



CONSUMER EMPOWERMENT  
AND MARKET CONDUCT  
(CEMC) WORKING GROUP

# MARKET CONDUCT SUPERVISION - A TOOLKIT

TOOLKIT



## EXECUTIVE SUMMARY

This toolkit is a result of the collaboration among members of the AFI Consumer Empowerment and Market Conduct Working Group (CEMCWG)'s Market Conduct Supervision (MCS) subgroup.

Providing technical know-how and practical step-by-step guidance, this document assists market conduct supervisors in understanding the processes and procedures of conducting MCS, in addition to covering the necessary tools required by market conduct supervisors to fully discharge their mandate. The toolkit aims to achieve the following:

- > To develop a tool or framework that can serve as a template to support AFI members developing MCS manuals in their own jurisdictions.
- > To provide support and guidance to members who can refer to the toolkit and adapt it to their own jurisdictions and policy landscapes.

The principal mechanisms and tools for MCS outlined by CEMCWG members include onsite inspections, offsite surveillance, market surveillance, mystery shopping, and complaints handling. These activities aim to monitor and supervise the conduct of licensed and registered financial institutions, ensuring the entire financial system operates equitably and transparently. A fair, safe, and robust financial industry fosters consumer trust, ultimately advancing financial inclusion. Both onsite and offsite supervision encompass risk and impact assessments. MCS should also cover activities related to promotions, monitoring, and remediation. Regulatory authorities should make use of SupTech and RegTech tools given the advent of digital financial services.

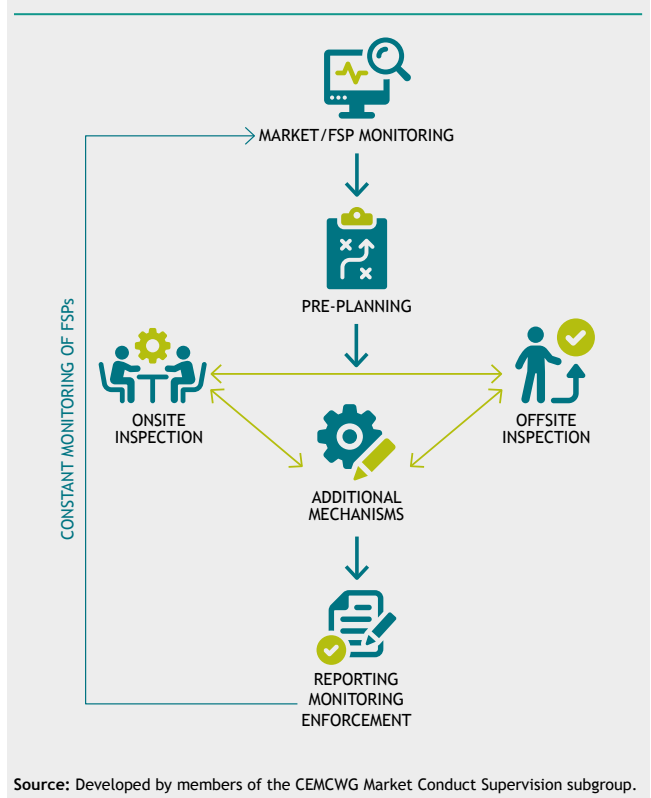
This toolkit provides practical guidance on how to develop and implement the main components of an MCS framework, building on the best practices of AFI member institutions. It proposes a template that covers the following components: institutional framework; approach to market conduct supervision; main market conduct supervision parameters; and supervisory process. Building on existing best practices, members of the CEMCWG Market Conduct Supervision subgroup developed a guiding MCS Process highlighted in the visual below.

It is important to note that regulators do not necessarily need to follow the below process in a single, unique order. For example, depending on the context of the country and jurisdiction, an offsite inspection can take place after the onsite inspection, and vice versa. Likewise, while member institutions of the AFI network are transitioning to risk-based supervision approaches, both risk-based and compliance-based approaches can be used individually or jointly.

Every supervisory activity, including inspections (whether offsite or onsite), should conclude with a supervisory report, which must follow a guided structure to ensure consistency. A template of the report is recommended with the minimum information to be documented by supervisors. Moreover, the type and extension of follow-up activities and actions should be determined by the legislative framework in the country.

This toolkit builds on practical AFI member examples and best practices. It aims to provide flexible and adaptable guidance for market conduct supervisors, including an array of practical tools available in the Annex. Indeed, the scope of MCS should be adjusted or expanded by the readers, as deemed necessary, according to their internal definition of MCS and overall financial consumer protection framework.

### MARKET CONDUCT SUPERVISION PROCESS



Source: Developed by members of the CEMCWG Market Conduct Supervision subgroup.

# INTRODUCTION

This toolkit provides practical guidance on the processes for conducting Market Conduct Supervision (MCS), through offsite and onsite inspections and examinations of financial service providers (FSPs) to ensure they are aligned with consumer protection laws, rules and guidelines, and able to identify and address related risks, in line with international best practices.

The market conduct of a FSP covers how it designs its products and services, and manages its relationship with clients and the public, including the use of intermediaries (representatives or agents)<sup>1</sup> according to an adequate regulatory framework and best practices.

This toolkit was prepared to provide AFI members with draft recommendations to develop their own MCS manuals, aiming to provide their market conduct supervisors with guidance in conducting offsite and onsite MCS of individual FSPs.

Since the global financial crisis and given the interconnectedness of financial systems, regulators recognize the profound impact that market conduct issues can have on consumers of financial products and the resulting disruptions in the financial sector, including loss of confidence and trust, a striking example being the mis-selling of mortgage products in the United States, which inflicted untold suffering to consumers.

Globally, there has been an increased emphasis on supervisory efforts to ensure that financial service providers operate in a responsible manner and empower consumers to make well-informed financial decisions. This toolkit provides market conduct supervisors with comprehensive guidance on developing their (risk-based) MCS manual and processes.

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<sup>1</sup> Alliance for Financial Inclusion (2016): Market Conduct Supervision of Financial Service Providers: A risk-based Supervision Framework

# 1

## ABOUT THIS TOOLKIT

### 1.1. PURPOSE OF THE TOOLKIT

Providing technical know-how and practical step-by-step guidance, this document assists market conduct supervisors in understanding the processes and procedures of conducting MCS, in addition to covering the necessary tools required by market conduct supervisors to fully discharge their mandate.

#### THE TOOLKIT AIMS TO ACHIEVE THE FOLLOWING:

**1**  
**TO DEVELOP** a tool or framework that can serve as a template to support AFI members developing MCS manuals in their own jurisdictions.

**2**  
**TO PROVIDE** support and guidance to members who can refer to the toolkit and adapt it to their own jurisdictions and policy landscapes.



The toolkit offers a generic framework for MCS to supervisory authorities that plan to develop their country-specific market conduct (risk-based) supervision manuals. It can also be used in training and capacity building on MCS, given that MCS is a relatively new concept in most jurisdictions, where supervisory authorities are more familiar with prudential supervision.

Focusing on processes and procedures for offsite and onsite supervision of individual FSPs, the toolkit addresses the main financial consumer protection (FCP) elements: transparency and disclosures, fair treatment of consumers and customer due care, product design, suitability assessments, data protection, and complaints and dispute resolution.

## 1.2. SCOPE

This toolkit applies to FSPs licensed or regulated by the regulatory authority of the country, covering both banks and non-bank financial institutions, as well as institutions involved in national payment systems.<sup>2</sup>

The procedures may need to be tailored according to the type of FSP and specific contexts.

With the advent of digital financial services, where banks are partnering with FinTechs, agents, or other third-party companies to provide digital financial services, considerations should be made to include mobile network operators and such FinTech companies in collaboration with their respective FinTech or mobile network operator regulators.

The MCS process should be comprised of a mix of supervisory tools and techniques, such as monitoring the market and specific firms, risk and impact assessments, offsite and onsite inspections, thematic reviews, consumer research, and mystery shopping. MCS activities facilitate the identification, monitoring, and mitigation of market conduct risks, ultimately ensuring the protection of the rights of consumers of financial services.

An institution may not be systemically important, and its distress or failure may be unlikely to cause significant disruption to the financial system. However, in terms of market conduct, the same institution can be systemically important, and its market conduct failure could have a significant impact on the confidence and trust of consumers in the financial sector, ultimately affecting financial sector stability. Market conduct risk-based supervision focuses on the market conduct impact of an FSP, even though it may have low systemic importance in terms of prudential supervision.

The scope of MCS should be adjusted or expanded by AFI members, as deemed necessary, according to their internal definition of MCS and overall FCP framework.<sup>3</sup> The current toolkit covers both “compliance-based” market conduct and “risk-based” supervision. However, it often focuses on the risk-based supervision approach, reflecting the growing attention of this approach in the network.

## 1.3. MARKET CONDUCT SUPERVISION VERSUS PRUDENTIAL SUPERVISION

While prudential supervision and market conduct supervision largely share complementary goals and follow similarly broad principles, they are different and, in some instances, may conflict.

Prudential supervision focuses on the safety and dependability of a financial institution, whereas market conduct is concerned with how financial institutions protect (or at least do not infringe on) the interests of customers, investors, and market participants largely in terms of transactional fairness, access to reasonably symmetric information, maintenance of market integrity, and ensuring fair competition. Both supervisory processes exhibit similarities, for example:

- > The board and senior management of an FSP are ultimately responsible for ensuring fair market conduct, consumer education, and consumer protection.
- > Consumers of financial services play an important role in protecting their interests by seeking information and utilizing available mechanisms for recourse.

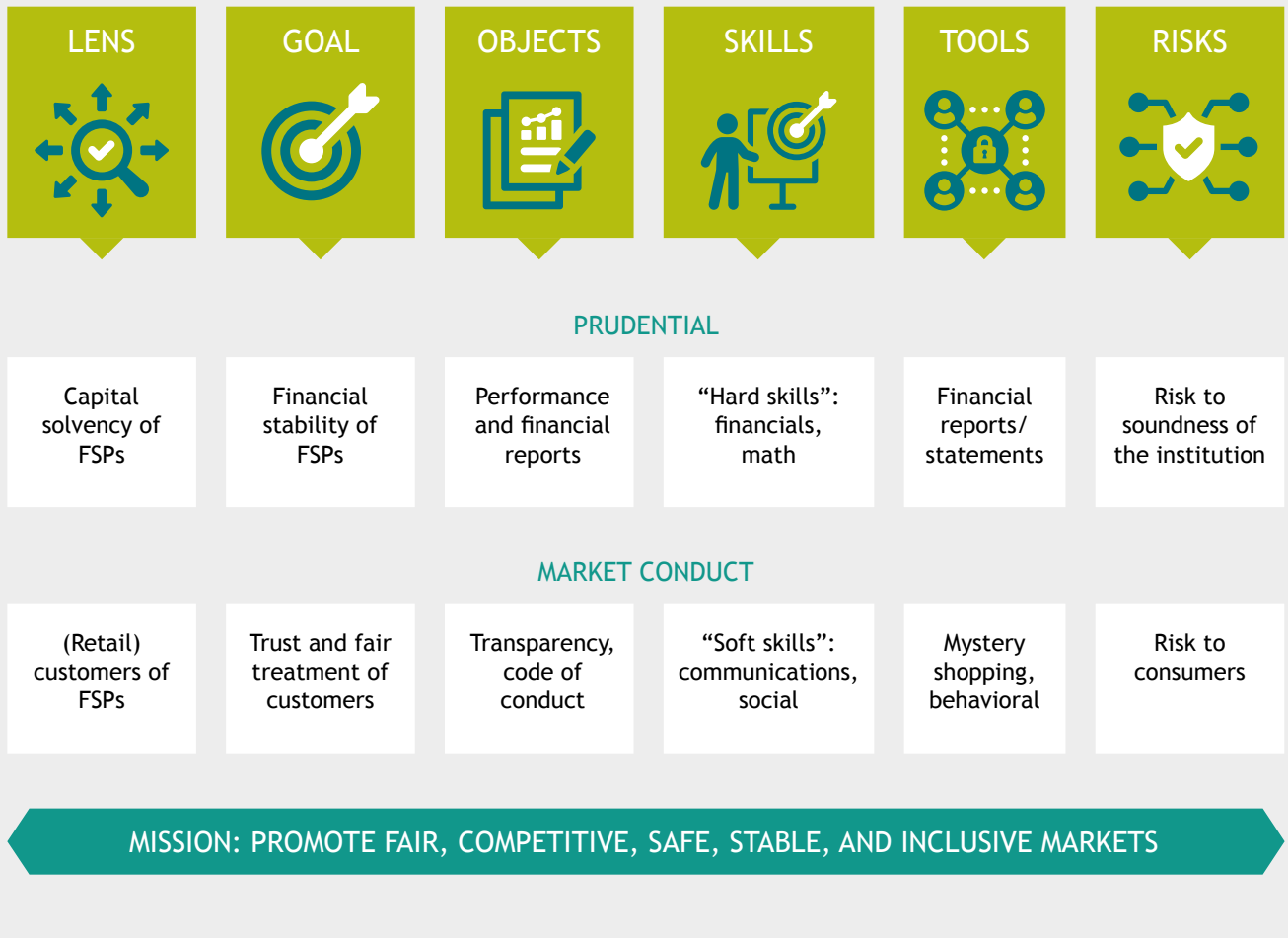
MCS focuses on the relationship between FSPs and consumers of financial services, covering the type of products, service delivery, equitable treatment of consumers, and data privacy, in order to achieve trust in the formal and regulated financial sector. Conducting MCS requires not only technical skills on the part of the supervisor, but also soft skills, including effective communication, observation, evaluation, and deduction.

For prudential supervision, information is usually drawn from periodic historical financial reports (statistical, financial, and accounting data) provided by regulated entities, and complemented by well-supported expert judgment. In contrast, MCS data sources are more robust and current, and have expanded from simply using information on complaints and product details to incorporating direct insights obtained through methods such as mystery shopping and behavioral observations, in addition to monitoring social media, websites, and advertisements.

<sup>2</sup> Each jurisdiction may have its own definition of FSP, based on their respective institution and country context.

<sup>3</sup> Additional explanatory notes on the MC components and outcomes can be found in Good Practices of the World Bank (2017), available at: <https://openknowledge.worldbank.org/handle/10986/28996>

FIGURE 1: PRUDENTIAL SUPERVISION VERSUS MARKET CONDUCT SUPERVISION



The recommendation from CEMCWG members is to have a separate organizational setting to avoid conflicts of interest.<sup>4</sup> In practice, during the early stages of developing an MCS framework, it is possible to leverage prudential supervision and conduct joint examinations. However, even with this scenario, the tools and techniques utilized by MCS should remain distinct.

#### 1.4. HOW TO USE THE MARKET CONDUCT SUPERVISION TOOLKIT

Sourced from the consumer protection laws and regulations of AFI member institutions, the MCS toolkit is a practical document primarily aimed for use by market conduct supervisors to assess the ability of FSPs to effectively identify, monitor, and control market conduct risks emanating from their conduct in the market and the provision of financial services to consumers. In certain instances, there may be no legal provisions to ensure compliance with market conduct laws and regulations. Nonetheless, the MCS toolkit

operates on the assumption that a legal framework exists, allowing market conduct supervisors to carry out their market conduct oversight mandate.

<sup>4</sup> There are potential conflicts between prudential and market conduct supervision. An example is the disclosure of a financial situation. From a market conduct perspective, the disclosure is good for consumers since it increases transparency and provides information important for the decision-making process. However, from a prudential perspective, the disclosure may have destabilizing effects on a specific institution or the whole system, particularly if the statements are misinterpreted (by consumers or the media). It is essential to identify and manage conflicts of interest to achieve financial stability and consumer protection goals without compromising either objective.

## 2

MARKET  
CONDUCT  
SUPERVISION

### 2.1. OBJECTIVES OF MARKET CONDUCT SUPERVISION

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MCS comprises a range of activities aimed at identifying, monitoring, preventing, and mitigating market conduct risks. The overarching objective of MCS is to ensure the fair treatment of consumers, while building confidence and trust in the financial system, which in turn, promotes the establishment of inclusive financial systems, sustainable economic growth, and financial stability.<sup>5</sup>

Consumer confidence in financial services can strengthen the financial system by improving both access and utilization of formal financial services, leading to sustainable economic development and financial stability. Market conduct involves a range of issues, which include transparency in the provision of financial services, confidentiality of information, trust and fair treatment of customers, and data protection and integrity. Within this context, the objectives of market conduct supervision are highlighted in Figure 2.

### 2.2. MARKET CONDUCT RISK-BASED VERSUS COMPLIANCE-BASED SUPERVISION

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An MCS approach can be either compliance-based or risk supervision-based. The compliance-based approach, which focuses on adhering to existing rules and regulations, is based on historical events, and any supervisory intervention or corrective measure is reactive based on past data.

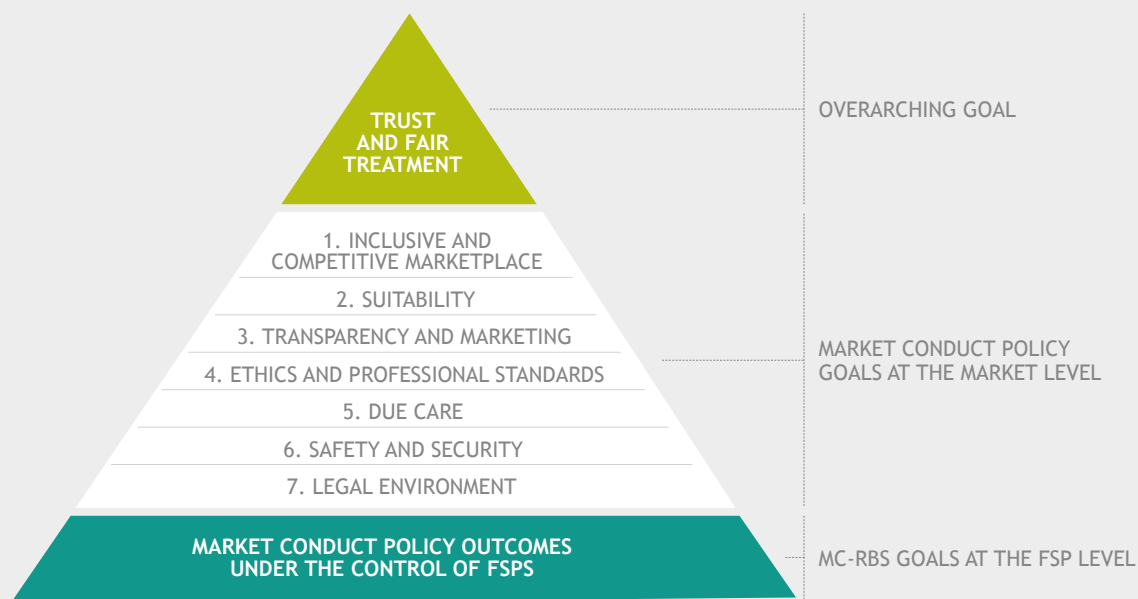
The risk-based approach, on the other hand, is future-oriented and forward-looking. It assesses the current risks and, considering the operating environment, the institution's risk profile, and risk management strategies and practices, predicts the risk profile of the institution over a future time horizon. It is based on the supervisor's objective judgements, enabling proactive and preventive supervisory interventions as opposed to reactive ones.

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<sup>5</sup> Alliance for Financial Inclusion. 2016. Market Conduct Supervision of Financial Service Providers - A Risk-based Supervision Framework. Available at: <https://www.afi-global.org/wp-content/uploads/publications/2016-08/Guideline%20Note-21%20CEMC-RiskBased.pdf>

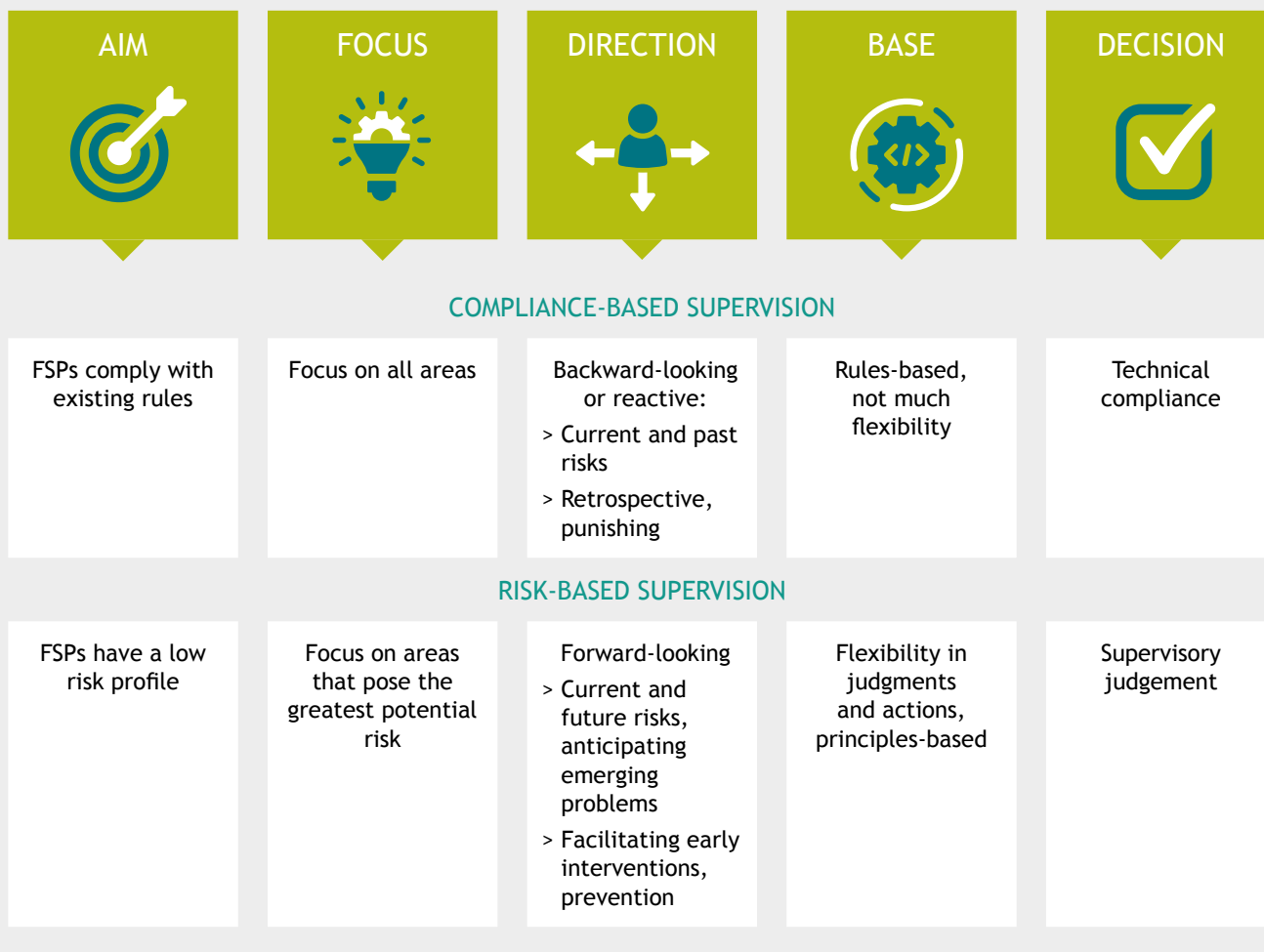


FIGURE 2: OVERARCHING GOALS OF MARKET CONDUCT SUPERVISION



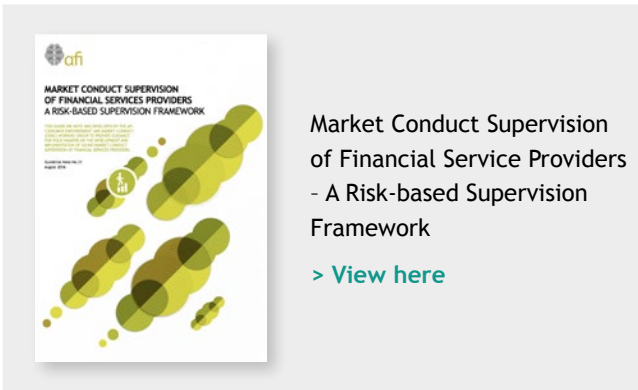
Source: AFI. 2016. Market Conduct Supervision of Financial Service Providers - A Risk-based Supervision Framework.

FIGURE 3: MARKET CONDUCT COMPLIANCE-BASED VERSUS RISK-BASED SUPERVISION



Risk-based MCS facilitates the efficient allocation of supervisory resources to address key market conduct risks that have the potential for significant impacts on market confidence. Furthermore, this approach promotes market discipline and greater regulatory efficiency, while optimizing resource utilization.

The risk-based approach to MCS not only focuses on a financial institution's compliance to existing laws and regulations on market conduct, it also evaluates its business model, any core problems and issues, and assesses potential future risks facing the institution. The MCS approach should be complemented by an appropriate supervisory strategic plan, a supervision strategy, and an MCS budget.



### 2.3. SUPERVISORY STRATEGY

The Supervisory Strategy is a critical component of MCS, providing the supervisor with a comprehensive grasp of key oversight areas, resource allocation, internal processes, employed MCS tools, action plans, and reporting mechanisms.

Ideally, the Supervisory Strategy is based on impact assessments which facilitate the identification of systemically important FSPs with elevated market conduct risk profiles. The Supervisory Plan, which highlights the supervisory activities to be carried out during the risk-based supervision, is informed by the Supervisory Strategy.

### 2.4. KEY CONCEPTS OF MARKET CONDUCT SUPERVISION

The concepts pertaining to supervision should set out the philosophies that guide the design and implementation of the MCS framework in addition to providing guidance to MCS supervisors.

At a minimum, the concepts should cover the elements in Figure 4.







Market conduct risk-based supervision introduces a forward-looking approach to MCS by facilitating an understanding of the financial services provider, its market conduct risk profile, market conduct impact, and both current and future risks. As a result, MCS provides a more proactive approach to market conduct, as opposed to a reactive stance where supervisors respond to significant market conduct failures of an FSP.

### 2.5. MECHANISMS OF MARKET CONDUCT SUPERVISION

The principal mechanisms and tools for MCS outlined by CEMCWG members<sup>6</sup> include onsite inspections, offsite surveillance, market surveillance, mystery shopping, and complaints handling. These activities aim to monitor and supervise the conduct of licensed and registered financial institutions, ensuring the entire financial system operates in equitably and transparently. A fair, safe, and robust financial industry fosters consumer trust, ultimately advancing financial inclusion. Both onsite and offsite supervision encompass risk and impact assessments. MCS should also cover activities related to promotions, monitoring, and remediation. Regulatory authorities should make use of SupTech and RegTech tools given the advent of digital financial services. The next section of the toolkit includes a further elaboration on these MCS mechanisms.

<sup>6</sup> Other examples of MCS tools are available at: [www.cgap.org/topics/collections/market-monitoring-tools?utm\\_source=newsletter&utm\\_medium=email&utm\\_campaign=July2023](http://www.cgap.org/topics/collections/market-monitoring-tools?utm_source=newsletter&utm_medium=email&utm_campaign=July2023)

FIGURE 4: KEY CONCEPTS OF MARKET CONDUCT SUPERVISION

CONCEPT		FOCUS AREA
FAIR OUTCOME FOR CONSUMERS AND FINANCIAL MARKETS		Taking a dual consideration - the possible impacts on the individual consumer and on financial markets.
FOCUS ON CULTURE AND GOVERNANCE		Effectiveness of the governance and oversight functions of FSPs, including their policies and procedures, corporate culture, and internal control environment.
PROPORTIONAL AND PRE-EMPTIVE		MCS is forward-looking, the identification of potential risks and appropriate interventions are proportional to the determined risks.
OBJECTIVE SUPERVISORY JUDGEMENT		Judgement-based to achieve the desired and appropriate consumer outcome in line with international best practices.
TRANSPARENT AND STAKEHOLDER ENGAGEMENT		Open and transparent communications and engagement on the part of FSPs and consumers.
INFORMATION-DRIVEN		Relying on information from wide range of sources, including FSPs, consumers, as well as interviews, complaints, mystery shoppers, advertisements, and product information.

## 3

# MARKET CONDUCT SUPERVISION - A TEMPLATE

This section highlights the main components of an MCS framework, building on the best practices of AFI member institutions, and covers the following components: institutional framework; approach to market conduct supervision; main market conduct supervision parameters; and supervisory process.

## 1. INSTITUTIONAL FRAMEWORK

The institutional framework covers the legal framework, institutional arrangements, types of market-conduct supervision tools, impact assessment, and market conduct supervisory strategy.

The regulatory basis for MCS comprises laws and regulations that comprehensively or partially regulate different aspects of market conduct. AFI member countries are advised to formulate an FCP legal and regulatory map to ensure that their existing and new legal and regulatory frameworks effectively encompass supervisory processes and procedures. Additionally, regulators are encouraged to review their institutional frameworks to confirm the inclusion of the mandate to conduct MCS. A list of legal acts can be provided as a separate section or appendix in the institutional framework.

### 1.1. THE LEGAL FRAMEWORK

Laws and regulations on consumer protection and market conduct provide a legal basis for conducting supervision and ensuring compliance by supervised entities. The authority responsible for MCS should derive its mandate<sup>7</sup> from these laws and regulations, providing it the authority to conduct MCS. Examples of such legal frameworks include:

- > Banking Act, National Payments Laws, Anti-Money Laundering and Combating of Terrorism Acts, Microfinance Act, Consumer Protection Act, Insurance and Pensions Act, and Capital Markets Act, among others.

<sup>7</sup> In addition to granting the mandate, the law should also encompass protections for supervisors and inspectors against legal actions that may arise in the course of their duties. The laws and guidelines on MCS will necessitate periodic reviews to align with changes and developments in the financial services sector, given the dynamic and evolving financial system.

### COUNTRY EXAMPLE - MALAWI

The following legal and regulatory framework is included as a reference in the Reserve Bank of Malawi's Consumer Protection and MCS Manual:

- > Financial Services Act, 2010
- > Financial Consumer Protection Bill, 2017 (yet to be enacted)
- > Consumer Protection Act, 2003
- > Competition and Fair Trading Act, 1998
- > Financial Services (Internal Complaints Handling) Directive, 2016
- > Financial Services (Claims Management Directive) Directive, 2014
- > Financial Services (Submission of Information), Directive, 2018
- > Payment Systems (Interoperability of Retail Payment Systems) Directive, 2017

Source: Reserve Bank of Malawi's Consumer Protection and Market Conduct Supervision Manual (2018)



## 1.2. INSTITUTIONAL ARRANGEMENTS

Institutional arrangements vary across different jurisdictions. Some jurisdictions have a 'mega regulator' overseeing the entire sector, while others involve multiple regulators, each with a specific mandate over a sub-sector of the financial services sector.<sup>8</sup> The most common institutional arrangements for MCS are:<sup>9</sup>

- > Single (integrated) agency model
- > Multiple sectorial (integrated) agency model
- > Dedicated financial consumer protection authority model (twin peaks)
- > General consumer protection authority model



More information on the different institutional arrangements is available in: Complaint Handling in Central Bank Toolkit

> [View here](#)

## 1.3. MARKET CONDUCT SUPERVISION ACTIVITIES AND TOOLS

The following inspection activities available to market conduct supervisors can be used individually or in combination, depending on the inspection step:<sup>10</sup>

- > Offsite supervision
- > Onsite supervision - ideally, offsite supervision should inform the priority, frequency, and scope of onsite inspections
- > Mystery shopping
- > Thematic reviews
- > Demand and supply-side surveys
- > Product reviews
- > SupTech and RegTech, given the emergence of digital financial services

Each activity can involve several practical tools, for example, digital templates for offsite inspections, a survey guide or questionnaire for mystery shopping, RegTech tools for complaint handling and data analysis, processes and templates for onsite inspection, etc. MCS activities and tools can be organized into three segments:

- > **Promotion:** Enabling laws, regulations, directives, and engagement with stakeholders, such as industry associations, self-regulatory authorities, and civil society organizations.
- > **Monitoring:** Involving mandatory reporting and analysis, industry reviews and surveillance, whistleblowing, inspections, investigations, case law on customer protection, complaints received, and spot checks.
- > **Enforcement:** Encompassing notices and regulatory directives, compliance agreement and action plans, representations, refunds, and sanctions.

Market conduct supervisors may outsource one or part of the components of MCS tools, such as social media analyses or demand-supply side surveys. Some essential supervisory functions conducted internally include risk assessments and impact evaluations, given their specificities and the sensitive information involved. All of these processes should be described in the internal regulations or manuals of the supervision.

<sup>8</sup> When a mega-regulator is involved, market conduct risk-based supervision is easier to apply across all financial services providers. However, to provide adequate attention to market conduct and consumer protection issues and support financial inclusion initiatives, it is advisable to separate prudential supervision from market conduct supervision by creating a department or unit dedicated to MCS and consumer protection issues. In this scenario, joint examinations, where possible are more beneficial. Where the financial services sector has more than one regulator, joint supervision or inspections are recommended to ensure equitable application of the law and compliance by all financial services providers in the respective sub-sectors. A market conduct unit or regulatory authority would be well-suited to coordinate market conduct issues across the entire financial services sector.

<sup>9</sup> See detailed models in Alliance for Financial Inclusion. 2022. Complaint Handling in Central Bank Toolkit. Available at: <https://www.afi-global.org/publications/complaint-handling-in-central-bank-toolkit/>

<sup>10</sup> For example, SupTech and RegTech are usually used as part of other tools, such as offsite surveillance.

FIGURE 5: EXAMPLES OF MARKET CONDUCT SUPERVISION TOOLS







<p><b>Thematic examinations: Sector-wide</b></p> <ul style="list-style-type: none"> <li>&gt; Conduct thorough assessments of market conduct risks and controls through offsite examinations</li> <li>&gt; Validate the practices of specific FSPs following feedback received</li> </ul> 	<p><b>Media watch or offsite product reviews</b></p> <ul style="list-style-type: none"> <li>&gt; Assess the disclosure practices of FSPs</li> <li>&gt; Review marketing materials</li> </ul> 
<p><b>Thematic examinations: Selected FSPs</b></p> <ul style="list-style-type: none"> <li>&gt; Conduct thorough assessments of market conduct risks and controls through offsite examinations</li> <li>&gt; Validate the practices of specific FSPs following feedback received</li> </ul> 	<p><b>Mystery shopping and calls</b></p> <ul style="list-style-type: none"> <li>&gt; Validate the practices of specific FSPs following feedback received.</li> <li>&gt; Gauge the practices and adequacy of FSPs' controls on specific areas</li> </ul> 
<p><b>Self-assessments by FSPs' compliance and internal audits</b></p> <ul style="list-style-type: none"> <li>&gt; Gauge the practices and adequacy of FSPs' controls on specific areas through offsite analysis of their responses</li> </ul> 	<p><b>Engagement with FSPs' Board, Senior Management, and Compliance</b></p> <ul style="list-style-type: none"> <li>&gt; Seek feedback on emerging issues and the extent of current concerns within the FSP</li> </ul> 

FIGURE 6: COUNTRY EXAMPLE - ARMENIA

EXAMPLES OF SUPERVISORY ACTIVITIES AND TOOLS USED BY THE CENTRAL BANK OF ARMENIA INCLUDE:

ONSITE	OFFSITE	MYSTERY SHOPPING	FOCUS GROUP RESEARCH/ TESTING	SPECIFIC ON DEMAND INVESTIGATION
<ul style="list-style-type: none"> <li>&gt; Services provided</li> <li>&gt; Quality of customer service</li> <li>&gt; Complaints or disputes</li> <li>&gt; Advertising and other published information</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Websites and social media</li> <li>&gt; TV and radio advertising</li> <li>&gt; Published information and advertising materials</li> <li>&gt; Information from the FIN info-comparison tool</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Sales practices</li> <li>&gt; Research purposes</li> <li>&gt; Face to face</li> <li>&gt; Email</li> <li>&gt; Calls</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Disclosed information</li> <li>&gt; Disclosure tools</li> <li>&gt; Impact assessments</li> <li>&gt; Behavioral insights</li> </ul>	<p>Based on red flags: complaints, media coverage, etc.</p>



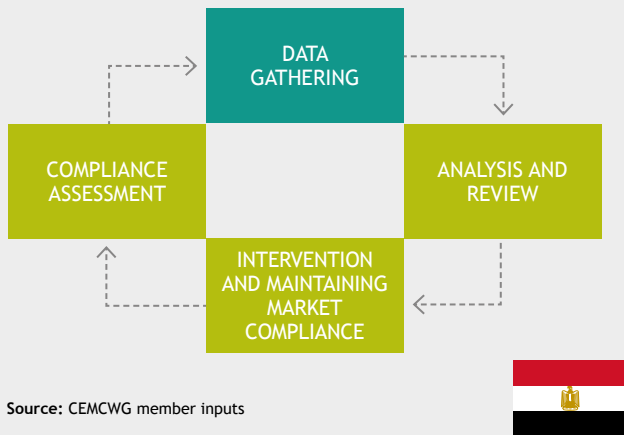
Further examples of tools and templates used by AFI member institutions are included in subsequent sections of this toolkit and in the Annex.

**1.4. RISK ASSESSMENT**

A risk rating<sup>11</sup> evaluates the overall risk level of an FSP by assessing the inherent risks of its business activities, its ability to manage and control these risks, the effectiveness of its oversight and governance structure, and whether its financial resources are sufficient to absorb losses in the pursuit and provision of market conduct outcomes.

**COUNTRY EXAMPLE - EGYPT**

The Central Bank of Egypt’s market conduct risk assessment framework:



Source: CEMCWG member inputs



An example of a risk matrix template is available in Annex 2.

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**1.5. IMPACT ASSESSMENT**

An impact rating<sup>12</sup> measures the potential consequences of a significant failure in an FSPs market conduct outcome on consumer confidence and trust in a well-functioning financial market. This, in turn, can have a negative effect on the financial system, financial inclusion, the social well-being of a population, economic growth, and a country’s reputation.

**1.6. MARKET CONDUCT SUPERVISORY STRATEGY**

A supervisory strategy defines the focus areas and the intensity of its supervision. An MCS strategy communicates supervisory priorities and plans for a designated period. The supervisory process should ensure that supervisors can ascertain that FSPs are offering consumer financial products and services in accordance with the legal and regulatory framework, and have effective systems, controls, and procedures in place to manage their risks and ensure compliance with established rules and principles. The MCS strategy should cover market monitoring, pre-inspection procedures, examinations using onsite and offsite tools and techniques, enforcement, and follow-up activities.



Annex 1 highlights examples from the Central Bank of Armenia and Central Bank of Nigeria’s supervisory processes resulting from their MCS strategies. Further details on the MCS process are available in section 4 below.

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11 See more information in Part I - Risk Assessment of AFI. 2016. Market Conduct Supervision of Financial Services Providers - A Risk-Based Supervision Framework. Available at: <https://www.afi-global.org/wp-content/uploads/publications/2016-08/Guideline%20Note-21%20CEMC-RiskBased.pdf>

12 See more information in Part II - Impact Assessment of AFI. 2016.

**EXAMPLE OF IMPACT RATINGS AND THEIR METRICS**

IMPACT INDICATORS	RATING IMPACT			
	RATING 4	RATING 3	RATING 2	RATING 1
NUMBER OF RETAIL CUSTOMERS BY RETAIL PRODUCTS ON THE REPORTING DATE	> 1 million	500,000-1 million	100,000-500,000	<100,000
NUMBER OF TRANSACTIONS PER DAY	>1000	500-1000	100-500	<100 per day
MARKET SHARE OF THE RETAIL SECTOR	>40%	15-40%	5-15%	<5%

Source: Central Bank of Armenia

## 2. APPROACH TO MARKET CONDUCT SUPERVISION

A number of strategic approaches to MCS are in use by market conduct supervisory authorities. However, compliance-based supervision and risk-based supervision are the commonly used approaches. It is important to note that implementing risk-based supervision for market conduct does not mean that an authority should permanently adopt one approach to the exclusion of others.

For instance, an authority just starting on its MCS journey may opt for a simpler compliance-based approach while concurrently gaining confidence with risk-based supervision. It is unusual to encounter a principles-based model devoid of rules, or a rules-based model not grounded in principles. Arguably, a principles-based approach is more likely to result in cultural changes within FSPs because it demands judgment and innovation to determine whether their market conduct is acceptable to the regulator, rather than adhering to the rules. This approach also facilitates a more flexible, resource-optimizing, and risk-based approach to supervision, rather than devoting resources to monitoring compliance with rules. Caution is necessary, as many small and low-income economies have capacity and resource constraints which requires a flexible and practical approach in developing market conduct capacity and oversight.

### 2.1. OBJECTIVES OF MARKET CONDUCT SUPERVISION

As introduced in section 1.3, examples of objectives that regulators can consider while developing a MCS framework include:

- > Assessing market conduct practices identified as potentially high risk based on previous inspection results, complaints received, media, or public feedback.
- > Ensuring that financial institutions are compliant with market conduct regulations and consumer protection requirements through mystery surveillance, offsite and onsite inspections.
- > Ensuring effective and professional resolution of complaints in accordance with regulatory requirements.

- > Utilizing consumer feedback to shape financial education programs.
- > Educating consumers through counselling in the complaints handling process.
- > Identifying market conduct gaps for the development of a regulatory framework.

### 2.2. COMPLIANCE-BASED AND RISK-BASED MARKET CONDUCT SUPERVISION

The scope of MCS should be adjusted or expanded by AFI members, as deemed necessary, according to their internal definition of MCS and overall FCP framework. The current toolkit provides insights into both compliance-based market conduct and risk-based supervision. While AFI member institutions traditionally followed a compliance-based approach, they are now increasingly applying a risk-based supervision approach, as seen in countries like Armenia, Malawi, Malaysia, Palestine, Paraguay, Rwanda, Sierra Leone, and Sudan. As a result, the toolkit often emphasizes the risk-based supervision approach - reflecting its increasing prominence in the network - while compliance issues can also be incorporated under RBS, where applicable.

#### COUNTRY EXAMPLE - NIGERIA

In Nigeria, the market conduct risk-based inspection cycle revolves around the following five steps:

1. Understanding the Institution
2. Pre-Assessment of Institutions
3. Inspection Planning
4. Onsite Inspection
5. Supervisory Correspondence



Guideline Note 21: Market Conduct Supervision of Financial Services Providers - A Risk-Based Supervision Framework

> [View here](#)



## 2.3. KEY PRINCIPLES

As mentioned in the introductory section, the principles of supervision should set out the philosophies that direct the design and implementation of the MCS framework while also providing guidance to MCS supervisors. The principles should, at a minimum, cover the following:

- > Fair outcome for consumers and financial markets
- > Focus on culture and governance
- > Proportional and pre-emptive
- > Objective supervisory judgement
- > Transparency and stakeholder engagement
- > Information-driven

### COUNTRY EXAMPLES - NIGERIA AND MALAYSIA

The **Central Bank of Nigeria** applies seven key principles for financial consumer protection to market conduct supervision:

1. Focus on consumers
2. Focus on culture and governance
3. Proportionality
4. Proactivity and dynamism
5. Strategy and business models
6. Information-driven
7. Transparency

**Bank Negara Malaysia** adopted the following six key principles for market conduct supervision:

1. Fair outcome for consumers and markets
2. Judgement-based
3. Forward looking and preemptive
4. Robust when things go wrong
5. Leverage FSPs oversight functions
6. Engaging and collaborating with stakeholders

Sources: [https://www.cbn.gov.ng/out/2016/cfpd/consumer%20protection%20framework%20\(final\).pdf](https://www.cbn.gov.ng/out/2016/cfpd/consumer%20protection%20framework%20(final).pdf) and <https://www.bnm.gov.my/market-conduct>



## STAKEHOLDER ENGAGEMENT

Stakeholder engagement is a key element as both a preventive and control measure, especially given the growing digitization of financial services. For example, regulators could advocate for the establishment of industry associations. If such associations are already set up, they could recommend the formation of specific taskforces or committees on market conduct and

consumer protection. Similarly, engaging with civil society organizations can also prove beneficial for market monitoring and obtaining feedback about FSPs and their products.

## 2.4. TYPE OF SUPERVISED INSTITUTIONS

Examples of supervised institutions include, but are not limited to:

- > Banking institutions (commercial, investment, etc.)
- > Microfinance institutions
- > Financial cooperatives
- > Insurance companies
- > Capital market institutions
- > Pension administrators
- > Development finance institutions
- > Payment system operators and issuers
- > Intermediaries, such as insurance brokers, financial advisers, and loss adjusters

### COUNTRY EXAMPLE - ESWATINI

List of operating FSPs supervised by the Central Bank of Eswatini:

#### BANKS

1. FNB
2. Standard Bank
3. Nedbank
4. Eswatini Bank

#### FOREX SERVICES

1. Swaziland Building Society
2. Interchange Eswatini
3. Mukuru Financial Services

#### MVTS UNDER THE NCSS ACT

1. E-Mail
2. MTN Fintech Services
3. Instacash and Inhlonnhla

Source: CBE Consumer Empowerment and Market Conduct Strategy (2022-2024)



## 3. MAIN MARKET CONDUCT SUPERVISION PARAMETERS

The scope of offsite and onsite supervision depends on the FCP framework of the particular country. For those lacking such a framework, the World Bank's good practices can serve as an example. The main components of FCP can be applied to MCS, including:

- > Equitable and fair treatment
- > Transparency and disclosure
- > Complaints handling
- > Data privacy and protection
- > Staff capacity building

The above components are just examples and each country can develop additional components based on their FCP framework. What is important to note is that the scope of offsite supervision does not have to encompass all FCP components. Specific supervisions may focus on a narrower range of topics, but with more in-depth study. This approach is highly recommended for a deeper and more qualitative analysis of the relevant issues (which come from the analysis of contact data, with a focus on issues that have or potentially have a large impact on consumers).

### 3.1. EQUITABLE AND FAIR TREATMENT

Equitable and fair treatment requires that consumers be treated fairly and with respect. As described by Bank Negara Malaysia,<sup>13</sup> FSP must be “fair, responsible, and professional when dealing with financial consumers. Poor treatment of financial consumers not only gives rise to conduct and reputational risks for an FSP, but may also result in significant costs due to remediation, compensation, and penalties. [...] An FSP shall prominently publish its commitment towards treating financial consumers fairly and how it intends to implement such commitments on its website”.

### COUNTRY EXAMPLE - ZIMBABWE

In Zimbabwe, issues related to consumer protection in the financial services sector are enshrined in various laws, including: the Banking Act [Chapter 24:20]; the Microfinance Act [Chapter 24:30], Consumer Protection Framework - No. 1-2017/BSD; Guideline No. 1-2008/BSD: Minimum Disclosure Requirements for Financial Institutions; and Prudential Standards No. 2-2016/BSD: Deposit-taking Microfinance Institutions.

The mentioned laws above cover the following:

- > Transparency and fair treatment of consumers of financial services
- > Redress mechanisms, including the obligation to develop and maintain a complaints handling policy and procedure manual, a complaints handling register with submissions on a quarterly basis, and the resolution of any complaints received
- > Development and maintenance of a formal disclosure policy
- > Annual certification of the institution's Information and Communication Technology by a competent auditor to ensure the accuracy of generated management information

Source: CEMCWG member inputs



### 3.2. TRANSPARENCY AND DISCLOSURE

Transparency and disclosure are fundamental pillars of consumer protection, while transparency and disclosure inspections cover all aspects of a product's life cycle. The scope of an assessment and the expectations of supervisors should be tailored to the size and complexity of the FSP and its lending business. Policies and procedures should include an evaluation of board involvement in the development and approval of the following policies:

- > Product development, including governance arrangements
- > New product development policy, product research, and design
- > Quality assurance arrangements
- > Product management information
- > Marketing and advertisements
- > Post-sales governance arrangements, and management information
- > Compliance with disclosure requirements
- > Pricing, terms, and conditions of new products

13 Please see: [https://www.bnm.gov.my/documents/20124/761679/FTFC\\_PD\\_028\\_103.pdf/f83853d4-7146-9842-a40c-7e20bf0c9b75?t=1590696786502](https://www.bnm.gov.my/documents/20124/761679/FTFC_PD_028_103.pdf/f83853d4-7146-9842-a40c-7e20bf0c9b75?t=1590696786502)

- > Communication strategy and process
- > Post-sales

#### COUNTRY EXAMPLE - ESWATINI

As per the Central Bank of Eswatini's framework, supervisors should identify financial institution strategies that take advantage of demand-side biases, human behavior, or information asymmetry. This includes a marketing and advertising component, where supervisors assess the risk of marketing campaigns and advertisements that may lack clear, fair, and non-misleading descriptions of products or services, potentially leading to misunderstandings by consumers and poor purchasing decisions (misleading adverts and promotions). This may also include inadequate disclosures.

This process may involve concealing important statements and features of products (e.g. insufficient transparency concerning fees and charges) while also presenting unbalanced portrayals of the benefits. In this regard, the clarity and timing of the disclosures are critical, as they should prevent situations where customers misinterpret information and struggle to understand and evaluate products, taking into account their personal risks and preferences. Supervisors should, therefore, assess whether financial institutions use easily understandable, concise, and rigorous language, employing everyday words and expressions while avoiding vague, ambiguous terms, and overly technical jargon (specifically regarding exclusion or limitation clauses), whenever possible. Additionally, adherence to applicable regulatory standards on disclosures and marketing should be taken into account.

Source: CEMCWG member inputs



Experiences in the Implementation of the Principle of Disclosure and Transparency in AFI Member Countries

> [View here](#)

#### COUNTRY EXAMPLE - RWANDA

In the case of Rwanda, there are some specific legal and regulatory provisions regarding transparency that warrant attention:

- > Publication of tariffs and interest rates: Assessing the quality of tariffs published on the websites and premises of FSPs. Ensuring compliance with the published tariffs, which should also correspond with the tariffs published by the central bank through the web comparator (<https://gereranya.bnr.rw>).
- > Publication of the service charter: FSPs are required to publish the service charter indicating which products and services are offered along with the timelines to access these services.
- > Languages and size of documents: Verifying whether the documents are issued to consumers in the languages of their choice and adhering to the required sizes and spacing regulations.
- > Communications to consumers: Evaluating the quality of communications from FSPs to consumers and the feedback process.
- > Notifications to consumers: Reviewing how consumers receive notifications about transactions on their accounts, including the quality and cost of notifications.
- > Account statements: Verifying the issuance of account statements to consumers.
- > Other disclosures: Inspecting other disclosures made to consumers, such as Key Fact Statements, etc.
- > Ensuring that the entire process before, during, and after the sale is fully transparent to the consumer.

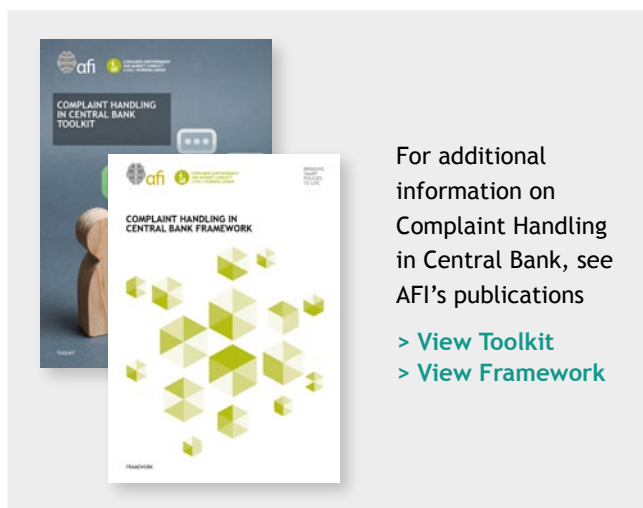
Source: CEMCWG member inputs



### 3.3. COMPLAINTS HANDLING

The inspection of complaints handling should cover:

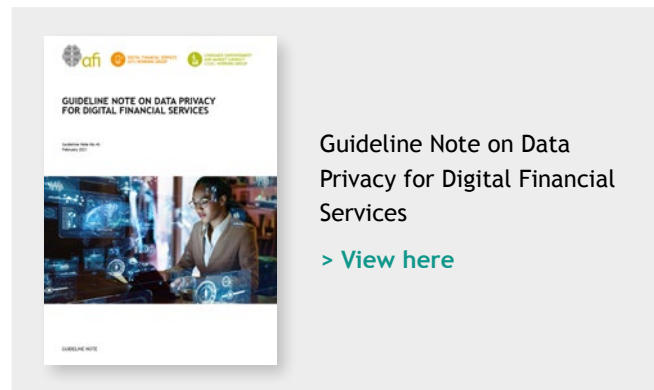
- > Review and evaluation of FSP policies and procedures on complaints handling - for board approval, adoption, and adequacy of the policies
- > Governance structure to evaluate the leadership and tone from the top with respect to consumer protection issues
- > Internal audit and risk management reports on consumer protection issues
- > Consumer contracts
- > Evaluation of both the understanding and adoption by FSP employees
- > Institutional arrangements covering the approaches to complaints handling
- > The complaints handling life cycle to resolutions, including governance structures
- > Review of the complaints handled (complaints register)
- > Review of the FSP website and social media regarding complaints made on social media platforms
- > Disclosure requirements in terms of complaints handling
- > Review management reports, audit reports, and board packs (board)
- > Root cause analysis of persistent complaints



### 3.4. DATA PRIVACY AND PROTECTION

The personal information of consumers should be kept confidential and secure and should not be used or shared with third parties without the consumer's consent. Inspections should cover:

- > Corporate governance arrangements (board and senior management oversight)
- > Policies and procedures on consumer data privacy
- > Types and usage of data
- > Data privacy risk management reports
- > Register of data breaches and procedures for handling data breaches
- > Accuracy and reliability of the data collected
- > Data storage and back-up arrangements



### 3.5. CORPORATE GOVERNANCE

Incorporating strategic and governance components is crucial to more accurately reflect consumer protection matters within the strategic goals of the FSP, board and senior management oversight, internal controls, and policies and procedures, among others, contributing to a more robust framework of corporate governance.

### 3.6. ADDITIONAL PARAMETERS

Additional parameters can be taken into account, including but not limited to:

- > Suitability of financial products and services
- > Addressing issues of professional ethics and standards in the concepts above
- > Responsible business conduct
- > Protection of financial consumer assets against fraud and misuse

## 4. SUPERVISORY PROCESS

The MCS process should be comprised of the following, which build on the experience and best practices of AFI member institutions' MCS frameworks, strategies, and processes:

- > **Market/FSPs monitoring**
- > **Pre-Planning:** pre-inspection procedures, which include data analyses, review of reports, and identification of key risks.
- > **Onsite inspections**
- > **Offsite inspections**
- > **Reporting and monitoring:** follow-up activities to monitor corrective actions. MC supervision is an ongoing process; the follow-up activities feed back to pre-inspection procedures and the process repeats.
- > **Enforcement:** including the communication of conclusions and necessary corrective measures or sanctions.

It is important to note that regulators do not necessarily need to follow the above process in a single, unique order. For example, depending on the context of the country and jurisdiction, an offsite inspection can take place after the onsite inspection, and vice versa. Likewise, while member institutions of the AFI network are transitioning to risk-based supervision approaches, both risk-based and compliance-based approaches can be used individually or jointly. Refer to Annex 1 for different examples of the MCS processes of AFI member institutions.

### MARKET CONDUCT SUPERVISION PROCESS

A detailed program includes, at a minimum, the FSPs to be reviewed and the objectives and scope of each review based on the FSP's risk profile, the timing, resource allocation, and supervisory tools to be used in each assessment. The type, depth, and frequency of activities undertaken should correspond to the level of risk of each FSP. Such planning should also apply to thematic, market-wide reviews and market monitoring. FSAs can develop the Master Supervision Program either at the end of the previous year or the beginning of each year for the upcoming twelve months, and this program may require adjustments or reviews during the year.

### ONSITE INSPECTION

Onsite inspections<sup>14</sup> are supervisory activities conducted within the headquarters of FSPs, facilities (e.g. branches) or intermediaries (e.g. agents). As with offsite inspections, onsite supervisory activities should be planned as part of the supervisory process and be risk-based. Ideally, most supervisory activities should be initiated with market and institution level monitoring, using a risk-based approach to identify the activities to be undertaken offsite and onsite. Several initial procedures should be carried out offsite, and onsite activities should be planned based on the improved risk assessment, covering whatever would not be feasible to address using offsite techniques.

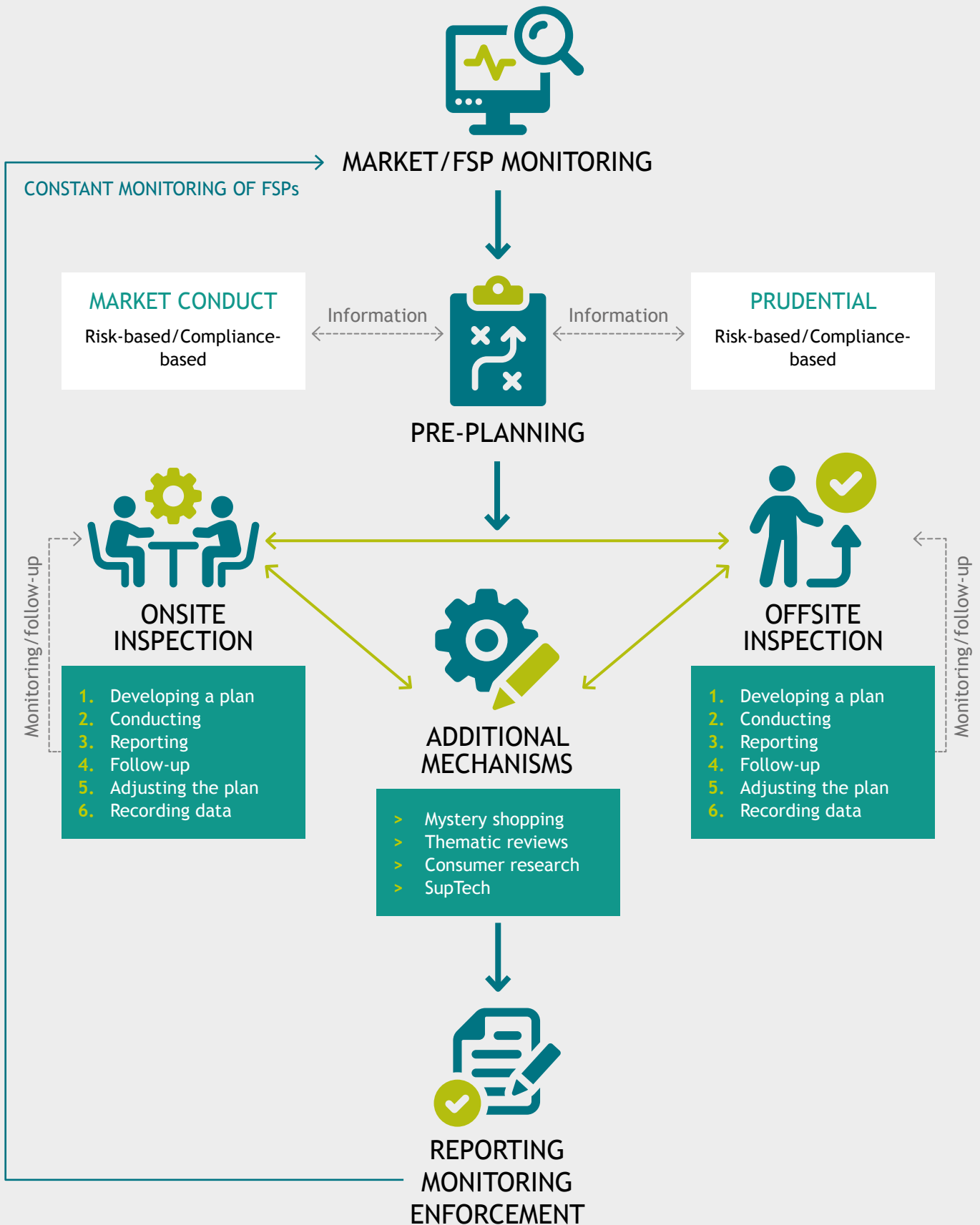
#### COUNTRY EXAMPLE - RWANDA

In the case of Rwanda, market conduct during onsite inspections include the following key risks:

- > **Strategic and Governance risk:** This includes embedding market conduct aspects in the strategic tools of the business, such as strategic plans, business plans, budgets, policies and procedures, etc. It also addresses board and management oversight, internal controls related to market conduct, how the FSP empowers consumers, how the FSP tracks consumer satisfaction, how consumers are involved in product designs, the training of staff and representatives in market conduct areas, especially fair treatment of consumers, and more.
- > **Transparency and Disclosure:** This area covers a number of issues, including the publication of tariffs and the service charter, languages used in consumer documents, font size and spacing, account statements, consumer notifications, communications, key fact statements, explanations, and other disclosures made to consumers.
- > **Fair Treatment of Consumers and Responsible Business Conduct:** The NBR looks at fair pricing, fair recovery, fair advertisements, responsible lending, protection of consumer assets, customer care and service delivery, unfair business practices, whistleblowing on matters related to corruption, unfair treatment of consumers, and other injustices to consumers.
- > **Data Protection and Privacy:** The NBR examines compliance with data protection and privacy laws and regulations.

<sup>14</sup> N.B. the term "inspection" is used in this toolkit, but other similar terms might be used in the documents of specific institutions (e.g. inspection, examination, supervision, review, surveillance, etc.).

# MARKET CONDUCT SUPERVISION PROCESS



- > **Complaints Handling:** The NBR assesses transparency and fairness in complaints handling, including facilities for lodging and analyzing grievances, a complaints acknowledgement process, consumer notifications, response timelines, response quality, escalation procedures, tracking consumer satisfaction, management reports on the root causes of complaints and mitigation measures, etc. Furthermore, the NBR established an online complaints handling platform called INTUMWA Chatbot.

Additionally, the NBR rates institutions based on the above-mentioned risks considering inherent risk, quality of management systems, net risk, and the direction of risk. The NBR further determines if the composite risk is high, medium, or low, and whether this risk will increase, remain stable, or decrease in the future.

Notably, the NBR is adopting innovative technology to conduct onsite inspections called “TeamMate”.

Source: CEMCWG member inputs and <https://www.bnr.rw/>



## OFFSITE INSPECTION

Offsite inspections comprise any type of supervisory inspection conducted without necessarily visiting the FSP physically and which can be undertaken remotely. These are important techniques to help supervisors in efficiently allocating resources, saving supervisory resources for onsite visits to address higher risk providers and issues, as onsite activities tend to be more resource-intensive than offsite inspections.

The flow of the offsite review starts by gathering market conduct data from FSPs. This data is analyzed and used to update the risk rating and the institution’s profile. The results of the offsite analysis are utilized to determine the following:

- > The riskier institutions and the areas posing the highest risk that require the attention of the supervisory authority.
- > The frequency of onsite inspections depending on the identified risks.
- > The sanctions levied against the institution depending on the level of non-compliance.
- > Whether the institution should be summoned for a meeting with the supervisory authority to discuss the identified issues.

- > The issuance of periodic reports or advice to superiors, the government, and other international organizations.

### COUNTRY EXAMPLE - MALAWI

The Reserve Bank of Malawi’s offsite monitoring covers:

#### Quarterly complaints returns:

- > Financial institutions are required by law to submit complaints returns on a quarterly basis for analysis.
- > Systematic issues are communicated to institutions for resolution.
- > The planning of onsite examinations are guided by any system-related issues or concerns.

#### Annual submission of product fees, charges, and commissions:

- > Regulated financial institutions submit their fees and charges on an annual basis for the RBM’s review and approval before implementation.
- > If pricing is seen as being exploitive, institutions are directed to reduce or remove the charge or fee.

Source: CEMCWG member inputs



### COUNTRY EXAMPLE - RWANDA

In the case of Rwanda, offsite analysis is conducted using the reports submitted to the central bank on a quarterly basis. Some of the reporting templates used in gathering data include:

- > complaints handling
- > reports on errors committed on customer accounts
- > reports on fraud committed on customer accounts
- > reports on corruption cases affecting consumers
- > reports on over indebtedness
- > tariffs (also uploaded in the web comparator)
- > self-assessment report on compliance with FS consumer protection laws and regulations

Additionally, it is important to note that the NBR utilizes an electronic data warehouse (EDWH) when submitting and analyzing offsite reports.

Source: CEMCWG member inputs and <https://www.bnr.rw/>



## 4.1. MARKET MONITORING

The supervisory process starts with regular supervision planning, comprising the prioritization of FSPs and issues for the upcoming period, along with the rationale behind the selection of supervisory activities, based on both the monitoring activities and feedback received from the entire supervisory process.



### 4.1.1. MARKET MONITORING

Monitoring can either be done through:

- > **Quantitative analysis:** analysis of regulatory reports, complaints data, and phone survey data.
- > **Qualitative analysis:**<sup>15</sup> industry engagement, mystery shopping, analysis of social media data, analysis of consumer contracts and advertising.

### 4.1.2. CONSTANT MONITORING OF FSPs

Market conduct supervisors must maintain constant contact with the responsible personnel of the FSP regarding onsite supervision and analyses, telephone conversations, email correspondence, organizing meetings, if necessary, and sending requests and official letters.

During offsite inspections, market conduct supervisors should request information from FSPs on the responsible officers who are directly authorized to provide all of the necessary information and facilitate resolutions of any issues. Market conduct supervisors determine the list of responsible persons presented by the FSP for further interactions.

## 4.2. PRE-INSPECTION PLANNING

The market conduct inspection cycle begins by developing an understanding of the institution's unique characteristics or risk profile and preparing an institutional profile that tracks its market conduct behavior.



An institution or group of institutions should be allocated to a specific market conduct supervisor to facilitate a thorough understanding of the institution and the development of an appropriate institutional profile. This profile highlights an institution's structure and activities, products and services, complaints handling processes, redress mechanisms, functional business lines, nature and level of risk, outstanding past supervisory findings, and future prospects.

### 4.2.1. PRE-INSPECTION PLANNING

Pre-inspection planning involves market conduct supervisors gathering information from both internal and external sources:

- > **Non-exhaustive examples of internal sources:**
  - Data regularly reported to the supervisor and offsite reports
  - Information used to undertake the latest risk assessment
  - Preview inspection reports and supporting documents
  - Licensing information (including fit and proper information on management)
  - Any relevant previous correspondence
  - Complaints received against the institution
  - Previous enforcement actions
  - Data from other departments or units within the authority
- > **Non-exhaustive examples of external sources:**
  - Media coverage related to the institution
  - Internet and social media
  - Complaints received (reports from both FSPs and external parties, such as a financial ombudsman, if applicable)

<sup>15</sup> Qualitative market monitoring objectives: Through consumer issues - analysis of social media data and consumer contracts). Gain a deeper understanding of sales and marketing issues - already identified through thematic reviews and analysis of complaints data.



- Advertisements
- FSPs websites
- Data shared from other authorities (regulators and supervisors)
- Database shared with and available to supervisor

Information gathered by the supervisor is used to create an institutional profile which offers a concise portrait of an institution's structure and business activities that should allow examiners to understand the scope of activities that give rise to conduct risk. It encompasses the present condition of the financial institution, its current and potential conduct risks, and emphasizes key issues and supervisory findings.

The profile must be updated at the conclusion of an examination, and subsequently during ongoing supervision, as part of the risk assessment and scoping process of an examination. This will ensure the inclusion of matters of supervisory significance that occur throughout the supervisory cycle.

#### 4.2.2. INFORMATION ANALYSIS

The information obtained from various sources is analyzed to evaluate the market conduct impact of the institution and facilitate the efficient allocation of supervisory resources. This analysis will inform the supervisory plan, tools, activities, resources required, and timelines.

#### 4.2.3. INFORMATION SOURCE

Information is derived from both market conduct activities (risk-based and compliance-based) and from prudential activities (risk-based and compliance-based). AFI members should develop internal procedures, processes, and timeframes for requesting information from FSPs and the internal units of regulatory authorities. MCS supervisors should have access to information (documents, explanations, supervisory reports, databases, etc.) held by prudential supervisors and other units of the regulatory authority which are necessary for offsite supervision.

#### 4.2.4. RESOURCES

High impact institutions will require more resources and frequent monitoring due to their potential impact on the financial services sector and economy as a whole.

#### 4.2.5. PRELIMINARY ANALYSIS - OFFSITE INSPECTION

Preliminary analysis of the available information and risk assessment include:

- > gathering information about the FSP (from internal and external sources), including its systemic rating and risk matrix (if any);
- > conducting an FSP risk assessment. Is the FSP systemic (if there is such an assessment)? Which components or aspects of the CP for this FSP are significant, based on the available information?
- > comparing the results with the annual Supervision Program. Are there any additional risks that should be analyzed during the year in relation to this CP?
- > formulating a conclusion and general understanding of what tasks should be solved in a given supervisory year with respect to each FSP, the risks to be studied, and determining which challenges and risks should be addressed through offsite supervision or onsite inspections (if any);
- > determining the FSP's internal control report.

#### 4.2.6. PRELIMINARY ANALYSIS - ONSITE INSPECTION

At this stage, the supervisor conducts a preliminary analysis of the available information and risk assessment to be assessed through an onsite inspection, including:

- > gathering information about the FSP from internal and external sources, including its systemic rating and risk matrix, if any. The offsite inspection recommendations are especially important (possible sources of information are listed below). If necessary, the supervisor may request additional information from the FSP;
- > conducting information analysis and a risk assessment of the FSP;
- > comparing the results with the annual surveillance program (are there any additional risks that should be analyzed during the year through onsite inspections?);
- > formulating a conclusion and general understanding that identifies the inspection's tasks and the risks (components or directions of the FCP) to be studied onsite.

## 4.3. ONSITE INSPECTION

This section describes the specifics of the onsite inspection process. The information presented in this part of the toolkit should be considered in conjunction with other sections.



### 4.3.1. FUNDAMENTALS OF AN ONSITE INSPECTION

Onsite inspections can be conducted following offsite inspections<sup>17</sup> to allow the supervisor to:

- > verify the information collected and analyzed during the offsite inspection (review);
- > collect additional information and evidence;
- > study in more detail the processes, procedures, internal controls, systems, and organizational management.

Onsite inspections provide a comprehensive view of an organization's consumer risk profile and the readiness and commitment of senior management and the board to maintain high standards of business conduct. These inspections should cover headquarters, a sample of branches and agents (where relevant), and customer-facing channel partners.

### 4.3.2. PURPOSE OF AN ONSITE INSPECTION

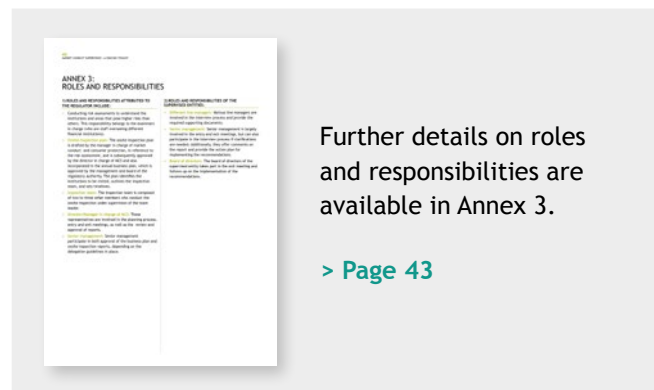
An onsite inspection provides a targeted review of the market conduct of FSPs with objectives that include:

- > identifying and assessing the level, nature, and characteristics of inherent risks in the FSP's activities, which may impact the protection of consumer rights;
- > assessing the level of internal controls and governance to mitigate FCP risks;
- > evaluating the compliance of FSPs with financial consumer protection requirements and principles specified in laws and regulations, and taking actions to ensure compliance;
- > reviewing actions taken in response to a supervisor's requirements and recommendations;
- > determining the reliability of an FSP's regulatory reporting (e.g. complaints data).

### 4.3.3. ROLES AND RESPONSIBILITIES

During onsite inspections, roles and responsibilities are classified into two categories:

1. Roles and responsibilities attributed to the regulator.
2. Roles and responsibilities attributed to the supervised institution.



Further details on roles and responsibilities are available in Annex 3.

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### 4.3.4. TYPES OF ONSITE INSPECTIONS

Onsite inspections aim to uncover and validate information and facts that cannot be addressed remotely. Information gaps that need to be collected onsite can be identified based on offsite inspections. The types of onsite inspections include:

- > **Full scope onsite inspections:** These cover all risks related to market conduct, including strategy and governance, transparency, fair treatment of consumers, responsible business conduct, data protection and privacy, complaints handling, etc.
- > **Targeted onsite inspection:** Depending on the risk assessment conducted through offsite inspections, these inspections focus on institutions that pose greater risks, as well as more riskier aspects. Targeted onsite inspections are conducted over a shorter timeframe compared to full scope onsite inspections.
- > **Surprise onsite inspection:** These are conducted without informing the supervised entity in order to investigate matters that are confidential.
- > **Thematic reviews:** These inspections focus on specific risks across the sub-sector.

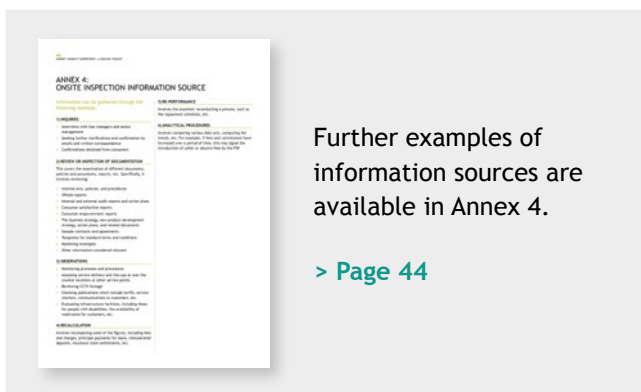
<sup>17</sup> Depending on the context of the country and jurisdiction, an offsite inspection can take place after the onsite inspection, and vice versa.

### 4.3.5. INFORMATION SOURCES

Onsite inspections primarily serve to verify, discuss and follow up on findings and pending issues from offsite analyses. Examples of onsite inspection procedures include:

- > Observing the daily routines of staff at branches and agents, notably the interactions between consumers and sales staff (sales, marketing) and branch staff (sales, contract signing).
- > Reviewing disclosure materials in the main sales channels (e.g. branches, agents).
- > Interviewing relevant sales and branch staff, internal auditors, and senior management.
- > Interviewing board members, if necessary, to highlight important findings and weaknesses, and seeking further clarifications.
- > Conducting walkthroughs and verifications.

Information can be gathered through inquiries, documentation reviews and inspections, observations, recalculations, re-performance, and analytical procedures.



Further examples of information sources are available in Annex 4.

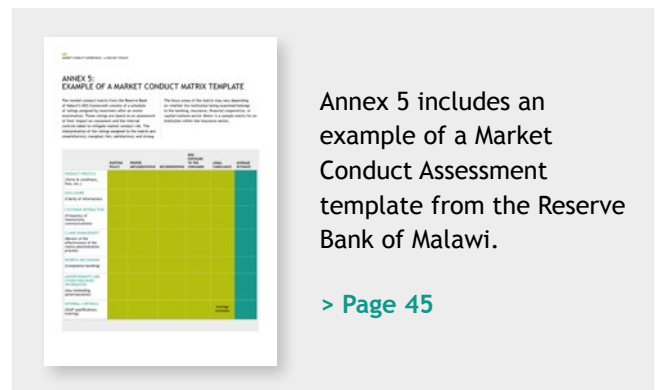
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### 4.3.6. RISK-BASED INSPECTION

The main objective of onsite risk-based inspections is to ensure compliance with existing laws and verify information obtained during offsite surveillance. The frequency, scope, and intensity of onsite inspections are guided by the market conduct institutional risk profile and level of market conduct impact. Inspections may focus on areas such as complaints handling processes and redress mechanisms, culture and business practices in terms of equitable and fair treatment of clients, and data privacy and transparency.

For risk-based inspections, a risk assessment is conducted to identify the major risks of the entities, management controls in place, net risk, as well as the direction of risk in the future. During this assessment, the composite risk is determined and assessed for

its level (high, medium, or low) and whether it will increase, remain stable, or decrease in the future.



Annex 5 includes an example of a Market Conduct Assessment template from the Reserve Bank of Malawi.

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### 4.3.7. SCOPE

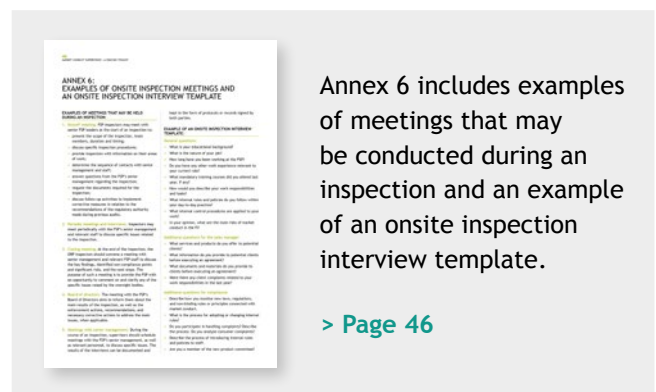
The scope of onsite inspections depend on the country's FCP framework. For countries without such a framework in place, the main components of FCP can include:

- > Transparency and disclosure
- > Fair treatment of consumers

The above components are just examples and each country can develop additional components based on their FCP framework.

### 4.3.8. MEETINGS AND INTERVIEWS



Inspectors should create a list of people or positions with whom meetings and interviews should be held based on a preliminary analysis, needs, and availability of resources. The following are possible and common types of meetings and interviews.








Annex 6 includes examples of meetings that may be conducted during an inspection and an example of an onsite inspection interview template.

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## 4.3.9. ONSITE INSPECTION PROCESS

CONCEPT	DESCRIPTION
<p><b>STEP 1: PLANNING AND DEVELOPING A SUPERVISION PLAN</b></p> 	<p>Based on the preliminary analysis from market and FSP monitoring, the employee develops the inspection plan, including:</p> <ul style="list-style-type: none"> <li>&gt; a brief review of the preliminary analysis and conclusion;</li> <li>&gt; tasks of the onsite inspection (for example, a study of the internal control component and implementation of internal acts on “Transparency and disclosure”);</li> <li>&gt; risks to be examined during the inspection;</li> <li>&gt; timing of the inspection;</li> <li>&gt; scope of the inspection;</li> <li>&gt; sample size and sampling techniques;</li> <li>&gt; inspection procedures to be utilized;</li> <li>&gt; resources needed (number of working hours, personnel);</li> <li>&gt; interview guidelines or questionnaires - preparing questionnaires or interview guides for use during the inspection, covering the main aspects to be addressed by the supervisory authorities.</li> </ul>
<p><b>STEP 2: CONDUCTING AN ONSITE INSPECTION</b></p> 	<p><b>Conducting onsite inspections according to the inspection plan includes:</b></p> <ul style="list-style-type: none"> <li>&gt; advance notice - sending an official message to the FSP notifying them of the upcoming supervisory action;</li> <li>&gt; collection of information - gathering information during the inspection through interviews, observations, and inquiries;</li> <li>&gt; documentation - during inspections, employees record the results obtained in a structured and formal manner (according to the protocol);</li> <li>&gt; analysis, evaluation, conclusions, and recommendations - analyzing the collected information, assessing the FSP’s situation, drawing conclusions, and formulating recommendations and instructions (compiling and updating the risk matrix if applicable);</li> <li>&gt; supporting documentation and evidence - storing all information (files, documents, reports, FSP responses to requests, etc.) in a separate electronic folder, in a structured form. This information can be used as evidence of a supervisory action.</li> </ul> <p><b>During the onsite inspection:</b></p> <ul style="list-style-type: none"> <li>&gt; each member of the team will be assigned some tasks to complete;</li> <li>&gt; daily progress reports from each team member should be submitted to the leader for review and inputs;</li> <li>&gt; daily findings of team members should be documented in a reporting format to facilitate the reporting process;</li> <li>&gt; each member of the team should gather evidence to present to the team leader daily (evidence can include photocopies, system screenshots, and emails written by staff, managers, or directors of the FSP, signed representations from staff, managers or directors, evidence from customers or external stakeholders, reports, photos, records, videos, etc.);</li> <li>&gt; after two days, the team leader should hold a short meeting with team members to assess the developments and progress;</li> <li>&gt; the team leader should visit with team members in a timely manner to appreciate the developments and progress made;</li> <li>&gt; A meeting should be called if a team member discovers an issue that requires the team leader’s attention.</li> </ul>
<p><b>STEP 3: DRAFT REPORT AND MANAGEMENT COMMENTS</b></p> 	<p>A draft report is compiled as the onsite inspection is conducted. After the inspection, the draft report is submitted to management for comments before the exit meeting.</p>

CONCEPT	DESCRIPTION
<p><b>STEP 4: EXIT MEETING</b></p> 	<p>The exit meeting is attended by senior officials of the regulator (Director or Manager), senior management, and the board of the supervised entity. They brainstorm the inspection findings and determine the way forward before finalizing the report.</p>
<p><b>STEP 5: FINAL REPORTING</b></p> 	<p>Following the exit meeting, the final report is compiled and approved. It is then submitted to the supervised entity through official communications with the main conclusions and recommendations for the CSF, if applicable. For more details on reporting, refer to the Reporting section of this guide.</p>
<p><b>STEP 6: FOLLOW-UP</b></p> 	<p>Upon receiving the final report, the supervised entity drafts an action plan for implementation, outlining clear timelines and assigning responsible individuals for each task. This plan is then submitted to the regulator.</p> <p>The regulator regularly monitors the implementation progress, usually on a quarterly basis, and uses the results to update the institutional profile.</p> <p>An employee monitors the measures taken by the FSP in accordance with the recommendations reflected in the Inspection Report and enforcement documents. The subsequent implementation of corrective actions and recommendations is a key component of effective supervision. Following the application of enforcement measures (hard, soft, or both), supervisors must oversee the FSP's timely implementation of corrective actions to address the root causes of the problems, based on the recommendations of the regulatory authority and the agreed-upon action plan. Follow-up activities can be carried out by requesting information from the FSP and applying offsite methods, as well as through targeted onsite inspections, if necessary. All subsequent procedures, such as remote monitoring and targeted onsite inspections, must be documented and retained.</p>
<p><b>STEP 7: ADJUSTING THE SUPERVISION PLAN (IF NECESSARY)</b></p> 	<p>Based on the results of the onsite supervision and follow-up, it may be necessary to adjust the annual oversight program and the onsite supervision plan.</p>
<p><b>STEP 8: RECORDING DATA</b></p> 	<p>An employee maintains records of all data collected during the inspection.</p>

#### COUNTRY EXAMPLE: VANUATU

In addition to the information provided in Step 2: Conducting an onsite inspection in the above table, the prudential supervision onsite examination process of the Reserve Bank of Vanuatu (RBV) also includes a Prudential Consultation (PC). This involves sending an agenda to the targeted financial institution's management, requesting that updates be presented on the first day of the onsite examination. Following the consultation, the RBV team proceeds with a review of the files. During the course of the onsite examination, the team interviews operational staff members (in the absence of their superiors) and performs 'walk throughs', observing loan and deposit processes to gain a firsthand understanding of how staff members perform their duties and see them using the system up-close. When compiling their findings, the RBV team will produce a 'PC Minutes' and an 'Onsite Examination Report'. This process will also be applied to the RBV's market conduct supervision onsite inspection process when adopted.



## 4.4. OFFSITE INSPECTION

This section describes the features of the offsite supervision process. The information presented in this part of the toolkit should be considered in conjunction with other sections of this toolkit.



### 4.4.1. FUNDAMENTALS OF AN OFFSITE INSPECTION

Offsite inspections are conducted through the analysis of documents and other sources of information without visiting the FSP. The market conduct supervisor performs offsite inspections by requesting and analyzing information remotely, such as promotional materials, terms and conditions, extracts, internal acts (policies), contract templates, and complaints data.

### 4.4.2. PURPOSE OF AN OFFSITE INSPECTION

The purpose of an offsite inspection is to:

- > Identify key risks and potential harm to consumers;
- > Assess the FSP's level of compliance with the requirements and principles established in the current regulations, and take measures to ensure continued compliance.
- > Investigate the underlying reasons of non-compliance, evaluate changes, and take action to eliminate risks.
- > Plan for upcoming onsite inspections.

### 4.4.3. ROLES AND RESPONSIBILITIES

Roles and responsibilities during offsite inspections are classified into two categories:

#### 1. Roles and responsibilities attributed to the regulator

- > **Examiner in charge:** Collects data from the regulated institution, validates and analyzes them to generate an offsite report indicating the updated risk rating;
- > **Manager and Director Market Conduct:** Approves the offsite report and formulates key recommendations that go to the supervised entity.

- > The examiner in charge then frequently follows up on the implementation of the recommendations.

#### 2. Roles and responsibilities attributed to the supervised institution

- > **Responsible for market conduct:** Staff provide the data required during the offsite review.
- > **Senior management:** Involved in implementing the recommendations of the offsite analysis.

#### COUNTRY EXAMPLE - MALAWI AND TANZANIA

**In Malawi**, the primary responsibility for offsite surveillance lies with the Examiner. The Principal Examiner holds the secondary responsibility, and the Chief Examiner reviews the report. Finally, the Director ensures the analysis aligns with the RBM's regulations and takes appropriate action as needed.

**In Tanzania**, relationship officers assess a range of institutions based on risk-based assessments given the high number of FSPs. They prepare reports, which are then reviewed by an assistant manager as a quality assurance step. The manager for consumer protection reviews the reports and recommends their submission to the Financial Stability Committee for action.

Source: CEMCWG member inputs



### 4.4.4. RISK RATING

The risk rating covers key risk indicators in market conduct, including transparency, fair treatment of consumers, data protection, and complaints handling, among others. The risk is then rated as high, medium, or low.

### 4.4.5. TYPES OF OFFSITE INSPECTIONS

The types of offsite inspections include:

- 1) **Offsite review based on the submitted data of institutions:** This involves, for example, complaints reports, incident reports, fraud reports, etc. The collected data is analyzed to determine the institution's improved risk rating.
- 2) **Market monitoring:** This type of assessment of the institution's risks relies on publicly available information, including social media complaints and inquiries, surveys, advertisements, publications on websites, meeting with institutions, consumer protection studies and benchmarks, etc.

#### 4.4.6. INFORMATION SOURCES

Examples of sources of information (the supervisor is not limited to using other legal sources of information) include:

1. **Information published by the FSP on all channels** - TV, radio, websites, social networks, billboards, and printed materials.
2. **Primary information stored with the supervisory or regulatory body** - reports collected from the FSP, reports from the prudential supervision unit, information on enforcement measures, and institutional reviews and other information (documents, files, etc.) stored with the supervisory or regulatory body or in the electronic repository of the dedicated unit of CP supervision.
3. **Data on complaints** - both within the supervisory or regulatory body(ies) and requested from the FSP and alternative dispute resolution bodies.
4. **Data on supervisory activities** - registered in the supervisory register of the dedicated unit of CP supervision.
5. **Other documents and procedures** - information, clarifications and documents from the FSP upon request, minutes of meetings with relevant officials or senior leaders of the FSP, telephone interviews, etc.

##### COUNTRY EXAMPLE - RWANDA

The National Bank of Rwanda (NBR) conducts offsite analysis using reports submitted to the National Bank on a quarterly basis. Some of the reporting templates used in gathering data include:

- > Complaints handling
- > Reports on errors committed on customer accounts
- > Reports on fraud committed on customer accounts
- > Incident reports
- > Reports on corruption cases affecting consumers
- > Reports on over indebtedness
- > Tariffs (also uploaded in the web comparator)
- > Self-assessment report on compliance with FS consumer protection laws and regulations

Additionally, it is important to note that the NBR uses an electronic data warehouse (EDWH) when submitting and analyzing offsite reports.

Source: CEMCWG member inputs









#### 4.4.7. PRINCIPLES

Risk-based supervision is implemented according to the following rules and principles:

- > Supervisory activities carried out during the consideration of applications not only yield tangible results in the form of restored violated rights of specific applicants (for example, adjusted credit histories, funds returned to the applicant, corrected data on the bonus-malus coefficient, etc.), but also address any identified systemic problems in the activities of financial institutions.
- > When receiving complaints from consumers, the inspector conducts offsite supervision by examining the essence of the complaint and sends a corresponding request to the FSP to request the necessary information.
- > The request is made in writing, can be sent by email or an official letter, containing a list of documents and information necessary for verification and analysis to identify violations or shortcomings.
- > When exercising offsite supervision, the inspector, if needed, may request information from other structural units on FSP data, reports on targeted and comprehensive inspections, statistical data, information on FSP officials, etc.
- > The inspector may also seek advice and clarifications from other structural units of the supervisory body(ies), when necessary, to obtain a well-informed response and clarifications on any identified violations and inconsistencies with CP legislation and regulations of the regulatory body(ies).
- > In the course of offsite supervision, the inspector may consult, receive clarifications, and transfer the information received for collegial discussions with other structural divisions of the supervisory body.
- > Take corrective actions in case of violations.

The scope of the offsite inspection covers the analysis of various data in accordance with the FCP framework in place. This data may include complaints handling data, incident reports, self-assessment reports, etc. The analysis of the submitted data considers any risks that affect consumers and draws appropriate recommendations to be implemented by the supervised entity.

## 4.4.8. OFFSITE INSPECTION PROCESS

CONCEPT		DESCRIPTION
<b>STEP 1: PLANNING AND DEVELOPING A SUPERVISION PLAN</b>		<p>An offsite inspection plan is prepared for an individual FSP for the period based on the results of the preliminary review (cf. pre-planning phase). The plan includes detailed information, such as:</p> <ul style="list-style-type: none"> <li>&gt; a brief review of the preliminary analysis and conclusion;</li> <li>&gt; tasks in relation to this CP for the supervisory period (for example, a complete diagnosis of the CP through offsite supervision and onsite inspections, compilation of the risk matrix; another example, studying the transparency and disclosure component of the CP and updating the risk matrix);</li> <li>&gt; scope of the analysis;</li> <li>&gt; risks to be studied for the supervisory period through offsite supervision;</li> <li>&gt; timing and frequency of offsite supervision;</li> <li>&gt; resources required (number of working hours).</li> </ul>
<b>STEP 2: CONDUCTING AN ONSITE INSPECTION:</b>		<ol style="list-style-type: none"> <li>1. <b>Collection of information</b> - collects information or data needed to address the objectives and risks (possible sources of information are listed below).</li> <li>2. <b>Analysis, evaluation, conclusions, and recommendations</b> - analyzes the collected information, assesses the situation in the FSP, draws conclusions, and builds recommendation; compiles or updates the risk matrix; recommendations can include, for example, conducting additional onsite inspections to assess internal controls, performing mystery shopping to assess oral communication with customers, or implementing enforcement measures, etc.</li> <li>3. <b>Supporting documentation and evidence</b> - the employee organizes all primary information (files, documents, reports, responses of FSP to requests, etc.) in a separate electronic folder in a structured form. This information can be used as evidence of a supervisory action.</li> <li>4. The analysis conducted through offsite analysis also helps in updating the institutional profiles.</li> </ol>
<b>STEP 3: REPORTING</b>		An employee prepares an offsite supervision report based on the results of the offsite supervision, highlighting the key findings and recommendations, if applicable.
<b>STEP 4: FOLLOW-UP</b>		Measures taken by the FSP are measured, in accordance with the recommendations in the offsite supervision report and enforcement documents. Follow-up activities may require further supervisory measures, such as remote monitoring and targeted onsite inspections.
<b>STEP 5: ADJUSTING THE SUPERVISION PLAN (IF NECESSARY)</b>		Adjustments to the offsite supervision plan may be necessary based on the results of the offsite supervision and follow-up.
<b>STEP 6: RECORDING DATA</b>		<b>Data storage:</b> An employee securely stores the information and data relating to the offsite supervision.

## COUNTRY EXAMPLE - SIERRA LEONE

In the Bank of Sierra Leone's MCS Manual, sample tools for the offsite supervision process include, but are not limited to:

- > creditworthiness assessments;
- > product suitability, appropriateness, and affordability tests;
- > risk-based monitoring and impact testing;
- > management information systems, supervisory technology (SupTech);
- > regulatory technology (RegTech).



## 5. ADDITIONAL SUPERVISORY MECHANISMS

Some additional mechanisms can be used during the supervisory process, including but not limited to mystery shopping, thematic reviews, consumer research, product reviews, and SupTech tools.



### 5.1. MYSTERY SHOPPING

Mystery shopping<sup>18</sup> involves having the supervisor (or third parties hired for this purpose, including actual consumers) pose as clients or potential clients of financial institutions to check on business practices and regulatory compliance. Potential objectives of mystery shopping include:

- > Gathering information on whether regulatory initiatives have had the intended outcomes and whether FSPs treat their customers fairly.
- > Gaining insights into regulatory compliance.
- > Gaining insights into the impact of regulatory changes.
- > Learning about the knowledge and behavior of sales staff towards different types of consumers.
- > Verifying processes to ensure product suitability.

While mystery shopping is a valuable supervisory tool, it cannot be used as evidence to impose sanctions.

#### COUNTRY EXAMPLE - ARMENIA

Three types of mystery shopping techniques are employed by the Central Bank of Armenia:

1. Mystery visits (onsite mystery shopping in branches and other sales points).
2. Mystery telephone calls.
3. Mystery email requests and website visits.

For each of these types, different tools may be used for information collection:

- > Simple questionnaires.

- > Detailed shopping scenarios, including complete audio and video recordings where legally allowed.

The key to successful mystery shopping is having simple, believable scenarios for the shoppers to follow. In Armenia, the CBA uses mystery shopping to examine the FSP's compliance with a disclosure requirement that cannot be verified by offsite and onsite supervision.

Armenian legislation establishes various requirements regarding the disclosure of information on services provided by FSPs, a significant portion of which is provided to customers through verbal communication. For example, when providing a consumer loan, prior to signing the contract, employees of the financial institution must verbally inform customers about other costs associated with the service, the main risks involved, the customer's obligations, the possibility of receiving account statements in different ways (at the bank's premises, by email or mail, etc.), and so forth. The results of these tools cannot be used for law enforcement under the law, but they can be a useful tool for understanding the situation and discussing it with the FSP.

Source: CEMCWG member inputs



### 5.2. THEMATIC REVIEWS

Thematic reviews - which can be included in both offsite and onsite activities - are cost-effective supervisory activities that are undertaken on a specific topic across several providers, using a risk-based approach. Resulting from the risk assessments, thematic reviews can be planned to address the specific risks identified in the financial sector that could potentially harm or are harming consumers. This involves determining which segments or specific financial institutions should be part of the thematic reviews, which focus on a specific topic,<sup>19</sup> and virtually any topic could be subject to a thematic review, covering either a sector or a sample of it (e.g. large banks, non-bank consumer lenders, and mobile money providers).

<sup>18</sup> Mystery shopping may be combined with a series of onsite visits to obtain information about a particular practice or may be combined with targeted onsite visits concentrating on particular aspects of a firm's business. This is done more often ahead of onsite visits to provide material for discussion during interviews, and sometimes done post-onsite visits to verify the information provided.

<sup>19</sup> For example, the increased non-performing loan ratio, together with other information known to the supervisor, suggest changes in lending practices - and the supervisor wants to figure out what actually happened (relaxed underwriting policy, predatory lending). The supervisor then needs to request an explanation, detailed statistics, and customer files from multiple financial institutions identified based on the previous analysis (e.g. the highest NPL ratio). Preparation and planning is crucial in both cases, not only in the case of the thematic review.

### 5.3. CONSUMER RESEARCH



Consumer research (demand and supply-side surveys), a prerogative of offsite inspection, is a way of gathering qualitative and quantitative information directly from consumers to inform financial consumer protection policies, supervision approaches, and planning. The collected information can relate to the financial services that consumers use, how they choose them, the problems they face, and their perceptions, which provides insights into what is and is not working in the financial market. However, it is still viewed as a limited approach used by policymakers due to a lack of capacity and expertise.

#### COUNTRY EXAMPLE - ARMENIA

In Armenia, the potential types of consumer research can be quantitative and qualitative:

- > **Consumer group discussions** – an interactive discussion with small groups of individuals, facilitated by a moderator.
- > **Individual in-depth interviews** – one-on-one discussions for deeper exploration of specific topics and experiences.
- > **Quantitative consumer surveys** – broad review of consumer experiences on issues such as complaints by provider or product type.

Source: CEMCWG member inputs



### SEX-DISAGGREGATED DATA AND MCS

Incorporating sex-disaggregated data into MCS is critical to identify instances of conduct that impacts specific segments, such as women or other vulnerable groups of the population. Analysis of sex-disaggregated data can provide significant insights about the discriminatory practices and biases faced by women and minority groups, such as higher interest rates, greater rejection rates for loan applications, and longer complaint resolution times. This data can help identify gaps in access, usage, and the quality of financial products and services, thereby helping in the development of appropriate policies to bridge these gaps.<sup>20</sup>

### 5.4. PRODUCT REVIEWS



Product reviews allow regulators to assess the potential risks posed by request for information (RFI) product designs. For instance, regulators can determine if RFI products are only aimed at increasing revenue at the expense of protecting customer interests. Key indicators may include the level of testing or piloting, bundling characteristics, degree of product dependencies, product complexity, etc.

### 5.5. SUPTECH



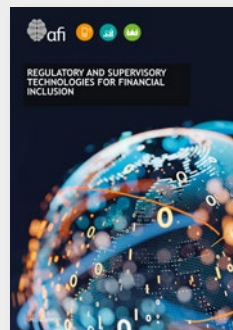
A critical step in transforming financial supervision is improving one of its most important inputs: data. SupTech can help in, for instance, reducing time-to-report, collecting much more granular financial and transactional data without facing undue costs, expanding data utilization beyond institution-reported data, and minimizing or eliminating manual processes in data aggregation and collection.

#### COUNTRY EXAMPLE - GHANA

The Bank of Ghana uses several SupTech and RegTech tools for offsite surveillance activities of DFS, such as:

- > a regulatory sandbox;
- > agent registry;
- > chatbots;
- > vizor (data reporting and analytics portal);
- > a command security operations center (SOC) for the financial sector.

Source: CEMCWG member inputs



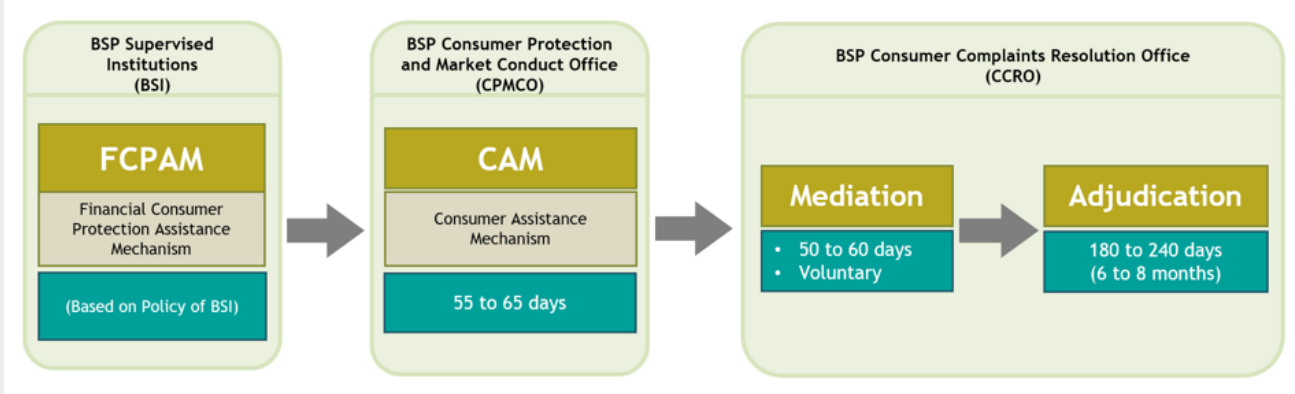
Regulatory and Supervisory Technologies for Financial Inclusion Special Report

> [View here](#)

<sup>20</sup> Please see: <https://www.cgap.org/topics/collections/market-monitoring/further-resources>

## COUNTRY EXAMPLE - THE PHILIPPINES

The consumer redress process flow of the Bangko Sentral ng Pilipinas:



#### BSP Consumer Assistance Mechanism Chatbot Channel:

- > BSP Online Buddy (BOB) is a highly customized, complaints handling chatbot.
- > First deployed in July 2020 amid the COVID-19 pandemic.
- > Powered by machine learning and natural language processing.
- > Can converse in English, Filipino, and TagLish.
- > Accessible anytime using any web connected device.
- > Accessible through the BSP website, Facebook Messenger, or SMS.
- > Able to handle general inquiries about BSP policies or services with a FAQs feature.



Source: CEMCWG member inputs and: <https://www.bsp.gov.ph/Pages/InclusiveFinance/ConsumerAssistanceChannelsChatbot.aspx>



## 6. REPORTING AND MONITORING

Every supervisory activity, including inspections (whether offsite or onsite), should conclude with a supervisory report, which must follow a guided structure to ensure consistency. A template of the report is recommended with the minimum information to be documented by supervisors.



### 6.1. MCS REPORT

The MCS report is a key instrument by which the results of the inspections are presented in writing to the board of directors and board of the FSP. The report, which should contain all significant findings and issues of supervisory concern, will:

- > bring the results of the supervision to the attention of the management of the supervisory body, as well as the management of the FSP;
- > state corrective actions and recommendations, and their rationale;
- > identify areas requiring immediate intervention by the management of the FSP;
- > inform the management of the supervisory body of the main findings and conclusions of the supervision, including any significant issues and actions to be taken, as well as commitments made by the FSP to correct and improve the situation.

The primary purpose of the inspection report is to:

- > prepare the grounds for any necessary enforcement action;
- > document the procedures followed, main findings, recommendations, and follow up activities;
- > communicate the inspection's findings and corrective measures to the board of directors and senior executives of the supervised financial institution.

The table in Annex 7 presents examples of reports to be put together as outcomes of supervisory activities.

> [Page 48](#)

See Annex 8 for an example of the structure of the supervision report.

> [Page 49](#)

### 6.2. CORRECTIVE ACTIONS

Corrective actions can be set out in the report in the form of prescriptions and recommendations:

- > Instructions are mandatory measures that the FSP must undertake to correct shortcomings and violations.
- > A recommendation is a proposed action to correct and improve the situation in the FSP.

### 6.3. INSPECTION REPORT

The inspection report should:

- > be consistent with the objectives and scope of the inspection, the facts revealed, and the conclusions that were brought to the attention of the FSP during the supervision.
- > note the existing significant risks, violations and shortcomings.
- > include requirements for taking action or reaching an agreement to correct deficiencies.
- > be written in a clear and concise manner so that the topics covered in it are accessible and understandable to readers.
- > include a confidential section, which contains information intended only for the management of the supervisory body and which is not sent to the FSP as part of the report.

## 7. ENFORCEMENT

The type and extension of follow-up activities and actions should be determined by the legislative framework in the country. Findings may be used directly for law enforcement in the form of corrective measures or penalties, depending on the legislative framework in the country. Robust evidence should be collected for enforcement actions, otherwise supervisors might be challenged in court by FSPs.



### 7.1. ENFORCEMENT TACTICS

The enforcement tactics actually reflect the goals which the supervisor seeks to achieve and can be combined, representing the main distinction between soft power and hard power:

- > **Informal enforcement:** Only for minor violations and borderline cases.
- > **Restoration:** For instance, consumers may be paid the interest they are entitled to, or they may be compensated for experiencing any mistreatment.
- > **Prevention:** Implement new procedures, improve reporting, and reformulate disclosures.
- > **Punishment (hard power):** Fines, penalties, withdrawing licenses, and deterring others from similar actions.

### 7.2. COMMUNICATION

Communication of priorities plays an important role within the framework of enforcement tactics. The greater the severity of the sanction, the higher the priority it holds.

#### MESSAGES TO COMMUNICATE TO THE INDUSTRY:

- > Breaking the rules does not pay off (link between misconduct and fine)
- > Supervisors are vigilant and consistent (supervisory benchmarks)
- > Remedies and prevention come first, punitive measures last

- > Consumer protection is a shared goal
- > No remedy, no leniency

#### MESSAGES TO COMMUNICATE TO THE PUBLIC:

##### General:

- > Rules are enforced
- > Standards of business conduct, consumers rights, and fair treatment are protected
- > Provision of financial services is overseen and regulated

##### Specific:

- > Warnings about specific misconduct, products, etc.
- > Clarification of consumer rights
- > Guidance on how consumers can assert their rights
- > Explanation of what consumers can expect and require from financial institutions (rights and obligations)

Beware of legal restrictions on publishing corrective measures and sanctions!

When public identification of the sanctioned institution is not allowed:

- > Use anonymized decisions
- > Share regular case studies (e.g. annual)

### 7.3. CORRECTIVE MEASURES

The goal is to formally enforce a specified change in behavior or alter the practices of the institution. The number and types of corrective measures vary widely across countries:

- > Improving internal rules and procedures
- > Implementing a new complaints management system
- > Training staff (sales force, complaints officers, call center staff)
- > Improving disclosure practices (new forms, better manuals)
- > Modifying or withdrawing an advertisement or marketing materials
- > Adjusting sales practices of specific products and services
- > Changing compensation policies (e.g. commission to agents, bonuses to management)
- > In certain cases, mandating refunds or compensation for consumers

#### COUNTRY EXAMPLE - ARMENIA

The CBA uses the following measures during its enforcement actions:

- > **Recommendations:** Suggesting that timely measures be taken.
- > **Warning letter:** A request addressed to the financial institution's board to present a written correction plan within a given timeframe and reports on its implementation (also called a "reprimand letter").
- > **Corrective measures order:** Issued within a given timeframe to address specific issues (violations), rectifying the consequences, guaranteeing compliance (to prevent further violations), and communicating a "clear message" to other market participants - used for more serious issues.

Source: CEMCWG member inputs



### 7.4. MONITORING

The supervisor should closely monitor whether corrective measures are implemented and if their goals are met. The actions taken by the FSPs are monitored in accordance with the recommendations reflected in the report and enforcement documents. Follow-up actions are crucial, otherwise you may inadvertently introduce "a gaming logic," where the FSP, once caught, would pay but then assume the situation is safe for a while.

Follow-up activities may require further oversight activities such as:

- > Offsite supervision
- > Phone interviews with both staff and management of the financial institution
- > Complaints analysis received by the supervisor
- > Onsite supervision
- > Consumer surveys or information from consumers (e.g. call center)
- > Mystery shopping

### 7.5. SANCTIONS

While sanctions are typical in law enforcement in the traditional sense, here they are being referred to in a broader context - and not limited to fines. The number and types of sanctions vary widely across countries:

- > Restriction on approval of new activities
- > Suspension of payments to shareholders
- > Dismissal of a member or members of management
- > Prohibition on engaging in management positions in the financial sector

- > Fines imposed on the financial institution or its management
- > Suspension or revocation of a license or the imposition of new conditions on a license
- > Compensation
- > Liquidation of the financial institution

Fines must be well-defined and calibrated within the regulatory framework so that they reflect the importance of the violated obligation which is being punished (or the protected value) and the gravity of the violation. Sanctions should be formulated to allow for some discretion in their application (e.g. a range, or 'may'). However, internally, there should be a system to impose fines (using discretion) to ensure consistency: a methodology (e.g. sanctions for individual violations or repeated violations, sanctions for violations with individual, limited, or systemic impacts); a database of sanctions, including reasoning (precedents); and training. Fines should be designed to punish and deter, and not for liquidation purposes.

### 7.6. PREVENTION

While applying sanctions, the emphasis should be on prevention at two levels: The micro-level (to discourage the institution from committing further violations) and the macro-level (discouraging others from committing similar violations in the future):

- > Proportional to the gravity of the situation
- > Proportional to the profits from the breach (breaking the rules does not pay off)
- > Proportional to the losses caused to consumers or others

## 4

## CONCLUSION

This toolkit provides practical guidance on how supervisors can monitor and supervise the market conduct practices of FSPs. It is derived from the market conduct laws, regulations, and experiences of AFI member institutions in evaluating the ability of FSPs to effectively identify, monitor, and control market conduct risks arising from their provision of financial services to consumers.

Although some cases may have no legal provisions to ensure compliance with market conduct laws and regulations, the toolkit operates on the assumption that the existence of a legal framework gives market conduct supervisors the mandate to monitor and supervise the market conduct practices of financial service providers.

The frequency, scope, and intensity of market conduct supervisory activities for a specific FSP are guided by the market conduct institutional risk profile and level of market conduct impact. In terms of emphasis and priorities, supervisory actions can focus on the FSP's transparency and disclosure of product terms and conditions, complaints handling processes and redress mechanisms, culture and business practices in terms of equitable and fair treatment of clients, and safeguarding data privacy.

The framework identifies core market conduct monitoring tools that can be used by supervisors. This includes:

### 1. OFFSITE INSPECTION

Comprises a review and analysis of the FSP's documents and other sources of information without visiting the FSP.

The market conduct supervisor performs offsite inspections by requesting and analyzing information remotely, such as promotional materials, terms and conditions, extracts, internal acts (policies), contract templates, complaints data, etc.

The purpose of offsite inspections is to identify the key risks and potential harm to consumers; assess the FSP's compliance with the requirements and principles established in the current regulations, and take measures to ensure their compliance; and investigate the underlying reasons of non-compliance, evaluate their changes, and take action to eliminate the risks.

### 2. ONSITE INSPECTION

These are supervisory activities conducted within the headquarters, branches, or intermediaries (e.g. agents) of FSPs.

Onsite inspections may be carried out after offsite inspections allowing the supervisor to verify the collected and analyzed information (review), gather additional information and evidence, and thoroughly examine the processes, procedures, internal controls, systems, and organizational management.

### 3. MYSTERY SHOPPING

Involves the supervisor or third parties posing as clients or potential clients of financial institutions to evaluate their business practices and regulatory compliance. Mystery shopping aims to gather information on the outcomes of regulatory initiatives and whether FSPs treat their customers fairly, and provides supervisors with insights in the behavior of sales staff towards different types of consumers. However, it is important to note that while mystery shopping is a valuable supervisory tool, it cannot be used as evidence to impose sanctions.

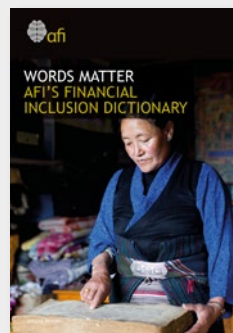


## ABBREVIATIONS

<b>CP</b>	Consumer protection
<b>FCP</b>	Financial consumer protection
<b>FSP</b>	Financial service provider
<b>IDR</b>	Internal dispute resolution
<b>MC</b>	Market conduct
<b>MCS</b>	Market conduct supervision
<b>RBS</b>	Risk-based supervision

## DEFINITIONS

<b>Financial consumers</b>	Any existing or potential user of a financial product or service offered by a regulated financial institution.
<b>Impact</b>	The potential long-term or short-term impact of the failure of a financial services provider on the financial system and economy as a whole.
<b>Consumer protection</b>	The promotion of fair and equal treatment of consumers of financial products and services from financial services providers.
<b>Legal framework</b>	Any existing or future act or regulation that provides supervisors with the mandate to conduct market conduct supervision and any guidelines or directives based on the same laws that the market conduct regulatory authority may issue.
<b>Market conduct</b>	The way a financial institution designs its products and services, manages its relationship with clients and the public, and conducts its business operations.
<b>Prudential supervision</b>	The supervision of financial institution solvency and financial sector stability.
<b>Regulator authority</b>	The regulatory institution that is given the mandate by the laws governing the financial services sector, to regulate, supervise, monitor regulated financial services providers, and to take appropriate supervisory or remedial actions in the event of non-compliance.
<b>Risk-based supervision</b>	Forward-looking market conduct supervision methodology that focuses on evaluating the core issues and potential risks that may arise at financial institutions, and relevant mitigation strategies, not just compliance.



**Words Matter - AFI's Financial Inclusion Dictionary:** The AFI Inclusive Dictionary serves as a guide for AFI staff, members, and stakeholders to understand how AFI interprets and employs various terms and concepts.

[> View here](#)



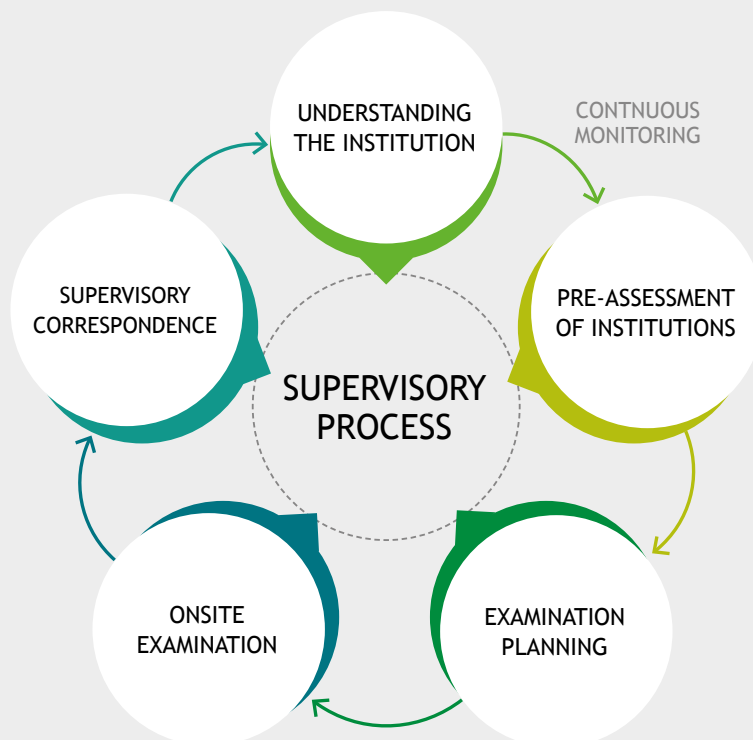
**ANNEX:** The information and templates included in this Annex were developed based on the experiences and existing MCS frameworks of CEMCWG members.

## ANNEX 1: EXAMPLES OF A MARKET CONDUCT RISK-BASED INSPECTION

MARKET CONDUCT RISK-BASED INSPECTION CYCLE - CENTRAL BANK OF ARMENIA



MARKET CONDUCT RISK-BASED INSPECTION CYCLE - CENTRAL BANK OF NIGERIA



## ANNEX 2: EXAMPLE OF A RISK MATRIX

RISK	INHERENT	MANAGEMENT SYSTEMS	NET RISK	DIRECTION OF RISK
1 STRATEGIC OR CORPORATE GOVERNANCE	High	Weak	High	Increasing
2 TRANSPARENCY AND DISCLOSURES	High	Acceptable	High	Increasing
3 FAIR TREATMENT OF CONSUMERS	Medium	Weak	High	Increasing
4 DATA PROTECTION	Low	Strong	Low	Decreasing
5 COMPLAINTS HANDLING	Medium	Acceptable	Medium	Stable
COMPOSITE RISK	High	Weak	High	Increasing

## ANNEX 3: ROLES AND RESPONSIBILITIES

### 1) ROLES AND RESPONSIBILITIES ATTRIBUTED TO THE REGULATOR INCLUDE:

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- > Conducting risk assessments to understand the institutions and areas that pose higher risks than others. This responsibility belongs to the examiners in charge (who are staff overseeing different financial institutions).
- > **Onsite inspection plan:** The onsite inspection plan is drafted by the manager in charge of market conduct and consumer protection, in reference to the risk assessment, and is subsequently approved by the director in charge of MCS and also incorporated in the annual business plan, which is approved by the management and board of the regulatory authority. The plan identifies the institutions to be visited, outlines the inspection team, and sets timelines.
- > **Inspection team:** The inspection team is composed of two to three other members who conduct the onsite inspection under supervision of the team leader.
- > **Director/Manager in charge of MCS:** These representatives are involved in the planning process, entry and exit meetings, as well as the review and approval of reports.
- > **Senior management:** Senior management participate in both approval of the business plan and onsite inspection reports, depending on the delegation guidelines in place.

### 2) ROLES AND RESPONSIBILITIES OF THE SUPERVISED ENTITIES:

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- > **Different line managers:** Various line managers are involved in the interview process and provide the required supporting documents.
- > **Senior management:** Senior management is largely involved in the entry and exit meetings, but can also participate in the interview process if clarifications are needed. Additionally, they offer comments on the report and provide the action plan for implementing the recommendations.
- > **Board of directors:** The board of directors of the supervised entity takes part in the exit meeting and follows up on the implementation of the recommendations.

## ANNEX 4: ONSITE INSPECTION INFORMATION SOURCE

Information can be gathered through the following methods:

### 1) INQUIRIES

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- > Interviews with line managers and senior management
- > Seeking further clarifications and confirmation by emails and written correspondence
- > Confirmations obtained from consumers

### 2) REVIEW OR INSPECTION OF DOCUMENTATION

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This covers the examination of different documents, policies and procedures, reports, etc. Specifically, it involves reviewing:

- > Internal acts, policies, and procedures
- > Offsite reports
- > Internal and external audit reports and action plans.
- > Consumer satisfaction reports
- > Consumer empowerment reports
- > The business strategy, new product development strategy, action plans, and related documents
- > Sample contracts and agreements
- > Templates for standard terms and conditions
- > Marketing strategies
- > Other information considered relevant

### 3) OBSERVATIONS

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- > Monitoring processes and procedures
- > Assessing service delivery and line-ups at over the counter locations or other service points
- > Reviewing CCTV footage
- > Checking publications which include tariffs, service charters, communications to customers, etc.
- > Evaluating infrastructure facilities, including those for people with disabilities, the availability of washrooms for customers, etc.

### 4) RECALCULATION

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Involves recomputing some of the figures, including fees and charges, principal payments for loans, remunerated deposits, insurance claim settlements, etc.

### 5) RE-PERFORMANCE

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Involves the examiner reconducting a process, such as the repayment schedules, etc.

### 6) ANALYTICAL PROCEDURES

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Involves comparing various data sets, computing the trends, etc. For example, if fees and commissions have increased over a period of time, this may signal the introduction of unfair or abusive fees by the FSP.

# ANNEX 5: EXAMPLE OF A MARKET CONDUCT MATRIX TEMPLATE

The market conduct matrix from the Reserve Bank of Malawi’s MCS framework consists of a schedule of ratings assigned by examiners after an onsite examination. These ratings are based on an assessment of their impact on consumers and the internal controls taken to mitigate market conduct risk. The interpretation of the ratings assigned to the matrix are: unsatisfactory; marginal; fair; satisfactory; and strong.

The focus areas of the matrix may vary depending on whether the institution being examined belongs to the banking, insurance, financial cooperative, or capital markets sector. Below is a sample matrix for an institution within the insurance sector.

	EXISTING POLICY	PROPER IMPLEMENTATION	RECORDKEEPING	RISK EXPOSURE TO THE CONSUMER	LEGAL COMPLIANCE	AVERAGE ESTIMATE
<b>PRODUCT PROFILES</b> (Terms & conditions, fees, etc.)						
<b>DISCLOSURE</b> (Clarity of information)						
<b>CUSTOMER INTERACTION</b> (Frequency of interactions, communications)						
<b>CLAIMS MANAGEMENT</b> (Review of the effectiveness of the claims administration process)						
<b>REDRESS MECHANISMS</b> (Complaints handling)						
<b>ADVERTISEMENTS AND OTHER PUBLISHED INFORMATION</b> (Any misleading advertisements)						
<b>INTERNAL CONTROLS</b> (Staff qualifications, training)					Average estimate	

## ANNEX 6: EXAMPLES OF ONSITE INSPECTION MEETINGS AND AN ONSITE INSPECTION INTERVIEW TEMPLATE

### EXAMPLES OF MEETINGS THAT MAY BE HELD DURING AN INSPECTION:

1. **Kickoff meeting.** FSP inspectors may meet with senior FSP leaders at the start of an inspection to:
  - > present the scope of the inspection, team members, duration and timing;
  - > discuss specific inspection procedures;
  - > provide inspectors with information on their areas of work;
  - > determine the sequence of contacts with senior management and staff;
  - > answer questions from the FSP's senior management regarding the inspection;
  - > request the documents required for the inspection;
  - > discuss follow-up activities to implement corrective measures in relation to the recommendations of the regulatory authority made during previous audits.
2. **Periodic meetings and interviews.** Inspectors may meet periodically with the FSP's senior management and relevant staff to discuss specific issues related to the inspection.
3. **Closing meeting.** At the end of the inspection, the ORP inspectors should convene a meeting with senior management and relevant FSP staff to discuss the key findings, identified non-compliance points and significant risks, and the next steps. The purpose of such a meeting is to provide the FSP with an opportunity to comment on and clarify any of the specific issues raised by the oversight bodies.
4. **Board of directors.** The meeting with the FSP's Board of Directors aims to inform them about the main results of the inspection, as well as the enforcement actions, recommendations, and necessary corrective actions to address the main issues, when applicable.
5. **Meetings with senior management:** During the course of an inspection, supervisors should schedule meetings with the FSP's senior management, as well as relevant personnel, to discuss specific issues. The results of the interviews can be documented and

kept in the form of protocols or records signed by both parties.

### EXAMPLE OF AN ONSITE INSPECTION INTERVIEW TEMPLATE:

#### General questions:

- > What is your educational background?
- > What is the nature of your job?
- > How long have you been working at the FSP?
- > Do you have any other work experience relevant to your current role?
- > What mandatory training courses did you attend last year, if any?
- > How would you describe your work responsibilities and tasks?
- > What internal rules and policies do you follow within your day-to-day practice?
- > What internal control procedures are applied to your work?
- > In your opinion, what are the main risks of market conduct in the FI?

#### Additional questions for the sales manager:

- > What services and products do you offer to potential clients?
- > What information do you provide to potential clients before executing an agreement?
- > What documents and materials do you provide to clients before executing an agreement?
- > Were there any client complaints related to your work responsibilities in the last year?

#### Additional questions for compliance:

- > Describe how you monitor new laws, regulations, and non-binding rules or principles connected with market conduct.
- > What is the process for adopting or changing internal rules?
- > Do you participate in handling complaints? Describe the process. Do you analyze consumer complaints?
- > Describe the process of introducing internal rules and policies to staff.
- > Are you a member of the new product committee?

- > Do you participate in drafting new and changing existing contracts and product conditions?
- > Have you adopted any tools to monitor compliance obligations regarding market conduct?
- > What reports do you prepare?

**Questions for the internal auditor:**

- > Questions will usually arise from reviewing the audit report.

**Questions for the marketing manager:**

- > What marketing tools does the institution use?
- > Describe the process of creating an advertisement (TV, radio, media, internet, outdoor, informational bulletin, etc.)
- > Follow-up questions can be asked based on gaps identified in the marketing and advertising policies.

**Questions for the employee responsible for complaints handling:**

- > What are the procedures and rules for receiving complaints?
- > How are complaints recorded and who is responsible for recording them?
- > How are consumers informed about the available methods for complaints handling?
- > What is included in the resolution letter to the consumer?
- > Were any corrective actions taken in response to a complaint that identified a violation of a law or regulation related to business conduct?

## ANNEX 7: TYPE OF MCS REPORTS

REPORT TYPE	TIMEFRAME	COMMUNICATION
<p><b>OFFSITE OR ONSITE SUPERVISION REPORT</b></p> <p>Report reflecting the results of an offsite or onsite inspection of individual FSPs. It aims to document the scope, objectives, procedures, findings, and outcomes of the inspection, to ensure efficient supervision.</p> <p>The offsite or onsite supervision report can include the following components:</p> <ul style="list-style-type: none"> <li>&gt; Information about the FSP</li> <li>&gt; Objective and scope of the inspection</li> <li>&gt; Procedures undertaken during the inspection</li> <li>&gt; Findings</li> <li>&gt; Risk profile matrix of the FSP</li> <li>&gt; Conclusions, outcomes, and recommendations to the FSP to improve and fix root causes</li> </ul>	<p>After offsite or onsite inspection</p>	<p>Coordinated and agreed with stakeholders within the regulatory authority, including the board and senior management</p> <p>The main findings, recommendations and enforcement actions to be communicated with the FSP's senior management (when applicable)</p>
<p><b>MONITORING REPORT</b></p> <p>Report summarizing the results of offsite monitoring - market-wide and FSP-specific. It aims to document analyses on the trends of MC risks and corresponding issues. The report usually includes at a minimum: analyses conducted, markets, products, types of institutions, as well as the main risks and identified issues.</p>	<p>Quarterly, semiannually, annually</p>	<p>Communicated within the regulatory authority, senior management, and board</p> <p>Eventually published, if considered feasible and necessary (without disclosing the names of the FSPs and any sensitive information)</p>
<p><b>THEMATIC REVIEW, CONSUMER RESEARCH</b></p> <p>Report reflecting consumer protection issues on specific topics across the market.</p>	<p>Upon need</p>	<p>Communicated within the regulatory authority, senior management, and board</p> <p>Eventually published, if considered feasible and necessary (without disclosing the names of the FSPs and any sensitive information)</p>



## ANNEX 8: EXAMPLE OF THE STRUCTURE OF A SUPERVISION REPORT

- > Name of the activity and date
- > Financial service provider(s)
- > Background information (providing a rationale for the activity and any risk factors)
- > Regulation(s) that apply to the activity
- > Objectives of the activity
- > Scope of the activity
- > Detailed methodology, procedures, data, documented evidence, and observations
- > Findings
- > Conclusions
- > Proposed next steps (e.g. enforcement actions)
- > Dates and reference numbers
- > Inspected areas
- > Sample sizes, with an explanation describing their selection
- > Information detailing that the inspection outcomes were discussed with representatives of the organization, including their names and positions
- > Reminder of the classified nature of the document
- > Issues identified, along with next steps and corrective measures agreed with the institution

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