

# **Banking Supervision: oversight tools for the new digital ecosystem**

Magda Bianco  
Consumer Protection and  
Anti Money Laundering Directorate  
Banca d'Italia

*Conference on Banking Conduct Supervision: new challenges ten years after the financial crisis*  
*Banco de Portugal*  
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# Agenda



**The new framework after the financial crisis**



**Banking conduct supervision: the Italian model**



**The new digital ecosystem: opportunities and challenges**



## The new framework after the financial crisis

# Financial crisis

Public distrust of banks and financial markets risen dramatically, also due to poor customer protection, until then ensured only by:

- stability of banks (prudential supervision)
- competition



- ✓ Strong regulatory response (prudential)
- ✓ New focus on consumer protection: asymmetric information and behavioral biases imply that competition is not sufficient



# Responses

## G20/OECD High Level Principles for Financial Consumer Protection

Definition of EU regulatory and supervision framework (but no holistic approach)



**Regulatory framework:** highly fragmented even if extremely «dense» (by product and horizontal)



**Institutional framework** fragmented: 3 agencies and very different national framework (debate on twin peaks vs other structures)



## **Banking conduct supervision: the Italian model**

# Institutional framework



MoU on  
enforcement  
procedures

Bank of  
Italy  
(banking  
products)

Consob  
(investment  
products)



CONSOB  
COMMISSIONE NAZIONALE  
PER LE SOCIETA' E LA BORSA

Cooperation-  
exchange of info

Antitrust (unfair  
commercial  
practices +  
advertising)

IVASS  
(insurance)

Covip  
(private  
pension  
funds)



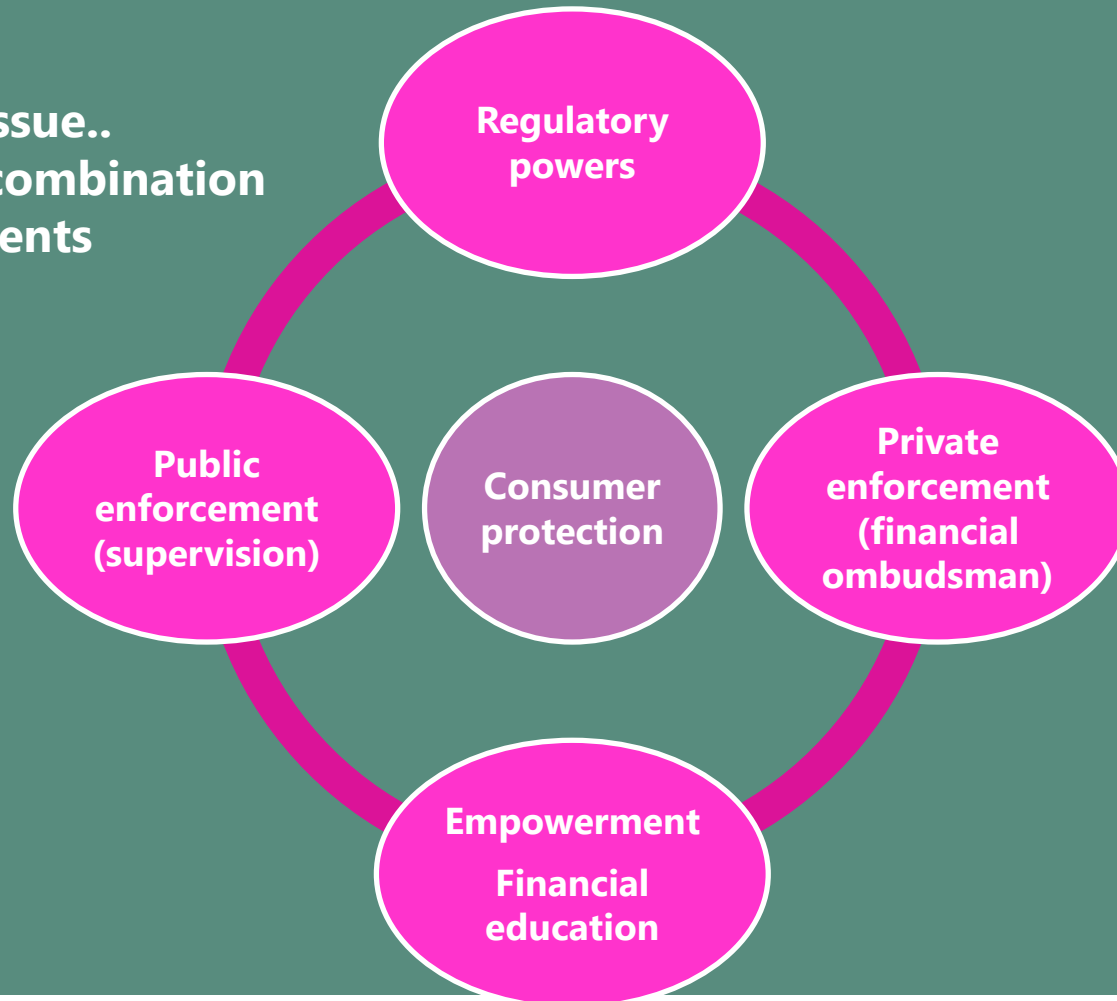
ISTITUTO PER LA VIGILANZA  
SULLE ASSICURAZIONI  
IVASS



COVIP  
COMMISSIONE DI VIGILANZA  
SUI FONDI PENSIONE

# Financial consumer protection at Bol: a four pillars approach

Complex issue..  
demands combination  
of instruments





**Regulatory  
powers**

**European laws,  
national laws,  
regulatory measures  
issued by competent  
authorities  
(not always fully  
coherent..)**



## Italian legislation

- requirements aimed at protecting customers of banks since 1992
- In 2009 Bol transparency discipline
- In 2010 consumer protection attributed to Bol (products, transparency, fairness/organizational requirements)

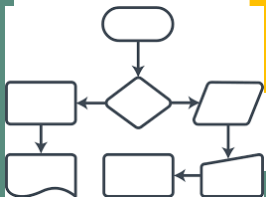
Public  
enforcement  
(supervision)

Given complex  
legislation and  
limited resources  
(compared to  
prudential) we need  
risk-based and ex-  
ante approach



Development of model to  
evaluate conduct risk of  
each intermediary to guide  
supervision

Horizontal analyses of  
critical issues (off and on-  
site supervision) to provide  
guidelines/supervisory  
expectations



Public  
Enforcement  
(supervision)

Results?



On site supervision (also at branches)

- **300 mln Euro reimbursed** to clients over 3 years



Guidelines

- Issued on complaints management, de facto floor clauses, unilateral variations of contracts, fees imposed, loans backed by salary (or pension) ...
- Induced **change in behavior of intermediaries**

Private  
enforcement

But... since public  
enforcement does  
not solve every  
critical issue (not  
enough signals? Rules  
do not give us the  
power..)

Complaints  
management  
(10.000 per  
year)

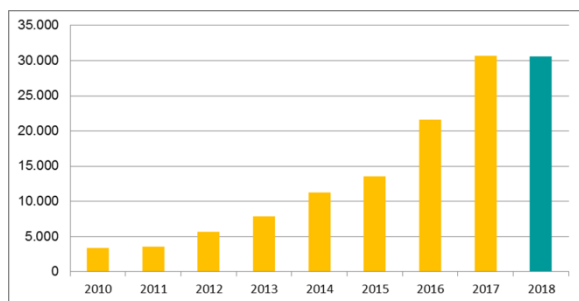
ADR (Arbitro Bancario Finanziario)

- 7 panels of «judges» deciding on claims
- Technical support of BoI
- Decisions not binding for banks



## Private enforcement

## Results? ABF



Number of  
claims  
increased  
over time



Over 70% in favour  
of customer in 2017  
(16 mln euro)

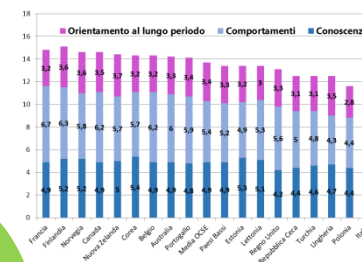


Banks comply in  
99% of cases

When taken to  
court, most  
decisions  
confirmed

## Financial education

If financial literacy very low, the effectiveness of the other instruments may be lower



Analyses and surveys (very low level of fin ed in Italy)

Work with schools (teaching the teachers): 110.000 students reached

Adults (videos, women, migrants, on the job...): more difficult..

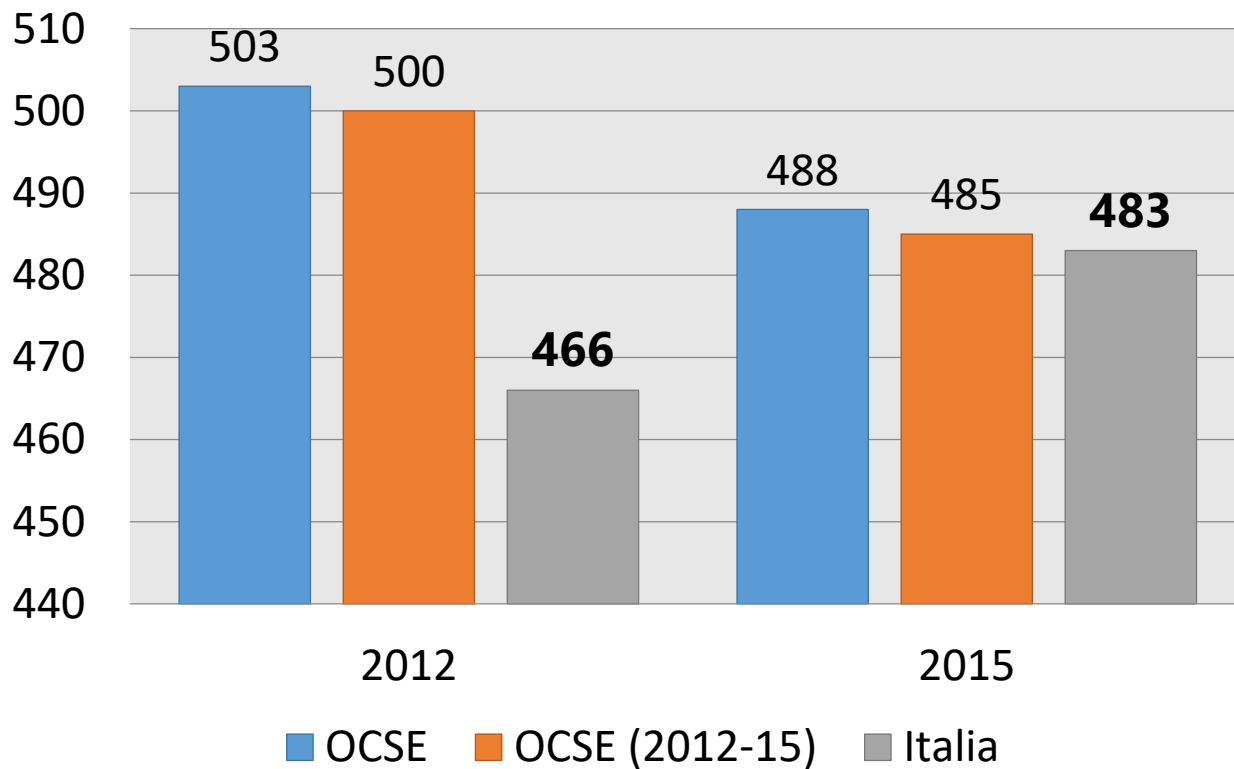


Financial  
education

Results?



## OECD-PISA results



**Financial  
education**

**Since July 2017...  
National Committee  
on financial  
education**







## **The new digital ecosystem: opportunities and challenges**

# a) Opportunities/risks for customers

How to increase opportunities and reduce risks?



Customer biases may change: speed of decisions may increase, further reducing consciousness. Precontractual obligations may work even less well..




Move to wider post contractual possibilities to renegotiate (rights of withdrawal)?



Relevance of POG and ex-ante design of products

## b) Opportunities/risks for supervisors



Move to a more substantial (fairness) approach (organizational framework, business culture)



Use of big data for supervision (project to use twitter data to widen info on complaints/critical issues)



Online mystery shopping?



Relevance of international cooperation (CPC Regulation?)

# A four pillars approach even more necessary...



**A lot done...  
...even more to do!**

# Thank you!

[magda.bianco@bancaditalia.it](mailto:magda.bianco@bancaditalia.it)