



FINANCIAL CONSUMER PROTECTION IN AN INCREASINGLY DIGITAL WORLD

Brazil Fintech – Technology and Innovation in the
Financial Sector, December 14th 2017

Miles Larbey, Financial Consumer Protection



What we will cover

- OECD role in financial consumer protection
- Financial consumer protection considerations in a digital world
- What next?
- Other relevant OECD work



OECD ROLE IN FINANCIAL CONSUMER PROTECTION



OECD Role in Financial Consumer Protection

- Financial crisis highlighted the need for more effective measures as consumers face more sophisticated and complex financial markets
- Financial consumer protection, financial education and financial inclusion critical and complementary elements for trust and confidence in the financial system, financial stability and individual empowerment
- G20/OECD Task Force on Financial Consumer Protection created in 2010
- Supports the financial consumer protection work of the G20



OECD Role in Financial Consumer Protection

- G20/OECD High-Level Principles on Financial Consumer Protection, endorsed by G20 Leaders
- Supported by Effective Approaches to guide and inform implementation of effective FCP frameworks
- Ongoing role to monitor implementation of the Principles and keep them up to date



FINANCIAL CONSUMER PROTECTION IN A DIGITAL WORLD



Digitalisation

- Rapid evolution of technological application to financial services and emergence of new business models
- 88% of businesses see fintech as a disruptor (*PwC Global Fintech Report 2017*)
- Impacts are seen across the financial services sector, both existing players and start-ups:
 - Online and mobile payments
 - Insurance, insuretech
 - Wealth management, robo advice
 - Lending, consumer credit, crowdfunding
 - Blockchain technology, smart contracts, digital currencies
 - Trading and investments
 - Data & analytics, big data, predictive analytics, cloud services, AI
 - Security, digital identity, biometrics
 - Regtech

Global FinTech Landscape



Global FinTech consists a wide array of Verticals...





Fintech: \$12.7bn raised in 2016 across 836 deals

TOP 20 GLOBAL VC-BACKED FINTECH DEALS 2016

UNITED STATES



BRAZIL



CHINA



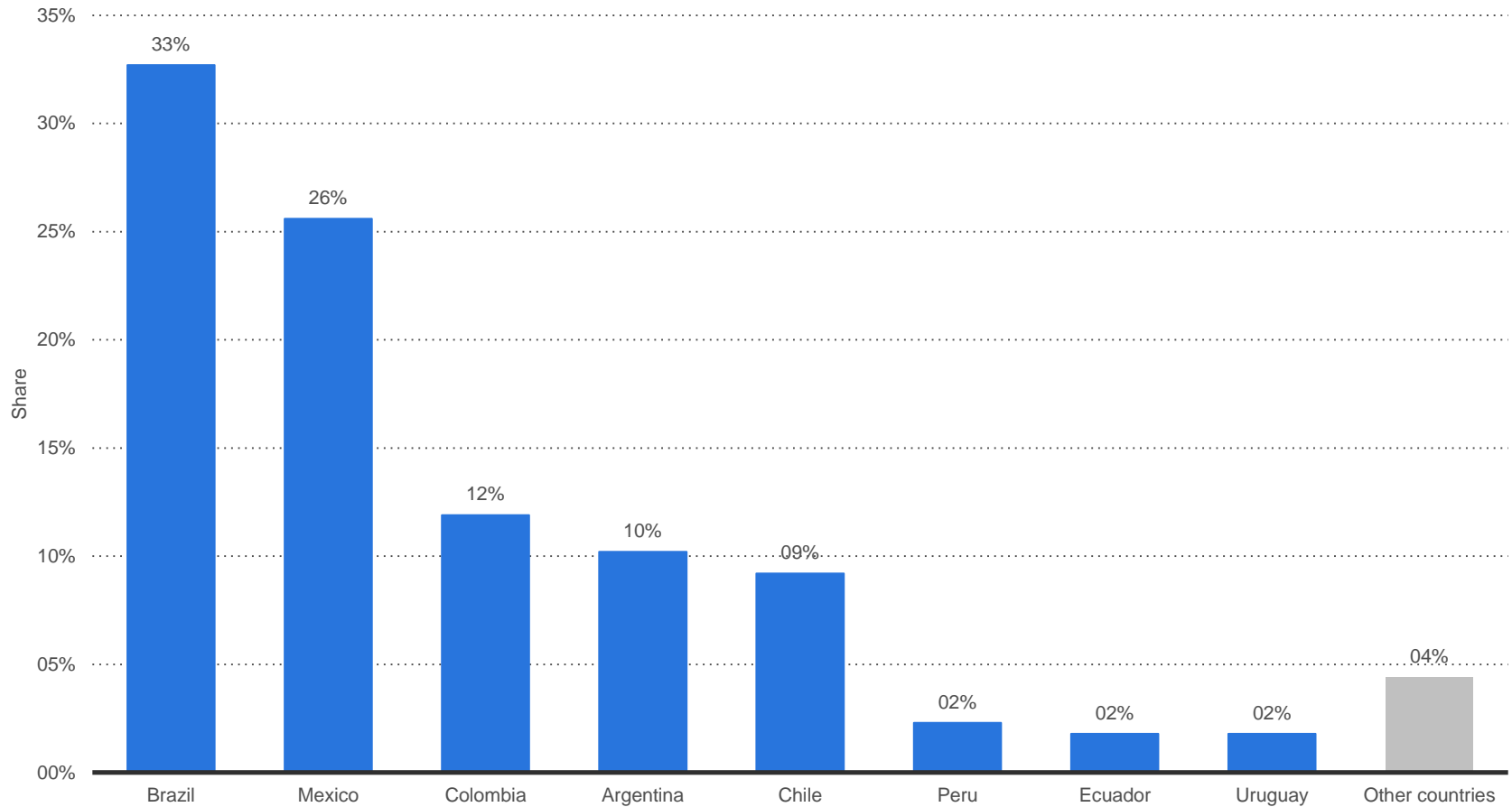
HONG KONG



- \$7.9bn raised in Q1-2 2017



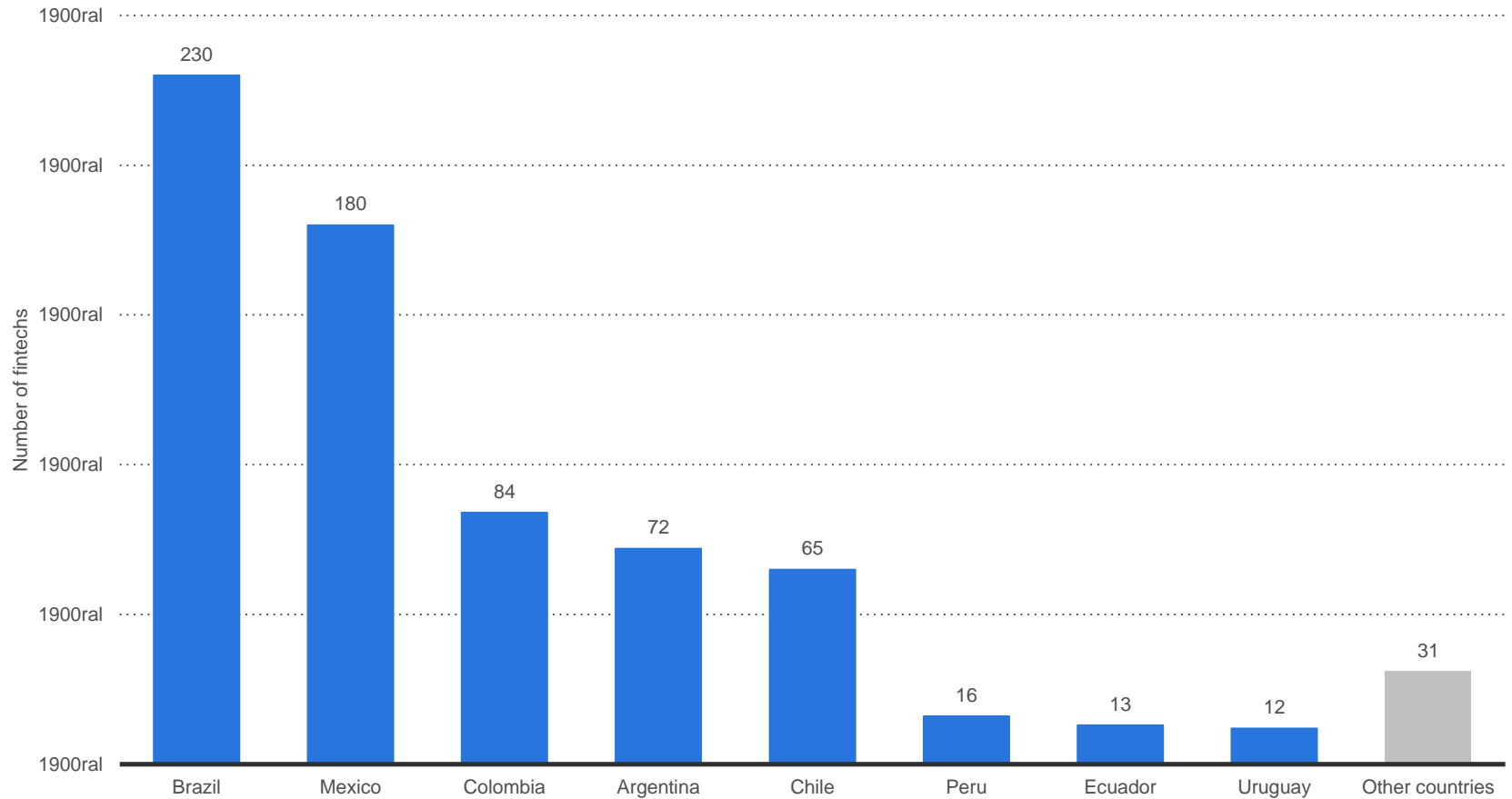
Distribution of fintech initiatives in Latin America by country



Source: Fintech: Innovations you may not know were from Latin America and the Caribbean, IDB and Finnovista, May 2017, Statista



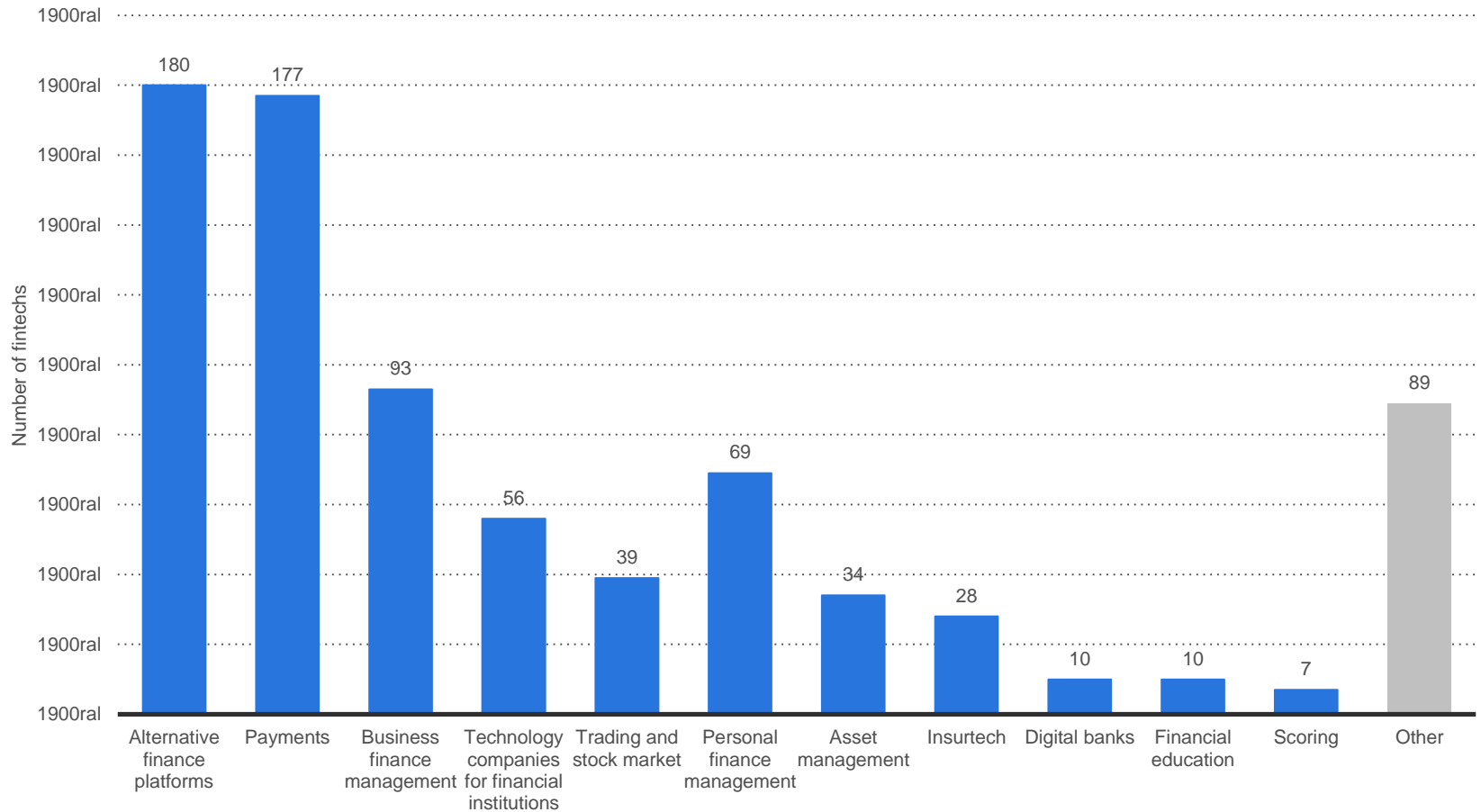
Number of fintech initiatives in Latin America by country



Source: Fintech: Innovations you may not know were from Latin America and the Caribbean, IDB and Finnovista, May 2017, Statista



Number of fintech initiatives in Latin America by business segment



Source: Fintech: Innovations you may not know were from Latin America and the Caribbean, IDB and Finnovista, May 2017, Statista



Digital developments in Latin America

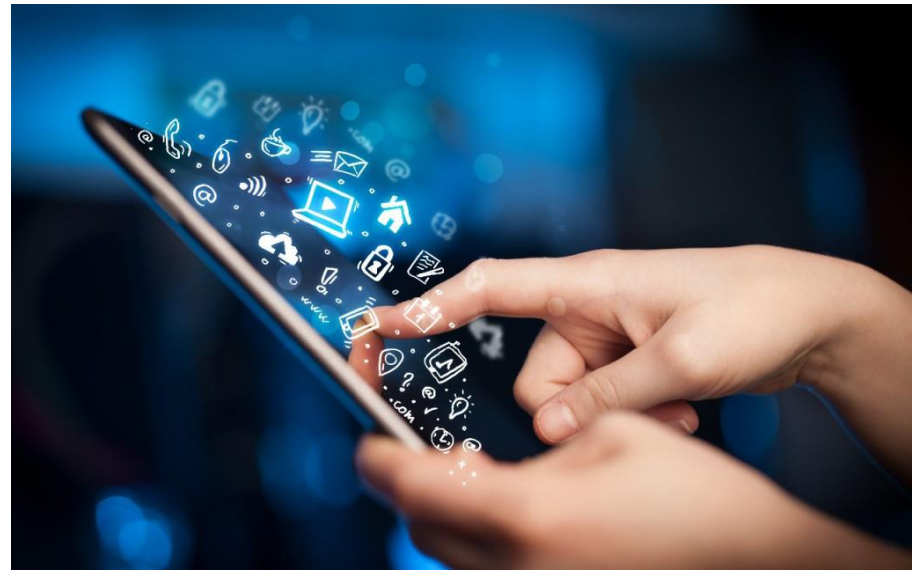


- Third largest regional online market in the world, behind Asia and Europe
- 384m Internet users in 2016
- 56% of Latin American population accessed the Internet in 2016
- Average user in Latin America spent 18.6 hours on the Internet (25.7 hours in Brazil, highest)
- 43% of Internet users purchased products online in 2016
- 60% of mobile phone users accessed the Internet from their mobile phone
- Mobile data usage grew 64% in Latin America in 2016
- Mobile technologies generated 5% of GDP in Latin America (\$260bn) and 1.7m jobs in 2016
- 300m digitally excluded in LAC



Digital developments – benefits for financial consumers

- Greater reach and access to new types of financial products and services
- Lowering costs and more affordable finance
- More convenient, faster, secure and timely transactions
- Supports financial inclusion
- Seamless experience tailored to individual needs and facilitating usage





Digital developments – risks for financial consumers

Market driven risks: new types of fraud, misuse and mis-selling; security and confidentiality of data; digital profiling; extremely rapid access to (often high-cost) short-term credit.

Regulation and supervision driven risks: uneven protection within and across countries (inadequate disclosure and redress mechanisms, unfair customer treatment, lack of transparency, variety and liability of providers, cross-border selling, regulatory arbitrage); unlicensed activity.

Consumer driven risks: increased digitalisation of daily life coupled with low financial and digital literacy.



Digital developments – challenges for regulators

- New business models may not easily fit into conventional regulatory approaches
- Keeping up with the pace of change, collecting and using data
- Capabilities and competencies required for fintech
- Role of disclosure
- Balance between facilitating innovation and ensuring financial consumer protection



Digitalisation

- Ensuring appropriate financial consumer protection in the context of financial innovation and digitalisation is a key focus areas for the Task Force
- Task Force is identifying financial consumer protection consideration and effective approaches for the implementation and application of the FCP Principles in the digital age
- Priority area for G20 Presidency of Argentina (2018), Germany (2017) and China (2016)
- Supports G20 Principles for Innovative Financial Inclusion



FINANCIAL CONSUMER PROTECTION CONSIDERATIONS



Financial consumer protection considerations

Principle 1 – Legal, Regulatory and Supervisory Framework

- Consideration of sectoral boundaries and definitions
- Interaction with data protection agencies
- Application of registration / licensing arrangements
- Consultation with stakeholders



Financial consumer protection considerations

Principle 2 – Role of Oversight Bodies

- Staff knowledge and competence; staff training

- Environments for new business models to be tested eg regulatory sandboxes

- Exploration of RegTech



- Cooperation with other regulatory bodies at a national and international level



Financial consumer protection considerations

Principle 3 – Equitable and Fair Treatment of Consumers

- Consider product design, eg underlying algorithms, communication channels (eg chatbots) etc
- Ease of communication eg in terms of complaints handling arrangements
- Consider needs of vulnerable groups, especially those with low digital literacy eg elderly
- Use of big data



Financial consumer protection considerations

Principle 4 – Disclosure and Transparency

- Digital offers opportunities for different approaches to disclosure
- Also challenges eg different screen sizes, lack of physical intermediary
- Importance of testing for effectiveness





Financial consumer protection considerations

Principle 5 – Financial Education and Awareness

- New opportunities for financial education presented by digitalisation eg
 - Interactive tools
 - Outcome simulations
 - Use of technology in terms of reminders, text messages
 - Data capture can help measure effectiveness
- See *Ensuring Financial Education and Consumer Protection for All in the Digital Age*





Financial consumer protection considerations

Principle 6 – Responsible Business Conduct

- Issues arising from automated advice eg accuracy, comprehensiveness, responsibility for recommendations
- Outsourcing and authorised agents
- Consider issues re conflicts of interest

Principle 7 – Protection of Consumer Assets against Fraud and Misuse

- Consider new threats of fraud and scams
- Identify verification techniques
- Unclaimed assets



Financial consumer protection considerations

Principle 8 – Protection of Consumer Data and Privacy

- Ownership of data
- Issues relating to informed consent
- Data sharing, protection and privacy
- Data storage – security, length of storage





Financial consumer protection considerations

Principle 9 – Complaints Handling and Redress

- Ensure complaints handling arrangements are accessible with digital financial services, including internal complaints handling and access to ADR mechanisms
- Collection and use of complaints data

Principle 10 - Competition

- New entrants generate competition
- Digital comparison platforms





What next?



- Development of Policy Guidance on Financial Consumer Protection Approaches in a Digital Age as a deliverable to G20 in 2018
 - Oversight arrangements and capability of financial consumer protection regulators
 - Disclosure and transparency requirements, including as they relate to the giving of consent by consumers to collect and use their personal data
- Development of a Risk Dashboard of consumer risks
- Review and update of OECD Recommendation on Consumer Protection in the field of Consumer Credit



Related OECD work on financial digitalisation

- Financial education and literacy for digital financial services
- Implications of technology for the insurance sector
- Robo-advice in private pensions and retirement saving
- Support for the International Financial Consumer Protection Organisation (FINCONET) eg:
 - Digitalisation of short-term high-cost consumer credit
 - Online and mobile payments: supervisory challenges to mitigate security risks