

Consumer Protection: A supervisor's perspective

Regional Conference on Consumer Protection and
Financial Literacy

Sofia, 10-11 June 2014

AFM is the conduct of business regulator of the Netherlands



AFM

How is a financial institution treating its customers?

Consumer: am I treated fairly?

DNB

Is the financial institution sound?

Consumer: is my money safe?

SUPERVISING = SOLVING PROBLEMS

In which:

Problem \neq Violation of regulations

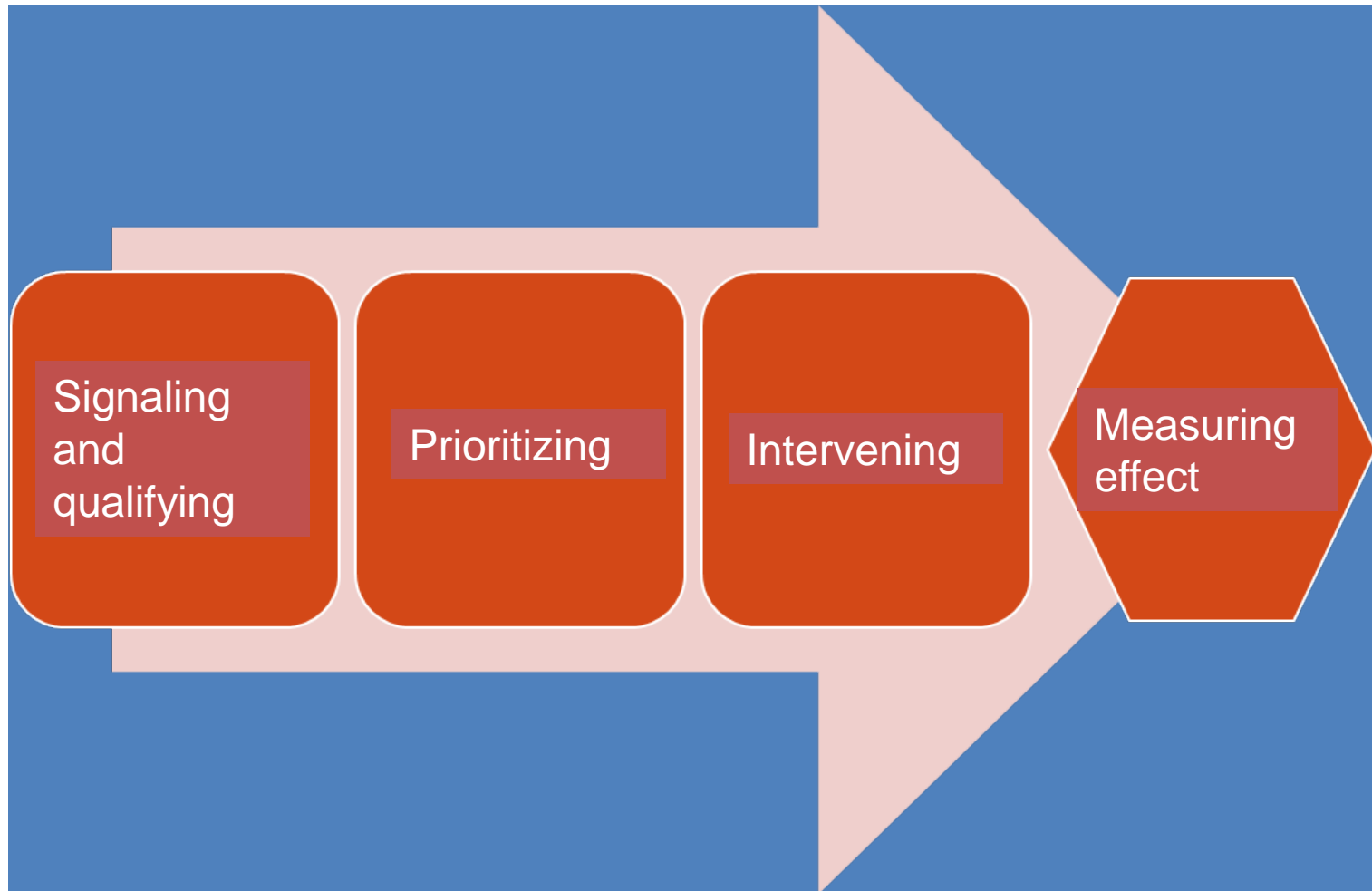
Solving problems = changing behavior sustainably

Changing behavior sustainably \neq enforcing

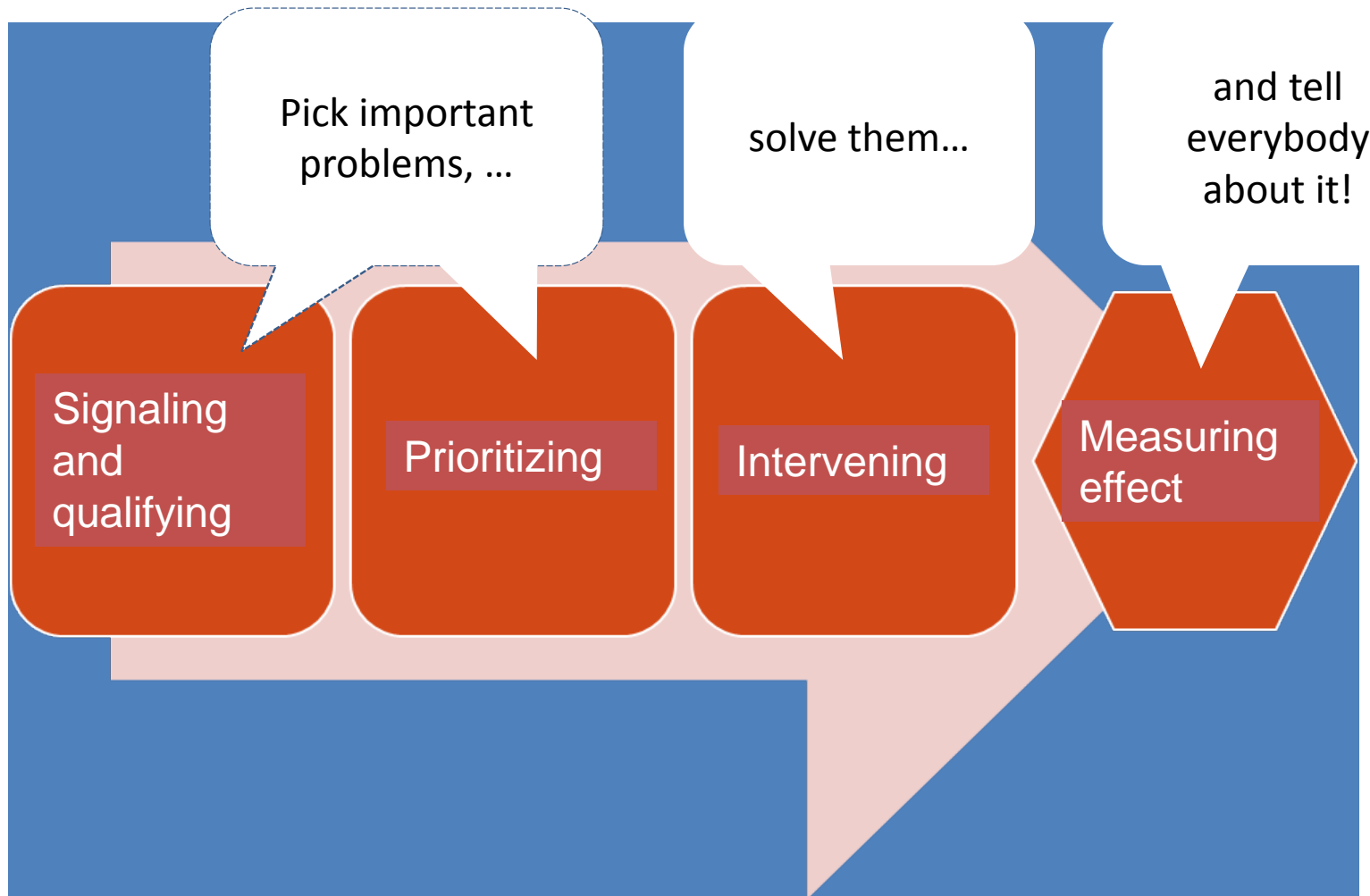


SUPERVISING = SOLVING PROBLEMS

Problem oriented supervision in a nutshell



Problem oriented supervision in a nutshell



It's the best way to face the haunting questions...

Why were you not there?

Why didn't you see anything?



Why didn't you do anything?



PROBLEM \neq VIOLATION OF REGULATIONS



Which problems to pick?



**SOLVING PROBLEMS =
CHANGING BEHAVIOR SUSTAINABLY**



What drives behavior?



Intrinsic norms

“What an individual or institution itself believes to be right”

“This doesn’t feel right”

Social norm

“What people think the groups finds to be right”

“This is not how we do things around here”

Ability to comply

“Barriers that inhibit the ability to comply with the norms”

“I do not know what this norm requires of me”

Deterrence

“The perception of the change of being caught and the damage that then follows”

“We will loose my license if we continue with these practices”

CHANGING BEHAVIOR SUSTAINABLY ≠ ENFORCING

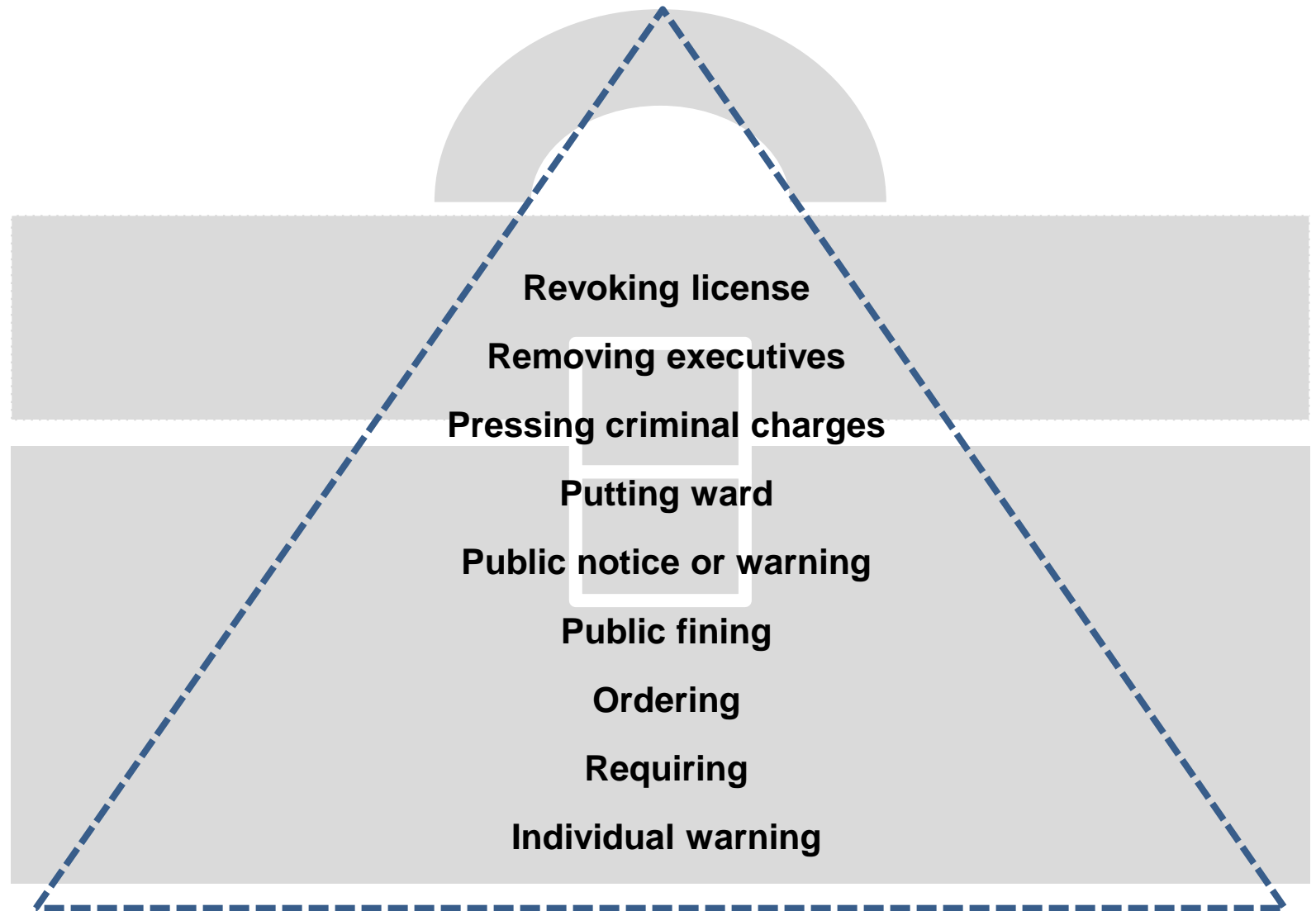
The old supervisor's toolbox...





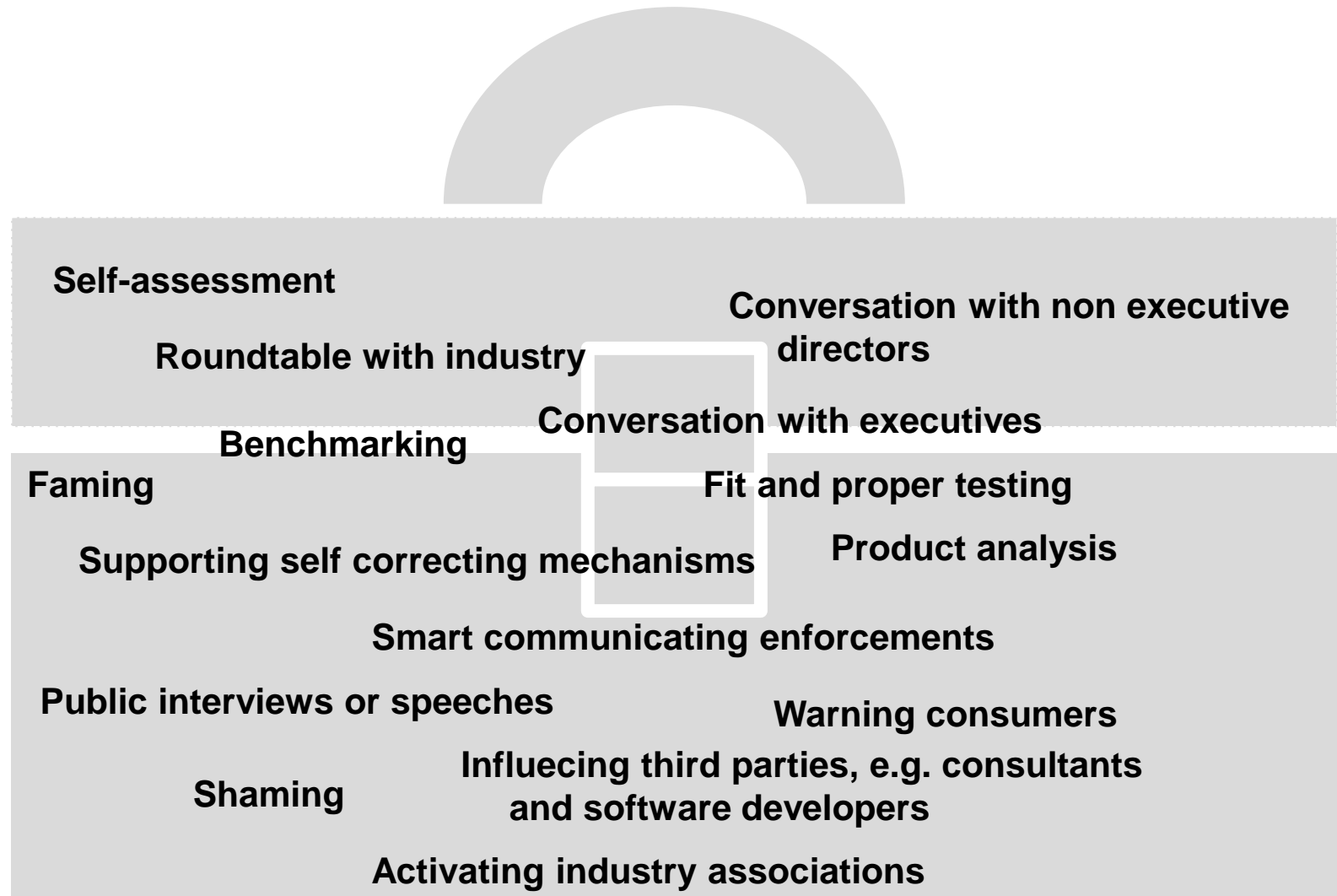


The old supervisor's toolbox...





The new supervisor's toolbox...



What was the problem?

- Consumers borrowing too much
- Poor quality of advice leading to misselling

What did we do?

Mortgageadvice project (2007) confirmed our hypotheses. AFM made a mix of interventions:

- Restrict amount of mortgage credit provisioning
- Strong enforcement of worst advisors
- Publish Guidelines on good mortgage advice
- Publish online check list tool for consumers
- Engage software-developers
- Focus on banks to improve products

- Law provided the principle of “appropriate advice”
- What does that then means in individual cases?
- We fined advisors with too many files of evident misselling
- We published guidelines and examples of good and bad practices
- Subsequently we could where necessary fine advisors with too many files of inappropriate advice

**What has been
the impact of our
actions?**

Mortgage advice project 2010:

- Percentage moderate and inadequate advice declined from 24% to 15%
- Less irresponsible borrowing
- More attention for risks regarding loss of income
- Term and conditions of certain products have (almost collectively) been improved

Case: Benchmarking Treating Customers Fairly



Treating Customers Fairly: overall perspective	# institutions	Spread		Average score
Mortgage advice	# 5	60%	40%	2,4
Deposit products	# 9	33%	22% 44%	3,1
Investment services	# 5	100%		2,7
Pension advice	# 6	83% 17%		2,3
Distribution quality	# 7	43%	57%	2,5
Complaints handling	# 9	78% 22%		3,3
Treating Customers Fairly total	# 10	30%	70%	2,7

Targetting symptoms of harmful behavior

- In most of the items on the dashboard elements concerning illegal as well as harmful (yet not illegal) behavior are targetted.

Engage in dialogue; clarify as well as make norms explicit

- Benchmarking definitions are determined and defined in some detail after discussions with industry

Stimulate and facilitate accelerated change process with large institutions towards Treating Customers Fairly

- Dashboard: benchmarking is very effective in accelerating laggards
- Results are discussed in detail bilaterally on C-suite level
- The dashboard serves for institutions as an important change management tool internally
- Annual discussions with CEO's of all benchmarked institutions facilitates dialogue as well as stimulates peer pressure

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Pension advice			2,3
Distribution quality			2,5
Complaints handling	# 9		3,3
Treating Customers Fairly total	# 10		2,7

The score has moved up from 2.7 in 2010, to 3.0 in 2011, 3.3 in 2012 and 3.5 in 2013



The new supervisor's toolbox...



Please have a look at the G20/OECD Task Force on Financial Consumer Protection report, that contains a wide range of 'effective approaches'

