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CONSUMER EMPOWERMENT
AND MARKET CONDUCT
(CEMC) WORKING GROUP

IMPACT ASSESSMENT OF FINANCIAL SERVICE PROVIDERS: MARKET CONDUCT RISK-BASED SUPERVISION GUIDELINE NOTE

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GUIDELINE NOTE

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1. INTRODUCTION

Despite recent increased interest in, and examples of market conduct risk-based supervision (MC-RBS) models, there remains a lack of standards and country experiences (at least publicly available). Many financial supervisory authorities (FSAs) in developing and emerging countries are seeking guidance on how to prioritize and conduct supervisory actions more efficiently, due to the limited resources for consumer protection functions.

The impact assessment of financial service providers (FSPs) is one of the main pillars of the MC-RBS framework, which includes assessing and determining an appropriate set of indicators for the impact assessment, calculating and interpreting the impact ratings, and its relationship with the FSP's risk rating and profile as it pertains to the MC-RBS framework. Like prudential supervision, market conduct supervisors also need clear and measurable indicators to assess the impact of FSPs and make effective decisions. In the case of market conduct supervision, having sets of measurable indicators might be challenging. Therefore, financial service authorities mainly rely on the subjective judgments of market conduct supervisors.

In 2016, AFI members from the CEMCWG developed a first guidance document on MC-RBS, the Guideline Note 21: Market Conduct Supervision of Financial Services Providers - A Risk-Based Supervision Framework, which focuses on risk assessments and introduces the concept of the impact assessment of FSPs. While preliminary content is available in AFI's Guideline Note 21, members who developed the document recommended additional research on how to precisely assess the impact of an FSP. This is the focus of the present guidance document.

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

> View here

The purpose of this guideline note is to assist policymakers in developing an impact assessment framework, under the MC-RBS umbrella and the overarching goals of financial consumer protection policy, including:

- Understanding impact assessments as part of the MC-RBS framework - developing indicators, formulating calculations, determining interpretations and relationships with FSPs risk ratings (first pillar of MC-RBS).
- Defining the concept of impact assessments of FSPs under market conduct risk-based supervision.
- Assessing the FSP's systemic importance from the consumer protection perspective.
- Understanding the link between the MC-RBS framework and impact assessment concepts.
- Gaining insights into how to implement the Impact Assessment framework presented here in your own country.
- Understanding how to develop a MC impact assessment framework within FSAs.

The target audience of this guideline encompasses:

- FSAs responsible for consumer protection and market conduct supervision (MCS).
- Policymakers and regulators who design their own MCS frameworks, guidelines, and standards for financial consumer protection.
- Financial service providers.
- Researchers for market conduct supervision.

The importance of FSP impact assessments:

- Complements the work completed by AFI Market Conduct Supervision of Financial Service Providers - A Risk-Based Supervision Framework - Guideline Note No. 21.
- Provides a set of indicators for impact assessment as supervisory tools.
- Provides a guide on its application and interpretation.
- Strengthens MC-RBS for FSAs.
- Assists FSAs in measuring MC risks and making effective decisions.

This guideline could be important for countries or member institutions which:

- Are considering taking on market conduct as part of the supervisory mandate or function.
- Are in the process of developing MC-RBS.
- Already have in place some form of MCS (this guideline will provide a basis whereby a comparative analysis can be conducted).
- Have MC regulations, requirements, or legislation, but a weak supervisory framework.
- Plan to develop a separate MCS framework, but lack MCS capacities.
- Want to strengthen their consumer protection framework.

The following reference publications may be useful:

- AFI Market Conduct Supervision Toolkit (2023)
- AFI Market Conduct Supervision of Financial Service Providers - A Risk-Based Supervision Framework - Guideline Note No. 21 (2016)
- World Bank Guideline Note: An Introduction to Developing a Risk-Based Approach to Financial Consumer Protection Supervision (2022)
- Consultative Group to Assist the Poor: Implementing Consumer Protection in Emerging Markets and Developing Economies - Technical Guidance for Bank Supervisors (2013)
- World Bank Good Practices for Financial Consumer Protection (2017 Edition)
- Laura Brix Newbury and Juan Carlos Izaguirre, Risk-Based Supervision in Low-Capacity Environments: Considerations for Enabling Financial Inclusion (2019)
- Report on the impact and accountability of banking supervision, Basel Committee on Banking Supervision (2015)
- Monetary Authority of Singapore, MAS Framework for Impact and Risk Assessment of Financial Institutions (2007, rev 2023)

AFI Market Conduct Supervision Toolkit (2023)

> View here

SURVEY RESULTS CONDUCTED BY AFI

In 2022, the AFI management unit conducted a survey on MC-RBS frameworks among 41 individual CEMCWG members.

25% From the results, 25 percent of respondents reported having a fully developed MCS Framework in place.

Among them, five have Market Conduct Risk-Based Supervision Frameworks, and four have experience in the impact assessment of FSPs. Members from these institutions - the Central Bank of Armenia, National Bank of Rwanda, Central Bank of Paraguay, and Central Bank of Nigeria - formed a core team for the development of the present guideline note.

2. RISK-BASED SUPERVISION AND IMPACT ASSESSMENT

As with prudential supervision, the MC-RBS framework[1] maps FSPs based on their impacts and risks, allowing scarce supervisory resources to be more efficiently allocated.

Each institution is assessed and assigned two ratings:[2]

1. **Impact rating** - a measure of the potential impact of the significant failure of an FSP's market conduct outcomes 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.
2. **Risk rating** - an assessment of the overall riskiness of an FSP by evaluating 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 adequate to absorb losses in the pursuit and delivery of market conduct outcomes.

AFI's Guideline Note 21: Market Conduct Supervision of Financial Services Providers – A Risk-Based Supervision Framework (2016) introduces these two components and further elaborates on the risk rating dimension. Impact and risk ratings should be periodically updated to reflect any changes in an FSPs impact and risk profile.

While AFI's Guideline Note 21 provides preliminary content on risk assessment, its developers recommended additional research on better assessing an FSP's impact. This forms the core focus of the present guideline note.

2.1. CONCEPT OF AN IMPACT ASSESSMENT

An impact assessment is a key pillar of the MC-RBS framework, empowering supervisors to identify and mitigate risks posed by systemically important FSPs. This enables early intervention, close monitoring, and the efficient allocation of supervisory resources, prioritizing these FSPs over others. In other words, it allows supervisors to classify and filter FSPs for further risk assessment and ratings.

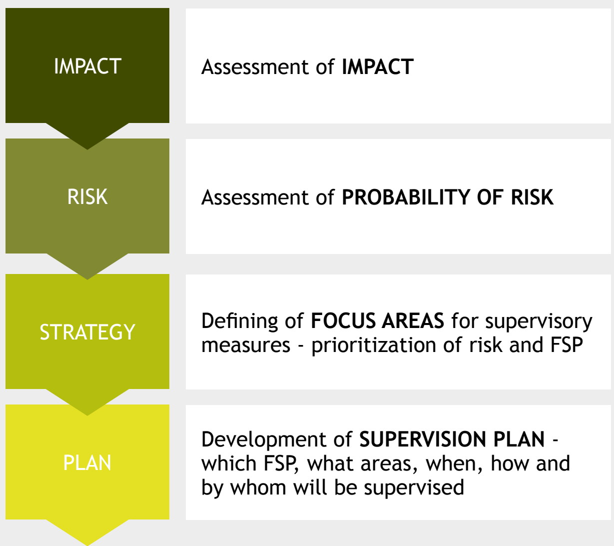
1 See general guiding principles for MCS-RBS in Annex 1.

2 Alliance for Financial Inclusion. 2016. Guideline Note 21: 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

FIGURE 1: SUPERVISORY CATEGORIES OF FSPs

Source: AFI (2016) Guideline Note 21: Market Conduct Supervision of Financial Services Providers - A Risk-Based Supervision Framework

FIGURE 2: RISK-BASED SUPERVISION AND IMPACT ASSESSMENT: THE CENTRAL BANK OF ARMENIA'S FRAMEWORK



Source: Central Bank of Armenia

Impact can be defined as the potential harm an FSP's conduct can cause to consumers and their confidence and trust in a financial market. This is typically assessed by factors including the size of the business and number of consumers.[3] An authority will need to develop a context-specific definition depending on its RBS framework characteristics.[4] The regulator's objective is twofold: 1) enhancing consumer protection from financial losses and other unfair consequences, and 2) reaching overarching goals, such as increased trust, financial access, economic growth, and financial stability in a country.

Despite the existence of the MC-RBS framework, many countries still primarily rely on professional judgments for impact assessments rather than on indicators. The following sections present experiences with the impact assessments of FSPs from the Central Bank of Armenia, Central Bank of Paraguay, National Bank of Rwanda, and Central Bank of Nigeria.

2.2. IMPACT ASSESSMENT IN THE AFI NETWORK

There are several elements that regulators can consider to: 1) assess the need to conduct FSP impact assessments in a country, and 2) develop and implement risk and impact assessment mechanisms. The types and combinations of mechanisms will depend on a country's legal and regulatory framework, the size and maturity of its financial sector, and the products, market players, and other characteristics unique to a particular country or institution.

While the impact assessment may not always be straightforward in certain countries with a lower number of FSPs, the exercise is usually recommended for all jurisdictions, and especially for countries with a higher number and complex types of FSPs.[5] This section presents examples of the MC-RBS framework and impact assessment activities in selected AFI member countries, with the diverse FSP market landscapes presented in Table 1 as reference.

3 For example, if FSPs have a significant market share or provide essential financial services to a large number of consumers, especially low-income and vulnerable segments, this implies that the FSPs have a high impact on the financial inclusion and stability goals of the country. If FSPs offer complex, innovative, or high-risk products or services that may pose challenges for consumer protection and market conduct regulation, this requires the FSAs to adopt a proactive and forward-looking approach to identify and mitigate potential market conduct risk. If FSPs operate in a dynamic and competitive environment that may create incentives or pressures for unfair or irresponsible market practices, this necessitates that FSAs monitor the market conduct of FSPs and promptly and effectively intervene to prevent or address consumer harm

4 World Bank. 2022. Guideline Note: An introduction to Developing a Risk-Based Approach to Financial Consumer Protection Supervision. Available at: https://elibrary.worldbank.org/doi/epdf/10.1596/38419

5 This statement is indicative only (there may be a need for an impact assessment even in small financial systems) and CEMCWG members do not propose an official benchmark here of “low” or “high” numbers of FSPs. Readers may apply their own best judgment based on their country and financial landscape.

TABLE 1: FSPs LANDSCAPE EXAMPLE IN COUNTRIES THAT IMPLEMENT IMPACT ASSESSMENT OF FSPs

ARMENIA	PARAGUAY	RWANDA	NIGERIA
18 Banks	17 Private banks	15 Banks	35 Deposit money banks
41 Credit organizations	1 State banks	458 Microfinance institutions/SACCOs	5 Payment service banks
182 Lombards/pawnshops	6 Financial entities	18 Insurers	756 Microfinance banks
9 Insurance organizations	35 Insurance organizations	48 Non-deposit taking FSPs	94 Finance companies
4 Insurance brokers	69 Insurance brokers	19 Payment service providers	16 Switching and processing license categories
8 Payment organizations	28 Investment companies	78 Forex bureaus	75 Payment solution service providers
20 Investment companies	5 Money transfer organizations		36 Payment terminal services providers
13 Money transfer organizations			47 Super-agents
6 Investment and pension fund managers			8 Card and payment schemes
			17 Mobile money operators
			67 Insurance companies
			437 Investment companies
			22 Pension fund administrations

ARMENIA

Since 2021, the Central Bank of Armenia has centralized consumer protection supervision in the Supervision and Licensing Directorate, where a separate department is responsible for Consumer Protection Supervision. This supervisory approach follows a risk-based supervision approach and focuses on addressing the most important risks posed in the market. This implies that the regime is customized to the characteristics of the regulated market, including the size and profile of FSPs, the customers they have, and the consumer segments they serve. RBS in Armenia includes impact assessments, risk assessments, and is based on the results of supervisory interventions.

The whole process and framework are still in the formation stage and mainly based on the judgements of supervisors. Currently, there are no formal manuals on impact assessments, although the CBA is in the process of developing relevant manuals and guidelines.

Source: Central Bank of Armenia

PARAGUAY

Through a board resolution[6] in 2021, the Central Bank of Paraguay established considerations for consumer protection and market conduct, following a risk-based supervisory approach. The central bank publishes a quarterly report which includes monthly data from entities, with disaggregated data on complaints and queries by geographical area, gender, resolutions in favor of clients or not, and by the product or service offered. Indicators also include the number of customers per FSP, FSP outreach, the number of complaints compared to number of accounts and clients, the number of transactions, the number of incidences reported, and the rate of customer dissatisfaction.

The Central Bank monitors the number and share of consumers in product markets (loans, deposits, etc.), geographical coverage, and gender coverage, emphasizing market power with respect to the product market share, pricing, rates, commissions, and charges by entity. While this data provides an overview of each entity's situation, the entire process is still in the initial stages. The Central Bank does not yet have manuals on impact assessments but is working on the development of such a process together with enhanced data collection.

Source: Central Bank of Paraguay

RWANDA

Since 2021, the National Bank of Rwanda has adopted a Market Risk-Based Supervision framework. The Market Conduct RBS framework focuses on impact assessments through the various indicators, including the number of customers per FSP, FSP outreach, the number of complaints compared to number of accounts, the number of transactions, the number of incidences reported, rate of customer dissatisfaction,[7] abnormal trends, and more.

It is important to note that the National Bank of Rwanda has a central repository system (EDWH) that centralizes prudential, market conduct, financial inclusion, and other data that help in conducting impact assessments.

Source: National Bank of Rwanda

NIGERIA

The Central Bank of Nigeria adopted a Market Risk-Based Supervision framework in 2023 to assess the impact of FSPs. The approach aims to determine the strengths and weaknesses of an institution's risk management practices, provide a basis for developing an institution's risk profile and direction of resource allocation, and support the early identification and resolution of problems at an institution. Nigeria's assessment approach uses an Impact Assessment Template that includes five components: 1) the impact of an institution relative to its peers; 2) the total number of the institution's unresolved complaints; 3) the total number of compliance breaches of the institution; 4) the total number of fines imposed on the institution; and 5) the institution's proportionality and supervisory history score. The impact will be rated using the parameters of High, Elevated, Medium, or Low.

Source: Central Bank of Nigeria

6 RESOLUTION N°2 - Minutes N°25 dated 20 May 2021- Regulatory standard for the management of claims and queries of entities subject to Law No. 861/96 and its modifications.

7 See the results of the financial service consumer satisfaction survey 2021 in the BNR annual report 2021-2022. Available at: https://www.bnr.rw/fileadmin/user_upload/Annual_Report_2021_22_Web_English_Versio.pdf

2.3. CHALLENGES OF AN IMPACT ASSESSMENT

In addition to the common challenges relating to financial consumer protection,[8] members of the CEMCWG identified some specific challenges in applying an effective and efficient impact assessment approach, presented in Table 2.

2.4. PRINCIPLES OF AN ASSESSMENT

This section lists principles that regulators should consider while developing and implementing assessment activities.[9]

1. PROACTIVITY AND DYNAMISM

Regulators should take proactive steps to identify and assess emerging risks that may harm consumers by leveraging data from market monitoring and other information sources to implement appropriate regulatory measures. Supervisors should evaluate systemic risks that have crystalized to ensure that the root causes are identified, monitored, and mitigated to prevent a recurrence.

2. DATA-DRIVEN

Regulators should adopt a data-driven approach for their risk-based consumer protection supervision, leveraging information from a range of sources such as complaints, market intelligence, and monitoring reports. The synthesized data can provide insights into the market conduct of regulated institutions to facilitate effective risk and impact assessments, and supervisory actions.

3. TRANSPARENCY

Regulators should promote transparency through the effective communication of supervisory activities with relevant stakeholders. In addition, supervisors should validate the data submissions from FSPs to ensure accuracy and completeness.

4. TARGETED ACTION

When conducting evaluations, regulators should consider the segment within which the entity operates (product size, type, etc.), the volume of clients that the entity manages, and the outreach.

8 Such as institutional framework challenges (e.g. lack of laws and regulations), supply-side challenges (e.g. lack of regulatory staff, lack of capacity and awareness of staff), demand-side challenges (e.g. lack of awareness of consumers on their rights and responsibilities), etc.

9 These principles - which are here presented in a concise form - follow the ten G20 General Principles on Consumer Protection and are further detailed in other relevant AFI publications on consumer protection and market conduct.

TABLE 2: IMPACT ASSESSMENT – IDENTIFIED CHALLENGES

COUNTRY	CHALLENGES
Absence of formal RBS impact assessment manuals	In this case, the judgment of supervisors plays an important role in assessing impacts, leading to data governance issues. Regulators may collect a vast amount of data from financial institutions, yet the access rate of existing data as part of supervisory function remains low.
Lack of an efficient data collection mechanism	FSPs serve as data providers through a dedicated solution, but there is a lack of a live feed application for the rendition of returns to the regulator. The methodologies of data gathering often depend on basic or partially automated processes, emails, and excel spreadsheets. As a result, data credibility becomes a challenge.
Quality issue of the information received	In line with the reporting challenge, the information received by the regulator may not meet the quality requirements for the impact assessment, and there are limited validation and processing methods along with basic analytical tools. Additionally, inaccuracy in some data collected from FSPs may occur, since most of them place considerable emphasis on prudential returns.
Lack of capacity in consumer protection and market conduct supervision units	There are often not enough people (and not enough trained personnel) assigned to consumer protection and market conduct supervision, not only to conduct impact assessments but also to utilize and act on the results of the respective assessments. Challenges may also arise due to insufficient awareness and capacity.

3. IMPACT ASSESSMENT IN PRACTICE

3.1. COLLECTING DATA AND RISK PROFILES

Countries have different practices in collecting data; thus, it is not possible to define a universal set of indicators applicable to every country. In this regard, two groups of impact assessment indicators are defined to provide countries with flexibility in defining the best set of indicators that align with their specific context.

These groups are:

> **Primary** set of best option indicators for assessing the impact of an FSP based on reliable supervisory reports collected in most countries for prudential or market conduct supervision.

> **Proxy** indicators are defined as alternatives for primary indicators in case the latter cannot be collected. Proxy indicators can also be based on secondary sources of information, for which data may not be verified, making them sometimes unreliable. These indicators provide an indication of possible trends and changes happening with the FSP, prompting a deeper look into the situation.

Data can be qualitative and quantitative, and sources of information for calculating indicators may include prudential reports, requests from financial institutions, public information, surveys, and all other possible reports and sources of information. For example, the Central Bank of Paraguay receives information from entities through the financial communications network and presents it on its website.

3.2. IMPACT FACTORS AND INDICATORS

The impact assessment process mainly consists of three steps:

1. Data collection
2. Assessment of impact indicators according to templates developed by FSAs
3. Impact assessment ratings

Guideline Note 21 developed by CEMCWG members in 2016 highlights five sets of indicators that can be used by the regulator for impact ratings.[10]

Additionally, while developing the present document, members of the CEMCWG subgroup identified the importance of categorizing data around financial consumer complaints into a sixth set of indicators, which supports all the other sets and is added to the initial list as follows:

1. **Consumer coverage:** number and share of consumers in product markets (loans, deposits, assets, etc.), geographical coverage, vulnerable groups involved (farmers, illiterate, etc.), etc.
2. **Nature of products:** technology, innovation, variety, complexity, high impact on the well-being of consumers (mortgages), tied to poor infrastructure and technology, etc.
3. **Market power:** product market share, pricing, substitutability of products and infrastructure, know-how of business and technology, etc.
4. **Intermediation:** scale, model, channels, etc.
5. **Interconnectedness:** impact of the supply chain on other suppliers, product markets, intermediation channels, reputation, etc. A special focus is needed to assess the impact of an FSP that belongs to local or international financial groups.
6. **Complaints and redress [added]:** volume and nature of complaints, reasons for complaints, number of resolved consumers complaints, etc.

Building on all the indicators being used by members of the subgroup, the below Table 3 proposes a non-exhaustive list of indicators to guide the reader in developing their own set, depending on each country's context and needs in terms of the impact assessment of FSPs. A list of proxy indicators is also presented in the following section (Table 4).

10 From the 2022 CEMCWG survey, members organized the above indicators used as part of MC-RBS by their importance in line with their current work in impact assessments of FSPs: 1. Consumer coverage, 2. Market power, 3. Nature of products, 4. Intermediation, and 5. Interconnectedness.

TABLE 3: NON-EXHAUSTIVE LIST OF IMPACT ASSESSMENT INDICATORS

INDICATOR	DETAILS	SOURCE OF INFORMATION
CONSUMER COVERAGE/SCALE OF FSP		
Unique retail clients	Number of unique retail individual clients of an FSP or total number of clients. Unique retail clients include, for example, low-income earners, clients in remote areas, specific groups, such as youth, women, people with disabilities, people with low financial literacy, etc.	> Prudential reports > Requests from FSPs[11] > Public information, > Media > Financial communications network > Market conduct offsite reports > External correspondence folder > Consumer complaints management system > Electronic financial audit sub-system
Transactions by type of products	Number of operations or transactions by type of products. Transactions can be assessed by product, by FSP (deposit-taking institutions, finance and leasing companies, payment service banks, mobile money operators, etc.), by type of customers (vulnerable or not), geographical locations, gender, age, etc.[12]	
Credit	Number of credit and deposits accounts for banks; number of wallet accounts for mobile network operators; number of product subscribers for insurance; number of pension contributors for pension funds.	
Retail consumers	Number of retail consumers or total number of retail consumers; number of retail consumers, or difference in the numbers of retail consumers between two periods.	
Retail services	Total volume of retail services for FSPs or total volume of retail services for the sector. The volume of services should be looked at but also the frequency of transactions. For example, if the customers conduct transactions every 30 minutes and there is a system failure, this will be highly disruptive.	
PRODUCT NATURE/FSP PROFILE		
Comparison	How the products are standard and comparable to other products in the market and within the FSP, the degree of complexity of the products (analytical data).[13]	> Prudential reports > Requests from FSPs > Public information, > Media > Entities by the financial communications network > Onsite and offsite inspection reports > Market monitoring reports > Thematic review reports > Mystery shopping reports > Survey reports > Enforcement reports
Product complexity	The more complex the product, the greater the impact. Complexity is indicative of how easily a consumer can understand the final price of the product offered, the terms of the contract, and compare it with similar products from other suppliers.[14]	
Vulnerability of the target group	This is when a product is aimed (formally or based on the nature of the product) at groups of consumers who, according to FSA policy, are considered vulnerable and subject to protection. The impact is high to the extent that the target group is vulnerable.[15]	

11 Ad-hoc requests by FSAs to FSPs.

12 The number of transactions is very important but also the trends in those transactions should be looked at.

13 If the services or products are different but of the same nature (for example, only payment services or only credit services), then the impact is significant.

14 For example, a deposit may include a lot of "if.... then..." conditions (if six months, then 1%, if 12 months, then 1.3%, after seven months, then a bonus of 1%, etc.). Long-term products are also considered complex, the effects of which may take a significant amount of time for the consumer to discover (for example, if a mortgage product is poorly constructed, the negative consequences of the flawed product may be revealed long after purchase and the damage may be significant). Linked and bundled products are also complex, causing ambiguity regarding price and product fairness. For example, a mortgage loan, in addition to complicated or confusing terms, may also include insurance as a related product. The card and line of credit may be sold as a combined product.

15 For example, an agricultural loan can be rated with high impact if, based on some indicators (importance in government documents, number of complaints, etc.), agriculture is considered a vulnerable or priority area.

TABLE 3: *continued*

INDICATOR	DETAILS	SOURCE OF INFORMATION
PRODUCT NATURE/FSP PROFILE *continued*		
Specificity	Specificity is manifested by other factors (not including the above), which may negatively affect the consumer and the country if the FSP behaves in bad faith. Technology, innovation, fungibility, national relevance, and other factors that can increase the impact of a given product or FSP.[16]	> Prudential reports > Requests from FSPs > Public information, > Media > Entities by the financial communications network > Onsite and offsite inspection reports > Market monitoring reports > Thematic review reports > Mystery shopping reports > Survey reports > Enforcement reports
Sales model and geographical coverage of products	Sales channels and geographical coverage of products shows how widespread the FSP is in regions of the country.[17] The greater the regional prevalence of the FSP, the higher the estimated level of impact.	
Number of incidences reported that affect consumers	This can be captured if the FSP reports frequent incidences, such as transaction failures, system downtime, errors and fraud affecting consumer accounts, corruption and bribe cases, etc.	
Non-compliance incidences	Institutions that exhibit high levels of non-compliance with the existing legal and regulatory framework, such as transparency, fair treatment of consumers, data privacy breaches, failure to respond complaints on time, etc. pose significant risks.	
Frequent enforcement measures taken against the institution	In the event the institution consistently faces enforcement sanctions, it should be considered a high-risk entity.	
Abnormal trends	For example, an increase in some fees or commissions in the FSP's income statement could mean that unfair fees and commissions are being charged; increases in staff bonuses linked to an increase in sales may mean that people are encouraged to engage in prohibitive sales practices.	
MARKET POWER		
Market share in fees revenues	Total fee revenue or total fee revenue for the sector.	> Prudential reports > Requests from FSPs > Public information > Media
Substitutability of the service	Substitutability of the service (other companies providing the same services). Ease of switching (ease with which consumers can switch from one service to another), availability of substitutes (availability of alternative services that can be used in place, price elasticity etc.)	
Price deviation	Deviation of the average retail service price from the market average.	
Competition Index	Share of a particular FSP in a particular product segment, provider concentration.	

16 For example, the product is unique in its purpose for the country, or the FSP is a government agency and performs important functions in which other FSPs do not participate. Examples could be agricultural credit insurance or pension distributions. Alternatively, if this product or FSP is not available, to what extent can other FSPs replace it within a short time?

17 The more complex and varied the sales model, the greater the influence of the FSP on consumer well-being, and the more easily the consumer can fall into the product's trap.

TABLE 3: *continued*

INDICATOR	DETAILS	SOURCE OF INFORMATION
PRODUCT MARKET SHARE		
Consumer credit	Consumer credit amount of FSP/ total amount of consumer credit.	> Prudential reports > Financial inclusion reports
Average deviation	Average deviation of consumer credit price from the market.	
FSP customers	FSP customers/Total customers of the subsector	
Specific product accounts	Specific product accounts/total accounts in the subsector in that product.	
Periodic transactions	Number of periodic transactions/total transactions of that period of the subsector.	
INTERMEDIATION/DISTRIBUTION CHANNELS		
Branches, offices, points of sale	Number of (branches or offices, agents, points of sale) for the FSP/Total number across the country.	> Prudential reports > Requests from FSPs > Public information, > Media > Entities of the financial communications network > Banking division reports
Points of service	Number of points of service (own and outsourced), including banking agents.	
Own points of service	Proportion of own points of service in relation to the total number of points.	
Digital channels	Share of products originating from digital channels.	
INTERCONNECTEDNESS		
Variety of services	Number of different retail services offered or the number of total retail services offered. If the FSP offers a large range of products with different natures, then the impact is high. If the services or products are different but of the same nature (for example, only payment services or only credit services), then the impact is significant.	> Prudential reports > Requests from FSPs > Public information, > Media > Surveys > Market conduct off-site reports
Consumer trust	Percentage of adults who highly trust the financial service (by survey).	
Satisfaction	Percentage satisfied (by survey). The rate of (dis)satisfaction can be collected via a survey and can be shown by the rate of customer accounts becoming dormant, number of customers shifting to other institutions, number of customers not preferring to reapply for a certain service, like loans, etc.	
Fee revenues	Participation of fees in operational revenues or participation of fees in service provision revenues.	
Portability	Number of credit operation portability requests.	
Types of consumers	Demographics, financial literacy level, vulnerability.	

TABLE 3: *continued*

INDICATOR	DETAILS	SOURCE OF INFORMATION
FINANCIAL CONSUMER COMPLAINTS AND REDRESS MECHANISMS		
Number of consumer complaints	Number of complaints versus the number of accounts or number of transactions. Disaggregating complaint data by gender.	> Requests from FSPs > Reports from the Financial System Ombudsman's office > FSA database > Financial entities quarterly emails > Prudential reports > Media > Market conduct offsite reports > Reports from FSPs > Complaint reports from customers
Nature of consumer complaints	Qualitative: monitoring the reasons for the top complaints and assessing the root cause analysis and remedial actions. Quantitative: assessing the rate of complaints in a certain product or of a certain nature versus market norms and the previous performance of the bank.	
Volumes and values of complaints resulting from operational loss	Complaints report from banks, including the amount of compensation and losses that occurred during the period of time.	
Number of complaints resolved	Volume of complaints resolved within [number of days] on the total number of complaints. Volume of complaints breaching the service level agreement (SLA) or the total number of complaints.	

18 The logic of the RBS is that such firms individually will receive less supervisory attention than firms with higher levels of exposure. However, this of course, does not mean that they should not be given attention; consumers are at direct risk of financial or other harm from financial institutions with which they do business, large or small. Small FSPs can also be a collective source of risk in circumstances where several of them may fail at the same time as a result of correlated risks, such as a downturn in the sector to which they are jointly exposed. It is, therefore, necessary to develop constructive and proportionate ways to engage with them.

19 Each FSA can take into account the set of indicators which are more applicable and relevant for them.

3.3. APPLICATION AND CONSIDERATIONS

Following the data collection exercise, impact indicators should be assessed according to the templates developed by the FSAs. Subsequently, an overall impact rating for a given FSP is determined. Figure 3 presents the example of the Central Bank of Armenia's impact assessment process.

The impact rating will form the basis for determining the FSP risk group (e.g. high, medium, low). The supervisor evaluates each indicator (refer to the possible list of indicators in the previous section) through a set of quantitative and qualitative sub-indicators. Each FSP is assigned one of these ratings, and following the impact assessment, all FSPs are assigned one rating (for example: high, medium, low).

FSPs with a high level of impact will then be prioritized for a more in-depth individual risk assessment. In practice, the supervisor will make a judgment about where the cutoff point lies between "systemic" and "other, non-systemic" FSPs. This decision is an important part of the impact determination and reflects, in part, the supervisor's view of their risk tolerance. Nevertheless, supervisors should work with low impact FSPs as well.[18]

In situations where it may not be possible to assess the impact of FSPs (based on resource constraints, for example), urgent supervisory action is necessary, which can be achieved through a proxy assessment of the impact of the FSP. Table 4 provides an approximate breakdown of FSPs by impact level, based on scale and profile indicators.[19] It is important to note that this breakdown does not replace a thorough assessment of the impact of the FSP and can only serve as a backup guide.

WHEN AND HOW OFTEN TO EVALUATE THE IMPACT RATING

1. **First assessment.** The supervisor assesses the impact rating for each FSP. Thus, all FSPs are classified into one impact group (high, medium, or low).[20] A proxy assessment is a fallback option when there is an urgent need to filter the FSP for further assessment of the risk probability, but no way to assess the impact.
2. **Update.** The impact rating is then updated as part of a regular cycle of supervisory reviews (onsite, offsite supervision, and others) as soon as new information about the FSP is received. The update should also occur if the FSA has received complaints and other signals. The impact rating of each FSP (if not updated within three years) is fully updated at regular intervals. Once the database of automatically generated impact indicators is built, the impact rating will be updated more often.

The metrics required to calculate an impact rating are set according to the following principles:

> **Ease of data collection** – in terms of cost and time, it is easy for the supervisor to collect data for impact indicators.

> **Optimal** - indicators should be as few as necessary for an effective impact assessment.

> **Reliability** - source data must be reliable and trustworthy.

> **Timeliness** – data can be collected at least once a year.

> **Consistency** - the same set of indicators should be available and used over time.

As there are many factors, indicators, and sub-indicators, the overall automatic impact rating can be calculated according to the "one indicator is the main indicator" principle.[21] For example:

> **"Scale"** is the main indicator and is first assessed by the supervisor. If, according to the "Scale" indicator, the FSP falls under the "high" rating, then the second indicator cannot be assessed.

> **"Profile"** is the second most important indicator. If the "Scale" rating is low or essential, the supervisor then also evaluates the "Profile" indicator. The overall rating will be the maximum of these two – scale and profile – indicators.

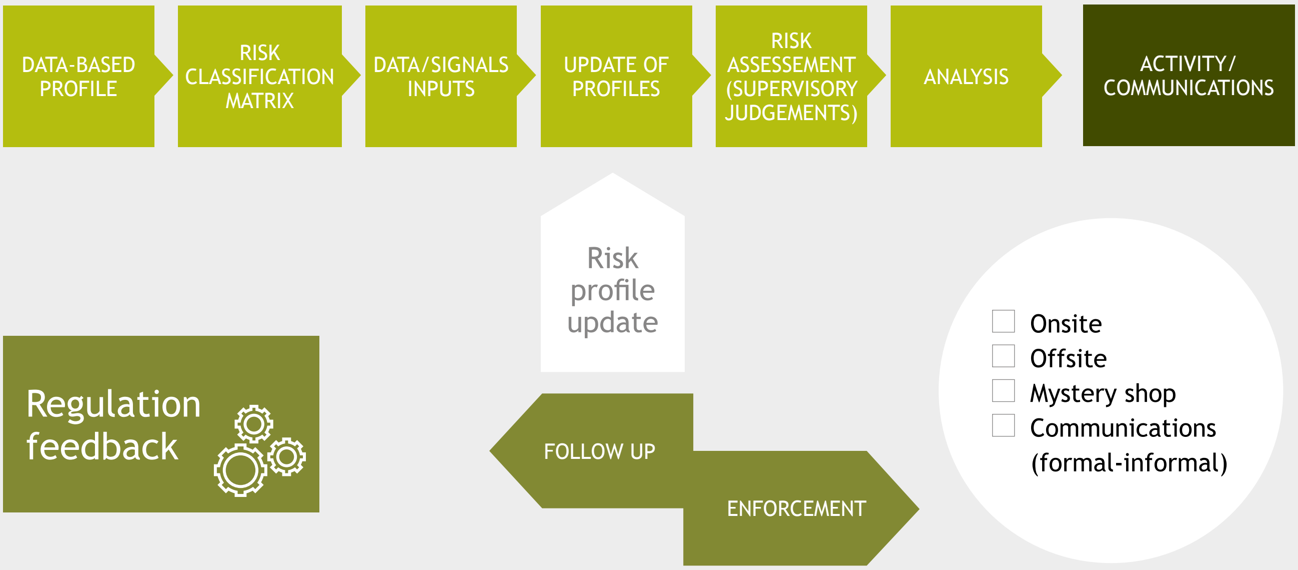
18 The logic of the RBS is that such firms individually will receive less supervisory attention than firms with higher levels of exposure. However, this of course, does not mean that they should not be given attention; consumers are at direct risk of financial or other harm from financial institutions with which they do business, large or small. Small FSPs can also be a collective source of risk in circumstances where several of them may fail at the same time as a result of correlated risks, such as a downturn in the sector to which they are jointly exposed. It is, therefore, necessary to develop constructive and proportionate ways to engage with them.

19 Each FSA can take into account the set of indicators which are more applicable and relevant for them.

20 Indicator values: there should be values of indicators and sub-indicators for three levels (ratings) of impact (high, medium, low). These values are indicative and are intended to assist the supervisor in making judgments, but in no way limit the supervisor's judgment. It is impossible to have the entire spectrum of meanings, since reality can be very diverse.

21 This principle is just an approach and describes the calculation only for two possible indicators. Other principles can be "one main indicator" and "two equal indicators --> take the maximum of them." all indicators are equal.

FIGURE 3: IMPACT ASSESSMENT PROCESS – CENTRAL BANK OF ARMENIA



Source: Central Bank of Armenia

TABLE 4: PROXY IMPACT ASSESSMENT

EXPOSURE/ IMPACT LEVELS	TYPES OF FSPs (EXAMPLE)
1-High	> Retail banks (15 banks) > Deposit non-banking and other non-banking large organizations (12 FSPs, > 1bn in USD assets) > Large payment organizations
2 - Essential	> Medium non-banks (80 FSPs with assets of …bn - ….bn) > Payment institutions
3 - Low	> Small non-banks (240 FSPs with <… bn in USD assets) > Corporate banks

- The Overall Impact Rating is assessed as the maximum of the two impact indicators - Scale and Profile in this case.
- Impact rating adjusted by the supervisor's judgment. This can be accomplished based on certain factors. The adjusted rating is the final and used in supervisory processes.

As part of the risk-based supervision, the impact assessment should be combined with the likelihood of occurrence, or risk assessment, to make it complete.

IMPACT ASSESSMENT EXAMPLE 1: NIGERIA

The Central Bank of Nigeria adopted Impact and Risk Assessment Templates, the first presented in Table 5 and the latter available in Annex 2. Table 6 shows an example of an impact assessment score in Nigeria.

Nigeria's assessment approach using an impact assessment template:

> The impact of an institution relative to its peers will be assessed using proportionality and supervisory history factors.

> Proportionality factors will include considerations such as:

- **Total number of complaints received by the institution** expressed as a percentage of the total number of complaints received in the category
- **Total number of the institution's complaints escalated to the central bank** as a percentage of the total number of escalated complaints in the category.

> The supervisory history, on the other hand, will be determined by its level of compliance in relation to others in the category. Considerations for supervisory history may include:

- **Total number of the institution's unresolved complaints** expressed as a percentage of the total unresolved complaints in the category.
- **Total number of compliance breaches** of the institution expressed as a percentage of the total number of compliance breaches in the category,
- **Total number of fines** imposed on the institution expressed as a percentage of the total in the category.

> The institution's proportionality and supervisory history score will determine its impact within its category. The impact will be rated using the parameters of High, Elevated, Medium, or Low.

TABLE 5: IMPACT ASSESSMENT TEMPLATE – CENTRAL BANK OF NIGERIA

FACTORS	#	CONSIDERATIONS FOR THE RISK PROFILING OF A REGULATED ENTITY WITHIN THE COMMERCIAL BANK CATEGORY	CRITERIA WEIGHT	INSTITUTION SCORE	INSTITUTION WEIGHT	SCORE	INSTITUTION RISK RATING
1. Proportionality	1.1	Total number of the entity's corporate customers expressed as a percentage of the total corporate customers in the category.	5	100%	5	40	15.5
	1.2	Total number of the entity's retail customers expressed as a percentage of the total retail customers in the category.	10	100%	10		
	1.3	Total number of complaints received by the entity expressed as a percentage of the total number of complaints received in the category.	10	2%	0.2		
	1.4	Total number of the entity's complaints escalated to the central bank as a percentage of the total number of escalated complaints in the category.	10	2%	0.2		
	1.5	Total volume of the entity's consumer loans expressed as a percentage of the total consumer loans in the category.	5	2%	0.1		
2. Supervisory History	2.1	Total number of the entity's unresolved complaints expressed as a percentage of the total unresolved complaints in the category.	15	2%	0.3	60	10.35
	2.2	Total number of compliance breaches of the entity expressed as a percentage of the total number of compliance breaches in the category.	15	50%	7.5		
	2.3	Total value of fines imposed on the entity expressed as a percentage of the total in the category.	15	15%	2.25		
	2.4	Total number of fines imposed on the entity expressed as a percentage of the total in the category.	15	2%	0.3		
		Total				**100**	**25.85**

TABLE 6: IMPACT ASSESSMENT SCORE - CENTRAL BANK OF NIGERIA

#	IMPACT ASSESSMENT SCORE	
4	High	>30
3	Elevated	>20 ≤ 30
2	Medium	>10 ≤ 20
1	Low	≤ 10

Source: Central Bank of Nigeria

IMPACT ASSESSMENT EXAMPLE 2: RWANDA

National Bank of Rwanda's MC-RBS framework focuses on impact assessments through the following:

> **Number of customers belonging to the FSP,** mainly focusing on retail customers as they are vulnerable to consumer-related risks.

> **Outreach of the FSP** in terms of its branch network, with a strong emphasis on FSPs that penetrate into rural areas.

> **Number of complaints compared to the number of the FSP's total accounts**, including loan and deposit accounts for banks and MFIs, wallet accounts for MNOs, subscribers on each product for insurance, etc.

> **Number of transactions channeled through the FSP.** Here, supervisory efforts are not focused on the size of the transactions, as in prudential supervision, but rather on the number and frequency of transactions.

> **Number of incidences reported** that affect consumers. For example, if the FSP reports frequent incidences, such as transaction failures, system downtime, errors and fraud affecting consumer accounts, and corruption and bribe cases, etc. These are indicators of an institution that poses a very high risk as far as consumer risks are concerned.

> **Rate of customer dissatisfaction** either through social media, shown by different surveys or channeled through existing central bank platforms, including the INTUMWA Chatbot (complaint handling chatbot), GERERANYA (web comparator), etc. The rate of dissatisfaction is also shown by the rate of customer accounts becoming dormant, the number of customers migrating to other institutions, the number of customers not preferring to reapply for a certain services like loans, etc.

> **Abnormal trends:** for example, an increase in some fees or commissions on the FSP income statement may indicate that the FSP could be charging unfair fees and commissions.

> **Level of other risks,** such as the number of collateral auctions compared to the total number of loans granted, NPL ratios, the frequency of repetitive complaints on a certain product or transaction, the number of unresolved or delayed responses to complaints, identified cases of non-compliance, or the number of repetitive sanctions within a certain FSP.

Table 7 an example of a market conduct impact assessment matrix in Rwanda.

TABLE 7: MARKET CONDUCT IMPACT ASSESSMENT – NATIONAL BANK OF RWANDA

		LIKELIHOOD OF OCCURRENCE (HOW LIKELY IS THE RISK TO OCCUR)			
		Low	Medium/Low	Medium/High	High
IMPACT (HOW MUCH WOULD IT MATTER IF THE RISK CRYSTALIZED)	High				
	Medium/High				
	Medium/Low				
	Low				

Source: National Bank of Rwanda

4. POLICY RECOMMENDATIONS

This section presents policy recommendations from members of the CEMCWG to ensure the efficient development and implementation of impact assessments of FSPs as part of MC-RBS.

ROLE OF THE REGULATOR AND SUPERVISOR

They should have clearly defined roles and responsibilities when conducting impact assessments. A dedicated unit or function should be established, with clear roles and responsibilities. For example, staff may be responsible for collecting and compiling the data, and senior management may be involved in reviewing, confirming, and implementing the recommendations from the analysis.

They should have an impact assessment manual in place. Impact assessments require a separate methodology, collection processes, and data. The manual can also be part of a wider (risk-based) supervision manual.

They should consistently evaluate and calculate the FSPs' rating and problems. Ratings are usually given in the form of a matrix to organize and present information. This form helps to better structure thinking, as well as provide consistent comparisons of different FSPs and prioritizations.

Their judgments should always be considered. No assessment system can fully reflect reality. Even if the regulator or supervisor adopts a fairly formalized impact matrix and rating process, their decisions should not necessarily be fully driven by such ratings. There may be cases where the supervisor is aware of factors, either quantitative or qualitative, that are not reflected in the figures. They will need to continuously exercise professional judgment to adjust and change their supervisory activities having regard for other factors and issues they observe. However, a supervisor's judgment remains essential to complement assessment exercises.

They should be careful not to simply equate significance with size. While size is an important factor, it is not the only one. Activities that are relatively small may pose large risks, both now and in the future. Both the regulator and supervisor should always keep this in mind and make decisions based on supervisory judgments. The areas of focus should not simply be the largest activities, although in practice, size (in terms of the number of consumers at risk and the share of revenue, profits, or premiums as a motivating factor) is an important factor. Selecting risk areas to focus on is itself a risk-based activity because it is inherently selective, such that some activities and areas will be subject to less control than others (or even no control at all).

DATA, INDICATORS, AND TEMPLATES

Impact assessments should be data-driven. The data collected should meet minimum quality requirements, which can be enhanced through automated and coordinated processes. The synthesized data can provide insights into the market conduct of regulated institutions to facilitate effective impact assessments and supervisory actions. Incorporating sex-disaggregated data into MCS is crucial to identify instances of conduct that impacts specific segments, such as women or other vulnerable groups of the population.

The indicators developed should be relevant and feasible. When selecting indicators, the most important consideration is whether they are useful and relevant for domestic policymaking. Regulators and supervisors may start with a smaller set of quality indicators, which are easier to control and implement, before extending to a larger set.

Templates to assess indicators should be developed and implemented. The use of templates can ensure consistency in data collection and aggregation, to assess the impact indicators and their evolution at designated intervals.

CAPACITY BUILDING AND FORWARD-LOOKING

Capacity building should be provided for FSA and FSP staff. Every FSA and FSP should have guidelines in place to deliver and assess the capacity building of staff and representatives in market conduct supervision. Any gaps identified should be a source for developing a short, medium, and long-term capacity building plan in impact assessment, with the entire capacity building process overseen by senior management.

A forward-looking approach is required, considering how the business may evolve over time. A score or assessment should not be static. For example, if a product has just been launched, the numbers will not be able to reveal its significance. But the potential for rapid growth in consumption of a given product (given the nature of the new product) may indicate to the supervisor that this is a significant activity.

Regulatory and Supervisory Technologies for Financial Inclusion

> View here

Innovative tools, including supervisory technology (SupTech)[22] should be considered for the impact assessment of FSPs. The implementation of SupTech can improve the efficiency and effectiveness of the FSA's technological capabilities. This will help the regulator and supervisor in carrying out risk-based supervision, including more efficient and effective impact assessments. This is especially important in gathering the necessary data, together with its analysis and interpretation.[23]

22 See Alliance for Financial Inclusion. 2022. Regulatory and Supervisory Technologies for Financial Inclusion - Special Report. Available at: https://www.afi-global.org/wp-content/uploads/2022/02/RegTech_SupTech_special_report_isbn.pdf

23 For the case of Rwanda, Electronic Datawarehouse was used to gather granular data which helped to measure the different indicators of the impact assessment. The INTUMWA Chatbot was also used to assist in computing indicators related to complaints.

ABBREVIATIONS

CEMCWG	Consumer Empowerment and Market Conduct Working Group
FSA	Financial Supervisory Authority
FSP	Financial Services Provider
MCS	Market Conduct Supervision
MC-RBS	Market Conduct Risk Based Supervision

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ANNEX 1 MCS-RBS GENERAL GUIDING PRINCIPLES

1. **Concept of Risk-Based Supervision:** The framework should be based on the concept of risk-based supervision.
2. **Defining Market Conduct:** The framework should define market conduct and its inherent risks.
3. **Goals and Objectives of MC-RBS:** The framework should have clear goals and objectives for market conduct risk-based supervision.
4. **Risk Assessment:** The framework should include a risk assessment process that identifies significant activities, inherent risks of market conduct, and internal controls.
5. **Impact Assessment:** The framework should include an impact assessment process that assesses the impact of market conduct risks on consumers and the market.
6. **Supervisory Strategy:** The framework should include a supervisory strategy that outlines how the regulator will address identified risks.
7. **Concluding Remarks and Next Steps:** The framework should include concluding remarks and next steps for the regulator.

ANNEX 2
NIGERIA – RISK ASSESSMENT TEMPLATE (RAT)

RISK ASSESSMENT TEMPLATE FOR REGULATED INSTITUTIONS

SIGNIFICANT ACTIVITIES	RISK AREA	RISK DESCRIPTION - KEY RISK METRICS/ INHERENT RISK	LIKELIHOOD (1 - 4)	IMPACT (1 - 4)	RISK SCORE	CONTROL DESCRIPTION	BANK'S CONTROL ASSESSMENT	**RESIDUAL RISK	TREATMENT PLAN	IMPLEMENTATION DATE	IMPLEMENTATION STATUS
Loans	Fees and Charges	Application of fees that are not in line with the regulation on bank charges	Highly Likely	Moderate	8		Acceptable	3.6			
Cards	Product Development	Products are deployed without the necessary testing and approvals	Likely	Low	3		Needs Improvement	2.1			
Marketing & Sales	Advertisement	Product costs are bundled in a way that may obscure relative costs	Low Likely	Above Average	6		Weak	5.7			
Account Management	Complaints Management	Consumer complaints are not acknowledged within 24 hours	Not Likely	Above Average	3		Needs Improvement	2.1			
Funds transfer	Complaint Resolution	Insufficient or inadequate communication with complainants	Likely	High	12		Strong	2.4			
Deposit	Fixed Deposit	Customers experience low returns as compared to other investment options	Low Likely	Moderate	4		Weak	3.8			

RISK ASSESSMENT TEMPLATE FOR REGULATED INSTITUTIONS

Control Assessment	Strong	4	Controls are fully effective and provide a high level of assurance that risks are managed.
	Acceptable	3	Controls are adequate and functioning effectively, with minor areas for improvement that can be addressed through routine maintenance or monitoring.
	Needs Improvement	2	Controls are present but have some deficiencies, which may result in increased risk exposure. Improvement is necessary to strengthen controls and reduce risks to an acceptable level.
	Weak	1	Controls are ineffective, non-existent, or grossly inadequate, posing a high level of risk to consumers. Significant improvements are required to address the deficiencies.

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