct outcomes.

Question: Mr. Au had said earlier that customer outcomes sometimes gets confused with customer satisfaction. How do you measure outcomes to consumers?

- **Mr. Au** replied that the HKMA had deliberated on the issue. He explained that in terms of outcomes, consumer complaints were a clear indicator of poor quality. However, he noted that it was challenging to instruct banks on preparing high-quality financial products. He mentioned that on-site and off-site investigations were conducted to identify which products and services were not delivering good customer outcomes. He also emphasized the need for supervisors to be agile in collecting data on an ongoing basis, as the market moved quickly and regulators were often playing catch-up. He added that thematic reviews were carried out on new products to identify potential issues. Furthermore, Mr. Au pointed out that regulators, as consumers themselves, were also affected by the products, and he encouraged his colleagues to subscribe to the services of multiple banks to gather first-hand information themselves, which he believed could be very useful.
- **Ms. Abu Naameh** responded that banks were obligated to send complaints data after a certain threshold of escalation, with approximately fifty thousand complaints being received every quarter. She clarified that consumer satisfaction was distinct from financial outcomes. She explained that there was a difference between a consumer receiving a product that was not suitable for them and being dissatisfied because it wasn't the product they initially wanted. Ms. Naameh noted that records of product cancellations could help identify instances where the right product had not been matched to the consumer. She mentioned that according to their

guidelines, banks were required to document whether assessments of inappropriateness had been made. Additionally, banks had to record conversations with consumers, allowing regulators to review whether these discussions had been of good quality and helped in correctly matching consumers with appropriate financial products.

Panel Session 2: What are the latest developments relating to the use of SupTech by market conduct supervisors? How can SupTech support the provision of quality financial products?

Mr. Elias Vargas, Head of Market Conduct, SBS Peru, introduced the panel which would feature a discussion how recent developments in the use of SupTech can support the provision of quality financial products. Mr. Vargas introduced the opening speaker and panellists for this panel session:

- Sergio Mesquita, Senior Financial Specialist, World Bank
- Ms. Farzana Badat, Deputy Commissioner, Financial Sector Conduct Authority, South Africa
- Ms. Charina B. De Vera-Yap, Managing Director of the Financial Inclusion and Consumer Empowerment Sub-sector, BSP, Philippines
- Ms. Jamile Valles, Head of the Market Conduct Analysis Department, SBS, Peru
- Ms. Ana Venâncio, Head of Banking Conduct Supervision Department, Banco de Portugal

Mr. Sergio Mesquita, World Bank

The key points of Mr. Mesquita's presentation were as follows:

- The World Bank provides technical assistance to financial authorities on market conduct regulation, among other things. As part of this work, there has been increased demand for support on SupTech development and implementation. Currently, the World Bank has multiple market conduct SupTech projects underway, including ongoing pilots aimed at delivering implemented solutions. These projects began in 2023 and expected to conclude in 2026; there will be a report published to share successful approaches and lessons learned.
- It is important to note that SupTech does not fill gaps in the supervisory framework. Rather, SupTech enhances the processes that already exist.
- SupTech solutions can be categorised into four key types, tailored to market conduct supervision needs. There are a wide range of tools available across these categories, with diverse applications and benefits. The success of such tools depends on key enablers: people, processes, and a robust IT infrastructure.
- Some challenges that have been observed so far across different pilot projects are the absence of well-defined market conduct supervision processes and procedures to be supported or enhanced by the SupTech tool, overly ambitious requirements,

as well as data availability and integrity, particularly when authorities are reliant on third parties.

- Mr. Mesquita shared some key decision points that must be taken when developing a SupTech solution. First, authorities must decide whether to clearly define a solution upfront or to pursue a more open-ended initiative. Second, authorities must choose between a comprehensive, corporate-level digital transformation or a more targeted, stand-alone solution. Third, authorities must decide if this development will be outsourced or if it will be managed in house. Mr. Mesquita stressed that there is not one right answer to these decisions, rather authorities need to consider the resources they are able to allocate, the current supervisory processes at their institution, and how they will prepare supervisors and the industry to make effective use of this tool. Mr. Mesquita also mentioned that authorities might reflect on what will be (if any) the role of AI but should not feel the pressure of anticipating it.

Ms. Farzana Badat, Financial Sector Conduct Authority, South Africa

The key points of Ms. Badat's presentation were as follows:

- There are various strategic objectives of the FSCA that warrant the development and use of SupTech tools. This includes an objective to improve industry practices to achieve fair outcomes for consumers, which requires access to consistent and timely data to monitor and measure conduct risks and consumer outcomes. Additionally, contributions to the development of an innovative, inclusive and sustainable financial system requires the FSCA to have enhanced data analytics to monitor changes in the usage and quality of financial products and services. Furthermore, market conduct supervisors need tools to monitor and assess ongoing consumer resilience and vulnerability in order to formulate appropriate responses.
- The FSCA has identified several structural and operational drivers necessitating targeted investment in the deployment of SupTech across various core functions. The FSCA is responsible for supervising over seventeen thousand entities of different sizes with differing complexity levels, business models and product types: there are fragmented systems and processes across core regulatory functions, many of which are largely manual. There are multiple internal and external data sources for the same supervised entity, but there is currently no integration capability to support a single view across the various licensing, supervisory and enforcement functions.
- As a result, the FSCA turned to SupTech to develop an Integrated Regulatory System (IRS). This has been a 3-5 year journey to find a solution that will enable the FSCA to streamline and optimise how they collect data, automate and integrate core regulatory functions, standardise the way internal and external users interact with the system, and monitor whether the financial sector is delivering desired consumer outcomes. Namely, whether consumers are finding value in financial product offerings and services that are in line with their needs and expectations.
- This project has unfolded in three phases: preparatory work, system implementation, and then business change impact. In the first phase alone, multiple teams were consulted to confirm what data would need to be migrated, identify and map business processes impacted by SupTech to inform automation requirements, identify process inefficiencies, review and update supervisory risk models, and

design standardised data collection templates to support automated processes. The second phase will entail analytics, licensing, supervision, and risk model integrations across multiple organisational functions.

- One of the key lessons shared was that the deployment of SupTech should not be approached as a technology project, but rather an organisation wide business transformation project requiring the involvement of multiple internal disciplines and expertise beyond just IT. Therefore, the crucial third phase, which is not linear, but rather ongoing, is that of continuously managing the business change and impact for various internal and external stakeholders. This phase includes internal and external communication plans, training and awareness plans, as well as executive-led strategic guidance and direction to support this work. Leadership alignment, collaboration and visibility are critical for this type of transformation initiative.
- Ms. Badat shared that as this project is ongoing, some of the lessons emerging from the work include the importance of setting realistic goals and balancing the organisational ambitions with the practical challenges of trying to implement such a large-scale change impact initiative within supervisory time and resource constraints. It is important to remain agile and continuously learn through trial and error over time rather than attempt an ideal solution all at once. She stressed that SupTech tools do not replace supervision but should be appreciated rather as an important enabler for more streamlined, efficient and coherent supervisory processes.

Ms. Charina De Vera-Yap, BSP, Philippines

The key points of Ms. De Vera-Yap's presentation were as follows:

- Ms. De Vera-Yap began her presentation by noting that the Financial Consumer Protection Act is the cornerstone of financial consumer protection in the Philippines. This act established the powers of financial regulators, duties of financial service providers and instituted financial consumer rights.
- There are different supervisory tools in the BSP; the early stages of their SupTech adoption was in partnership with the Regtech for Regulators Accelerator (R2A) and more recently, with Cambridge Suptech Lab. This collaboration helped them to develop tools from ideation to production. The BSP has over twenty-eight thousand supervised entities, and SupTech is a necessity to strengthen financial consumer protection efforts.
- The BSP has an online chatbot named BOB (BSP Online Buddy) to boost its complaints handling capacity. There is also a web surveillance system being developed, which is akin to a sentiment analysis system, to monitor consumer sentiment from social media. Along with these two projects, there are smaller projects such as an email management system to automate email sorting and ensure a structured approach to public interactions. Prudential supervision also uses various SupTech tools.
- In terms of the benefits, SupTech allows the BSP to implement effective market conduct supervision through automated processes by expanding the reach and accessibility of its redress mechanism, by offering enhanced data collection and analysis, by promoting collaboration, and by encouraging compliance.

- Ms. De Vera-Yap shared that SupTech tools have especially assisted them with complaints handling, as the volume of complaints has increased over the past years while personnel complement remained almost the same. SupTech helps improve efficiencies and turn-around time.

Ms. Jamile Valles, SBS Peru

The key points of Ms. Valles' presentation were as follows:

- SBS Peru is developing SupTech tools and using AI and machine learning to enhance market conduct supervision. This process began in 2018 with a model diagnosis, which included off-site inspections and the preliminary identification of indicators and tools. From 2020-2022, there were improvements in processes and traditional tools already used in-house, such as the data collecting systems for regulator reports and complaints handling, a Q&A platform, and a dashboard.
- Since 2022, the third phase of this process comprises organisational changes and the implementation of new SupTech tools that leverage AI, machine learning, API and web scraping. As mentioned by the other panellists, this phase will involve a cultural change at SBS that will reinforce the training and capabilities of supervisors; supervisors must know about market behaviour and also data management knowledge regarding these new technologies. Accompanying this change, there will be a new organisational structure at SBS.
- Ms. Valles shared that SBS is currently trying to implement a handful of new SupTech tools such as social media monitoring with AI and integrated dashboards to help supervisors analyse results. Currently, data quality and data processing is a challenge for supervisors given the large volume of data collected and available.

Ms. Ana Venâncio, Banco de Portugal

The key points of Ms. Venancio's presentation were as follows:

- SupTech tools contribute to effective supervision at the Banco de Portugal. Two main challenges that SupTech tools help address are a changing financial landscape with more diversified and complex products and services, a growing number of players, and new and sophisticated risk, as well as a need to empower supervisors to deal with large sets of data in order to act timely and effectively. SupTech allows business process to be automated and information to be collected faster, which leads to efficiency gains.
- At the Banco de Portugal, artificial intelligence is enhancing oversight tools' capabilities. For instance, AI is used in draft credit agreement validations, the automatic classification of information requests and complaints, the monitoring of advertising as well as being employed in a chatbot.
- Ms. Venâncio provided additional context about the draft credit agreements. In Portugal, institutions must report all draft credit agreements to the Banco de Portugal, which oversees their compliance with legal and regulatory requirements. All of these used to be manually filed and stored in a database; the large volumes of data received were also manually processed and analysed. The SupTech tool pre-validates compliance with a large set of regulatory requirements. Final validation is performed by legal experts on staff at the bank. All draft credit agreements are also now stored automatically. This tool has significantly decreased

analysis time, improved quality, reduced errors, and simplified data retrieval processes. In sum, this tool enables more targeted and priority-driven supervision.

- As for the automatic classification of information requests and complaints, this SupTech tool automatically collects consumers' data, classifies these requests and complaints based on their subject matter using machine learning techniques. For information requests the tools suggests a response to the customer while complaints are only categorized without a proposed resolution. The final decision remains at the discretion and oversight of a human staff member. By enabling the timely identification of the subject matter of requests and complaints, this tool helps detect emerging issues more efficiently. Additionally, its implementation has led to a reduction in the response time, a simplification of processes at the Banco de Portugal, and a decrease in operational risks.
- Both the advertising monitoring and chatbot tools are in the prototype phase and will be implemented in the second half of 2025. The advertising monitoring tool will automatically analyse and validate advertisements by financial service providers, including those published on social media networks. The AI based chatbot will be implemented at the Bank Customer Website and provide a more dynamic interaction with consumers, generating user-friendly insights and answers based on the website contents.
- Ms. Venâncio concluded by sharing some of the challenges and opportunities with SupTech tools. Some of the challenges around the adoption of SupTech tools and AI include data standardisation, converting legal requirements into programmable rules, and ensuring adequate resources and skills among staff. The opportunities, however, include broader, faster and more effective market conduct supervision through efficient data collection, data validation, and the reduction of operational risks.

Discussion

Mr. Elias Vargas thanked the panellists for their insightful presentations and moderated a Q&A session with the panellists, inviting questions from the audience. The questions and responses included the following:

Question: What do you believe are the main advantages and the main challenges of using SupTech in market conduct supervision?

- **Mr. Mesquita** replied that the reason he had insisted on data quality stemmed from his previous experience as a prudential supervisor before transitioning to conduct supervision. He explained that the focus had traditionally been on data quality that indicated systemic risks, but now, with more data available, there would be a greater emphasis on being data-driven. He noted that when verifying the quality of data generated or provided by the industry, it was often found to be lacking. He questioned how to ensure that enough time was dedicated to verifying this data, suggesting that the current amount of time spent on it might not be sufficient. Mr. Mesquita stated that it was time to reassess how data collection was being validated, particularly in terms of how providers classified or captured complaints.
- **Ms. Venâncio** agreed that data quality was indeed a significant issue. She explained that at Banco de Portugal, their process required everything to be validated by a legal expert. She shared that the tool they used for this required a "learning by doing" approach and was constantly improving as more feedback was provided.

She explained how the more feedback they gave, the better the tool worked, though this process required time and how initially they had a specific taxonomy for classifying complaints which changed to better align with the SupTech tool. She noted that using the tool had increased efficiency, as it functioned like a legal expert, capable of working faster than humans. This, she said, allowed for quicker supervision and reduced the operational risks associated with working at that speed, ultimately helping to better define priorities.

- **Ms. Valles** responded that the main advantage of using these tools was the ability to gain real-time insights, which facilitated data-driven decision-making. She emphasized that the enhanced efficiency allowed supervisors to focus on more strategic actions and items, rather than getting bogged down by processes and analysis.
- **Ms. De Vera-Yap** agreed with the point about operational efficiency, stating that given the high volume of work, automation allowed consumer specialists to avoid spending excessive time on lengthy face-to-face interactions.
- **Ms. Badat** added that while the panelists had highlighted how SupTech tools allowed for quicker access to data and faster analysis, the challenge was not to use these tools as an excuse to collect an infinite amount of data points. She explained that automation allows supervisors to shift their focus from manual tasks to more value-based and judgment-driven supervision. She also noted that the effectiveness of this approach depended on how the market responded and emphasized the importance of ongoing and clear engagement with market participants and helping supervisors and supervised entities embrace this new way of working and develop the necessary skills.

Question: Coordination with other stakeholders and with industry is quite important. Could you speak a bit more on how you promote such coordination?

- **Ms. De Vera-Yap** explained that, on the part of the BSP, when they began developing the bot, they had to collaborate with the industry to test the process. They requested volunteers to test how the bot would integrate with their systems. She mentioned that, after implementation, they issued regulations and reminders on how the chatbot should be used, and they held association meetings to gather feedback from the industry.
- **Ms. Valles** replied that coordinating with stakeholders was crucial, as it allowed for the exchange of ideas, lessons learned, and feedback on what worked and what didn’t. She shared that, for example, SBS had benefited from technical support for their SupTech prototype tool, provided by Cambridge, the World Bank, and CGAP.
- **Ms. Badat** replied that cyber issues must be addressed as an organisational-wide initiative for both the supervisory agency and the supervised entities. She emphasized that if a supervised entity interfaces with the supervisor’s system, its cybersecurity is also important to ensure that the supervisory agency is not exposed to additional cybersecurity risks or vulnerabilities. She added that stakeholder engagement on this issue should not only involve the industry but also coordination with other regulators, to ensure that the industry is not overburdened and required to provide the same data to multiple regulators.
- **Ms. Venâncio** stressed that it was important for everyone to be aligned within the organization, noting that the IT department and other departments needed to fully coordinate.

- **Mr. Mesquita** replied that, with regard to data privacy, there might be concerns about storage, processing, and how the organization is handling the data. However, he emphasized that this should be a corporate matter, as such initiatives were coordinated by the corporate IT and cybersecurity departments. He stated that this was not a project for the conduct department and that it was better to address it from a corporate perspective.

Closing Remarks

Ms. Mariela Zaldivar, Deputy Superintendent of Market Conduct, SBS, Peru expressed her appreciation for the opportunity to share experiences in market conduct supervision, emphasizing the value of these forums for fostering learning and strengthening the financial sector. Ms. Zaldivar highlighted the importance of developing financial products tailored to financial consumers' needs, supported by a clear value proposition and strong commitment from senior management to ensure their effectiveness. She underscored that technology and SupTech tools offer significant opportunities to enhance supervision by transforming vast amounts of data into actionable insights while complementing – rather than replacing – the supervisory role. She acknowledged the complexity of measuring the impact of supervisory activities on the market. Still, she underlined the importance of doing so to evaluate the effectiveness of regulatory actions and their influence on the practices of supervised entities. Ms. Zaldivar reaffirmed the need for supervision to evolve continuously, considering not only the financial soundness of institutions but also broader financial stability, with a focus on promoting sustainable growth and responsible financial inclusion. In closing, Ms. Zaldivar encouraged participants to reflect on the insights gained and apply them within their organizations. She expressed gratitude for their engagement and wished them an enjoyable stay in the country.

Mr. Frank Lofranco, Vice-Chair of FinCoNet, thanked the Chair, SBS Peru, the moderators and panellists of the Seminar and all attendees. He noted how the Seminar had deepened FinCoNet's collective understanding and broadened perspectives on product governance and the use of SupTech to support the provision of quality financial products. He stressed the importance of this issue of quality financial products for market conduct supervisors, acknowledging that FinCoNet members will continue to benefit from ongoing discussions on the challenges and opportunities we have in common. The Vice Chair concluded by thanked everyone in attendance and expressed his sincere gratitude to the Chair, to the Secretariat, to SBS Peru and to the participants for a topical and successful International Seminar.

The Vice-Chair closed the Seminar.

Speaker Biographies

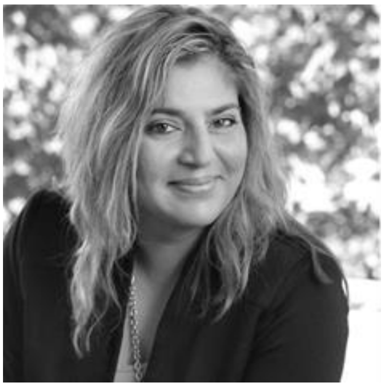
Alan Au is the Executive Director (Banking Conduct) of the Hong Kong Monetary Authority (HKMA). He took up the position in 2017, and has since then been responsible for conduct supervision of banks (covering consumer protection; bank culture; sale of securities, investment, insurance and retirement planning products by banks; trust business; financial inclusion; bank licensing matters) and oversight of financial market infrastructures.

Prior to coming to the current post, Alan was the Head of Banking Supervision of the HKMA, responsible for prudential supervision of domestic systemically important banks. Before that, Alan had served as the Division Head of the Senior Executives' Office and as the Head of Corporate Development of the HKMA.

Prior to joining the HKMA in 2010, Alan served as an Administrative Officer in the Hong Kong Special Administrative Region Government for over a decade, and had worked in the Financial Secretary's Private Office and Financial Services and the Treasury Bureau.

Rana Abu Naameh is the Director General of the Supervision division within the Supervision and Enforcement Branch at the Financial Consumer Agency of Canada (FCAC). Prior to joining FCAC in 2021, Rana held a number of positions with Office of the Superintendent of Bankruptcy, including Deputy Director and acting Regional Director.

Rana was also a Senior Advisor at Canada Economic Development for Quebec Regions (CED). Prior to joining public service, Rana worked in financial services in Halifax and Montreal. She has an MBA from HEC (Montreal) and a bachelor's in international development from Dalhousie University.



Farzana Badat is Deputy Commissioner of the Financial Sector Conduct Authority (FSCA) in South Africa. The FSCA is the dedicated market conduct regulator for South Africa's financial system. She was appointed to this role by the Minister of Finance on 1 December 2021 and is part of the Executive Committee responsible for the overall policy direction, strategic oversight and operational management of the FSCA. She Chairs the FSCA's Strategic Management Committee and represents the FSCA on various international standard setting and collaboration forums. She is also responsible for overseeing the development and implementation of harmonised licensing and supervisory conduct risk frameworks for a range of financial institutions including financial conglomerates, banks and payment providers, investment providers and asset managers, life and non-life insurers and insurance groups, micro- and access product providers, and financial advisors and intermediaries, as well as overseeing the FSCA's anti-money laundering (AML) and counter-terrorist financing (CTF) unit and the General Counsel's Office.

Farzana’s financial sector policy and supervisory experience spans multiple private and public institutions, locally and internationally in both developed and emerging markets.

Nathan Bourne leads ASIC’s Credit, Banking and General Insurance team, which is within ASIC’s Regulation and Supervision group, Nathan’s team has primary responsibility for the supervision of general insurance providers, retail banking, credit intermediaries (including mortgage brokers), consumer and small business credit, and electronic payments. He also oversees ASIC’s Indigenous Outreach Program.

Previously, Nathan was ASIC’s Senior Executive Leader for Market Infrastructure, and he has also held senior roles in the Market Supervision team.

He has more than 20 years’ experience in financial markets, regulation and public policy. Most recently, Nathan was the Director of Wholesale Compliance at the National Australia Bank. He also held roles at the Reserve Bank of Australia, The Australian Treasury, the UK Financial Conduct Authority and Mitsubishi UFJ Securities in London. Nathan holds a Bachelor of Economics (Honours) and a Graduate Diploma in Applied Finance and Investment.

Miles Larbey is the Head of Financial Consumer Protection at the OECD. In this role, he is responsible for the OECD’s work on international financial consumer protection policy and supporting the Task Force on Financial Consumer Protection and FinCoNet, a network of market conduct supervisors. Particular areas of focus include the impact of digitalisation and technological advances, consumer vulnerability and financial well-being, demographic changes, financial inclusion and the opportunities and risks for consumers associated with sustainable finance.

Before his role at the OECD, Miles held positions as Senior Executive Leader for Financial Capability at the Australian Securities and Investments Commission, was the General Manager of the Investor Education Centre in Hong Kong and worked on consumer protection and law reform at the Financial Conduct Authority in the UK.

Sergio Mesquita is a Senior Financial Sector Specialist in the Financial Inclusion and Consumer Protection team of the World Bank Group. With extensive experience as a former financial services supervisor, Sergio has provided technical assistance on financial consumer protection and market conduct supervision to central banks and conduct authorities across 20 countries. His expertise spans financial consumer protection regulation and policy, market conduct supervision, consumer dispute resolution, and fintech and digital financial services. Sergio also works on the World Bank projects developing Suptech solutions for financial consumer protection authorities.

Before joining the World Bank, Sergio served as Head of Division at the Conduct Supervision Department of the Banco Central do Brasil (BCB), where he was responsible for supervising all segments regulated by the BCB. With 16 years of experience in financial supervision, he contributed to developing risk-based supervisory methodologies and led a variety of activities across prudential, market conduct, and enforcement areas. Earlier in his career, he worked as a management consultant specializing in corporate social responsibility, social accountability, sustainability reporting, and community affairs.

Sergio holds an MBA in Business Administration from *Fundacao Getulio Vargas-FGV (Brazil),* and a bachelor's degree in Social Communication from *Fundacao Casper Líbero (Brazil*). Sergio speaks Portuguese, English, and Spanish.

Fabio Pera holds a PhD in Public Administration and Government from the São Paulo School of Business Administration. He currently serves as Head of Division at the Conduct Supervision Department of the Banco Central do Brasil.

Fernando Tejada is the Director of the Institutions' Conduct Department at Banco de España since July 2013.

He joined Banco de España as an Economist in 1987. Since then he has developed an intensive activity in a series of responsibility and management positions in different areas.

His current duties focus on banking regulation and supervision conduct, transparency and good practices, advertising surveillance, redress and alternative dispute resolution mechanisms for banking customers, among others. Highly experienced in the international arena, he currently participates in some regular fora, i.e. Governing Council, FinCoNet, G20; and the G20 GPFI (Global Partnership for Financial Inclusion). Graduate in Economics and Business Administration (Universidad Autónoma de Madrid, June 1982); Management Programme (IESE, June 2006) and Leadership & Change Management Programme (IESE, June 2014).

Jamile Vallés is the Deputy Assistant Superintendent in the Market Conduct Analysis Department at the Superintendence of Banking, Insurance, and Private Pension Funds of Peru (SBS). With 14 years of experience in consumer protection and market conduct supervision, she brings a deep understanding of regulatory and supervisory frameworks. Her responsibilities include monitoring the market through the analysis of diverse information sources and evaluating supervisory findings to support enforcement actions in market conduct.

Jamile leads SupTech initiatives focused on projects that enhance market conduct monitoring and oversight. She has participated in the Cambridge Suptech Lab Innovation Leadership Programme and actively contributes as a member of the Financial Consumer Protection Working Group within the lab.

She holds an MBA from the University of Bologna in Italy and a law degree from the Pontificia Universidad Católica del Péru.

Elias Vargas is the Assistant Superintendent of Market Conduct and Interest Rates at the Superintendence of Banking, Insurance, and Private Pension Funds of Peru (SBS) and was previously the Head of Market Conduct Supervision. As part of this role, he participates in the market conduct regulatory design and the oversight of its compliance by supervised entities, seeking 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 user complaints in a clear, timely, and complete manner.

Before his role in market conduct, Elias held positions as Head of Operational Risk Supervision at SBS, and he worked at top-level private entities in Peru and Spain, including Santander Bank, BBVA Research, and Scotiabank, in functions related to risk management, regulatory compliance, and process and information technology management. Also, he has been a consultant on operational risk management to the International Monetary Fund (IMF) for the Regional Technical Assistance Center for Central America (CAPTAC-DR) and a professor in finance and risk management courses.

Elías has an MBA from IE Business School (Spain), a Master's degree in Finance from ICADE (Spain), and a degree in Systems Engineering from the National University of Engineering (Peru).

Ana Venâncio is the Head of the Banking Conduct Supervision Department at Banco de Portugal and the President of the Coordination Committee of the National Plan for Financial Education. She is also an Associate Professor at ISEG – Lisbon School of Economics and Management, University of Lisbon.

Ana holds a PhD in Technological Change and Entrepreneurship from Carnegie Mellon University, as well as a Master’s degree in Finance and a Bachelor’s degree in Business Organization and Management from ISCTE – University Institute of Lisbon.

Atty. Charina B. Vera-Yap is the Managing Director of the Financial Inclusion and Consumer Empowerment Sub-sector (FINCESS), Regional Operations and Advocacy Sector of the Bangko Sentral ng Pilipinas (BSP) where she oversees the financial inclusion, consumer protection and market conduct and integrated economic and financial learning initiatives of the BSP. Prior to her designation as MD, she was the Director of the Consumer Protection and Market Conduct Office (CPMCO). CPMCO handles BSP’s consumer protection and market conduct work and programs.

She graduated from the University of the Philippines, with a Bachelor of Arts degree, major in Political Science. She holds a Bachelor of Laws degree from the Arellano Law School and a Master of Laws degree, Major in International Legal Studies, from Georgetown University Law Center, Washington DC.

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