

# The AFI Market Conduct Supervision Toolkit



CONSUMER EMPOWERMENT  
AND MARKET CONDUCT  
(CEMC) WORKING GROUP



- This toolkit is a product of the Consumer Empowerment and Market Conduct Working Group (CEMCWG).
- 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 :
  1. Develop a **tool or framework** that can serve as a template to support AFI members developing MCS manuals in their own jurisdictions.
  2. Provide **support and guidance** to members who can refer to the toolkit and adapt it to their own jurisdictions and policy landscapes.

Link: <https://www.afi-global.org/publications/market-conduct-supervision-a-toolkit/>

# CEMCWG market conduct supervision tools

**Market Conduct Supervision** → overarching publication on market conduct supervision, including a template for **market conduct supervision process**

**Market Conduct Risk-Based Supervision** → goals and objectives of **Risk-Based** MCS, focus on **risk assessment** and introduction of impact assessment

**Impact Assessment of FSPs** → complements the MC-RBS guideline and focuses on **impact assessment**



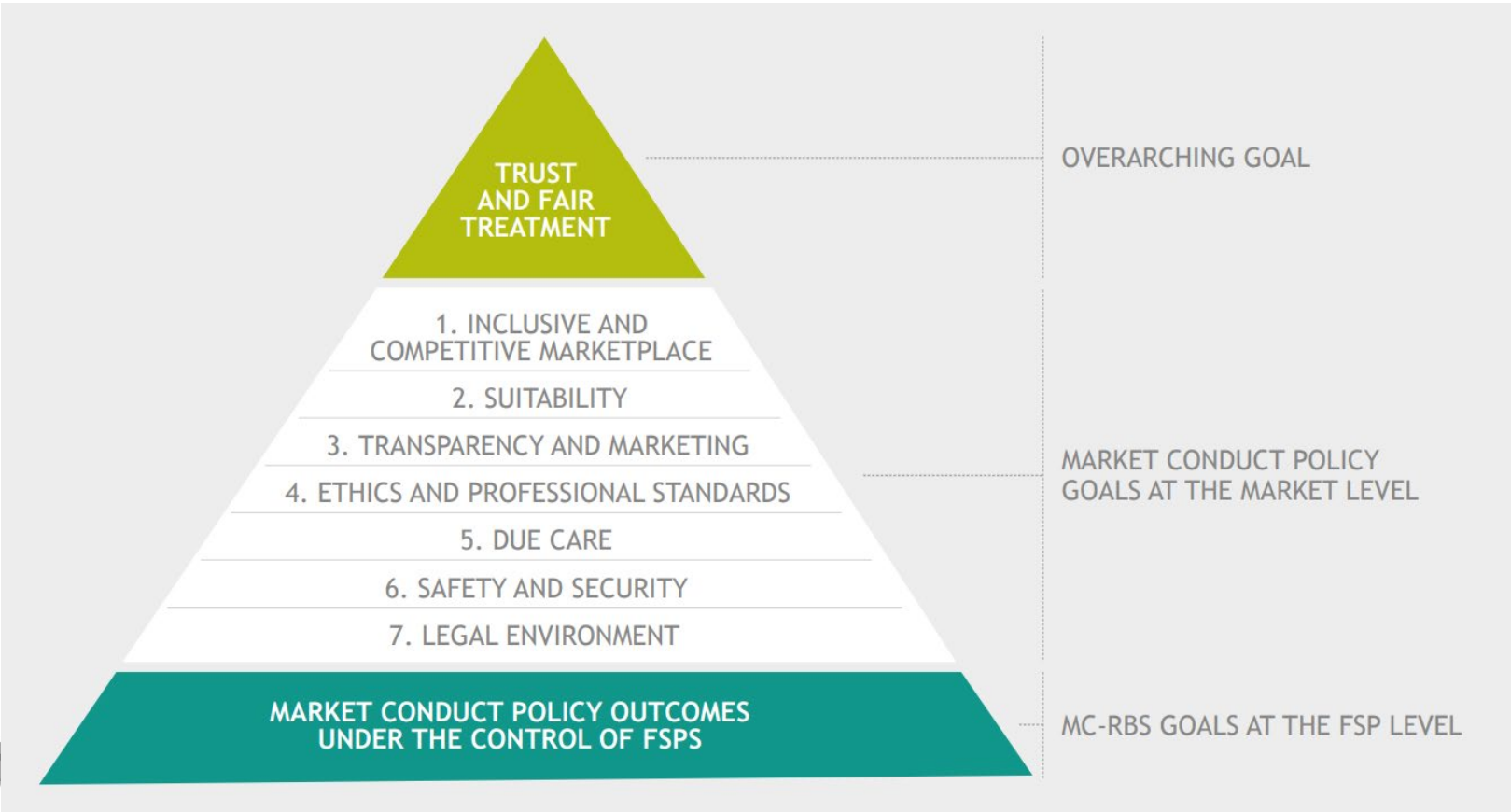
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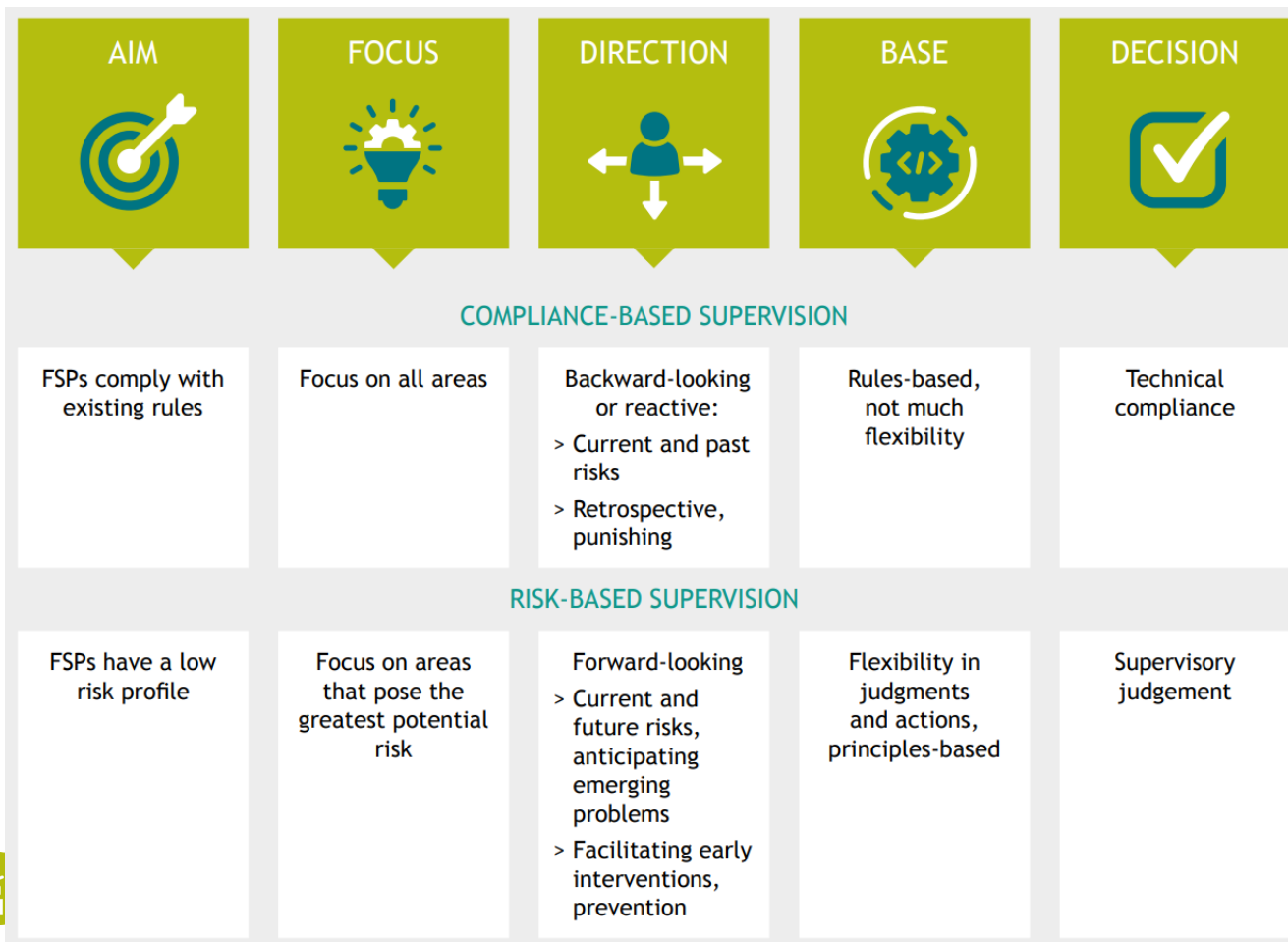
# Prudential Supervision vs Market Conduct Supervision



# Overarching Goals of Market Conduct Supervision



# Market Conduct Compliance-Based vs Risk-Based Supervision



# Key Concepts of Market Conduct Supervision

FAIR OUTCOME FOR CONSUMERS AND FINANCIAL MARKETS



FOCUS ON CULTURE AND GOVERNANCE



PROPORTIONAL AND PRE-EMPTIVE



OBJECTIVE SUPERVISORY JUDGEMENT



TRANSPARENT AND STAKEHOLDER ENGAGEMENT



INFORMATION-DRIVEN





# STEP BY STEP MARKET CONDUCT SUPERVISION PROCESS



# 1. Institutional framework

<b>The legal framework</b>	<ul style="list-style-type: none"><li>• Efficient laws and regulations on consumer protection and market conduct</li><li>• Authority responsible for MCS should derive its mandate from laws and regulations</li></ul>
<b>Institutional arrangements</b>	<ul style="list-style-type: none"><li>• Single (integrated) agency model</li><li>• Multiple sectorial (integrated) agency model</li><li>• Dedicated financial consumer protection authority model (twin peaks)</li><li>• General consumer protection authority model</li></ul>
<b>Risk assessment</b>	<ul style="list-style-type: none"><li>• 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.</li></ul>
<b>Impact assessment</b>	<ul style="list-style-type: none"><li>• 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.</li></ul>
<b>Market conduct supervisory strategy</b>	<ul style="list-style-type: none"><li>• An MCS strategy communicates supervisory priorities and plans for a designated period.</li><li>• It should cover market monitoring, pre-inspection procedures, examinations using onsite and offsite tools and techniques, enforcement, and follow-up activities.</li></ul>



# 2. Approach to market conduct supervision

- a. Objectives of market conduct supervision
- b. Compliance-based and risk-based market conduct supervision
- c. Key principles
- d. Type of supervised institutions
  - > 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



### 3. Main market conduct supervision parameters

 Equitable and fair treatment

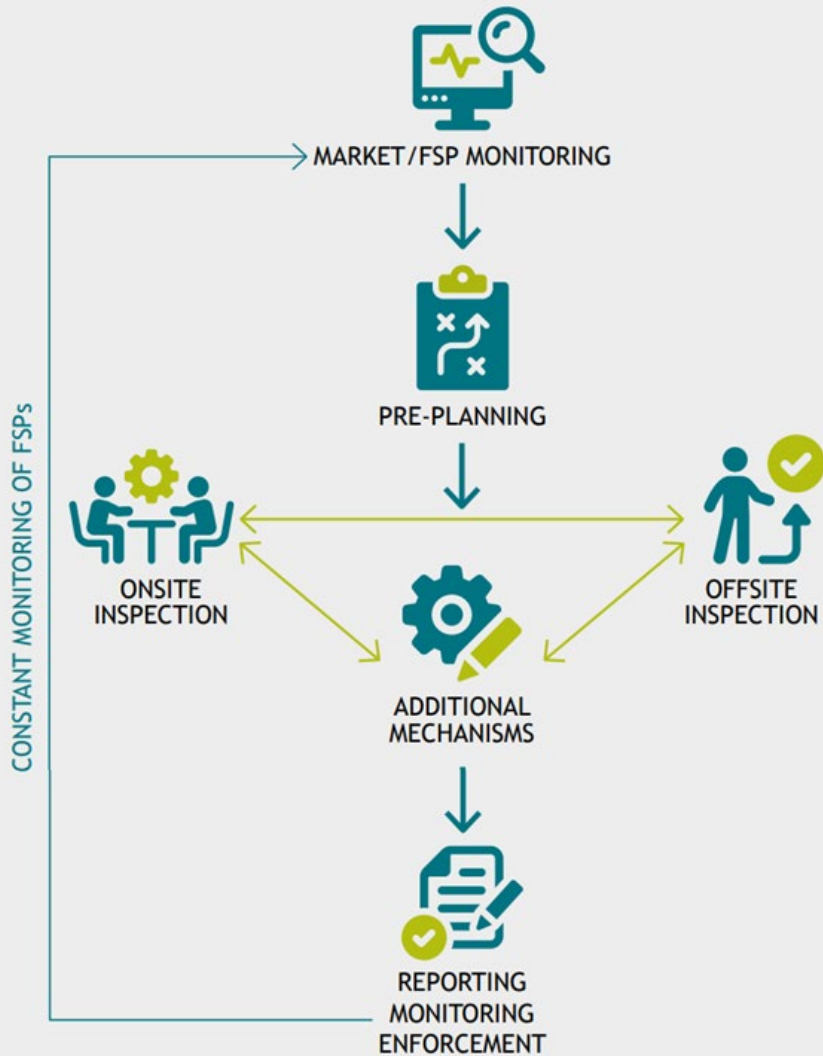
 Transparency and disclosure

 Complaints handling

 Data privacy and protection

 Staff capacity building

## 4. Supervisory process



*\* Developed by members of the CEMCWG Market Conduct Supervision subgroup*

*\* It is important to note that regulators do not necessarily need to follow this process in a single, unique order.*

# Onsite inspection process



# Offsite inspection process

STEP 1: PLANNING AND DEVELOPING A SUPERVISION PLAN



STEP 2: CONDUCTING AN ONSITE INSPECTION:



STEP 3: REPORTING



STEP 6: RECORDING DATA



STEP 5: ADJUSTING THE SUPERVISION PLAN (IF NECESSARY)



STEP 4: FOLLOW-UP



# 5. Additional supervisory mechanisms



Mystery shopping



Consumer research



Thematic reviews



Products review



SupTech



# Examples of Market Conduct Supervision Tools

## Thematic examinations: Sector-wide

- > Conduct thorough assessments of market conduct risks and controls through offsite examinations
- > Validate the practices of specific FSPs following feedback received



## Media watch or offsite product reviews

- > Assess the disclosure practices of FSPs
- > Review marketing materials



## Thematic examinations: Selected FSPs

- > Conduct thorough assessments of market conduct risks and controls through offsite examinations
- > Validate the practices of specific FSPs following feedback received



## Mystery shopping and calls

- > Validate the practices of specific FSPs following feedback received.
- > Gauge the practices and adequacy of FSPs' controls on specific areas



## Self-assessments by FSPs' compliance and internal audits

- > Gauge the practices and adequacy of FSPs' controls on specific areas through offsite analysis of their responses



## Engagement with FSPs' Board, Senior Management, and Compliance

- > Seek feedback on emerging issues and the extent of current concerns within the FSP



# 6. Reporting and monitoring

<b>MCS report</b>	<ul style="list-style-type: none"><li>• Key instrument by which the results of the inspections are presented in writing to the board of directors and board of the FSP</li></ul>
<b>Corrective actions</b>	<ul style="list-style-type: none"><li>• Instructions: mandatory measures the FSP must undertake to correct shortcomings</li><li>• Recommendations: proposed action to correct and improve the situation in the FSP</li></ul>
<b>Inspection report</b>	<ul style="list-style-type: none"><li>• Consistent with the objectives and scope of the inspection</li><li>• Including significant risks, violations and shortcomings</li><li>• Requirements for taking action</li><li>• Clear and concise</li><li>• Confidential section for the supervisory body</li></ul>

# 7. Enforcement

<b>Enforcement tactics</b>	<ul style="list-style-type: none"><li>• Informal enforcement</li><li>• Restoration</li><li>• Prevention</li><li>• Punishment (hard power)</li></ul>
<b>Communication</b>	<ul style="list-style-type: none"><li>• Communication of priorities plays an important role within the framework of enforcement tactics.</li></ul>
<b>Corrective measures</b>	<ul style="list-style-type: none"><li>• The goal is to formally enforce a specified change in behavior or alter the practices of the institution.</li></ul>
<b>Monitoring</b>	<ul style="list-style-type: none"><li>• The supervisor should closely monitor whether corrective measures are implemented and if their goals are met.</li><li>• Follow-up actions are crucial.</li></ul>
<b>Sanctions</b>	<ul style="list-style-type: none"><li>• 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.</li></ul>
<b>Prevention</b>	<p>While applying sanctions, the emphasis should be on prevention at two levels:</p> <ul style="list-style-type: none"><li>• the micro-level (to discourage the institution from committing further violations)</li><li>• the macro-level (discouraging others from committing similar violations in the future)</li></ul>



THANK YOU

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