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TOOL 6

Industry Engagement

INDUSTRY ENGAGEMENT CONSISTS OF DIRECT INTERACTION AND dialogue between market conduct supervisors (MCSs) and financial services providers (FSPs) or industry associations. It is a key tool MCSs use to gather intelligence on market developments, understand emerging business practices and consumer risks, and learn about risks and opportunities in the broader FSP operating environment that subsequently may impact consumers. Risks and opportunities may include, for example, deteriorating macroeconomic conditions or disruptive technological developments.

An MCS can interact with industry players in various ways. The most common method is through bilateral conversations with individual FSPs conducted via telephone, face-to-face meetings, or digitally (e.g., email). Optimally, these activities are systematic and incorporated into supervisory planning as a part of institution-focused supervision. Other types of industry interactions aim to gather market intelligence to gain an in-depth yet nuanced understanding of markets, how they function, and the customer outcomes generated by the FSPs and third parties that participate in them.

Benefits and opportunities

Policy makers, regulators, and supervisors use industry engagement to facilitate dialogue with supervised entities and new FSPs to better understand their characteristics, emerging risks, and market developments.

Industry engagement carries significant benefits—both for improving market conduct and mitigating risks to regulatory objectives:

- **Simplicity and ease of implementation.** Basic industry engagement activities are simple and easy to organize. These initiatives primarily require organizational and record-keeping tasks and preparation of technical discussions.
- **Proactivity.** It allows an MCS to obtain deeper insights and a better understanding of emerging or increasing risks and market developments, including those related to innovative products, services, channels, and business models.
- **Depth.** An MCS can use industry engagement to gather market intelligence that deepens its preliminary analyses or to obtain information, as required.
- **Comprehensiveness.** It can help an MCS obtain unique insights from FSPs that complement initial or limited available information.

- **Flexibility.** It gives an MCS the flexibility to address a range of issues with the industry.
- **Supervisory effectiveness.** It can strengthen an MCS's overall market monitoring work. For example, the MCS may gather early input for the development or improvement of policy, regulation, or supervisory guidance, such as regulatory reporting requirements. It can also reinforce key objectives or goals that underly market monitoring, such as FSPs improving the management of conduct risks or embedding customer outcomes into corporate culture. For more information, see Making Consumer Protection Regulation More Customer-Centric (CGAP 2020).
- **Feedback.** It allows an MCS to discuss and receive further feedback from FSPs on newly issued or reformed policy, regulation, or guidance relevant to its supervisory objectives.
- **Dissemination**. It facilitates the dissemination of findings on market monitoring activities and communication of supervisory expectations. It can facilitate the announcement of an imminent supervisory action (e.g., the focus points of a thematic review) or issue a subtle warning via moral suasion whereby an MCS informally mitigates suspected market conduct issues.

Box 1. U.S. Office of the Comptroller of the Currency (OCC) on the benefits of industry engagement

"Ongoing dialogue with all stakeholders…enables the OCC to stay abreast of current trends and developments, better understand the evolving needs of consumers of financial products and services, and solicit stakeholder feedback. Outreach also enables the agency to serve as a more effective resource and promote awareness and understanding of OCC expectations."

Source: Recommendations and Decisions for Implementing a Responsible Innovation Framework (OCC 2016)

Characteristics of this tool

Industry engagement can be organized around specific products, services, or issues, or by type of service provider. It can take many structured forms, including:

- Open public meetings with a variety of stakeholders (e.g., financial market conferences).
- Workshops or roundtables to which FSP representatives are invited.
- Periodic institutionalized meetings with representatives of industry bodies (e.g., industry associations, individual FSPs). For an MCS just beginning its market conduct monitoring efforts, this type of engagement can be set up in a risk-based manner, targeting particular FSPs for recurring or ad-hoc engagements. For example, the Bankgo Sentral ng Pilipinas (BSP, the Philippines Central Bank) maintains a Bank Supervision Policy Committee—a platform which allows the BSP and industry members to discuss trends that have raised supervisory concerns.
- Innovation facilitators (e.g., dedicated fintech offices, innovation hubs, hotlines) that provide a venue for both regulators and innovators to discuss new technologies, services, and business models. These interactions help regulators and supervisors identify emerging issues, which may also inform policy development. Since innovation facilitators typically are not set up by an MCS, their relevance to MCSs increases when

MCSs gain insights from these initiatives.

- Regulatory sandboxes, which are among the most popular type of innovation facilitator. A sandbox can help a regulator decide on a regulatory approach toward an innovation by developing evidence on how the innovation works in the marketplace and the outcomes it produces. For additional information, refer to the CGAP Technical Guide, "How to Build a Regulatory Sandbox" and the CGAP knowledge hub cgap.org/RegulatorySandbox.
- Advisory panels. These statutory or voluntary panels of industry representatives regularly meet and provide a financial sector authority with direct advice and feedback on its policy, regulatory, and supervisory work.
- Partnership with industry associations. Industry associations and MCSs often share an interest in ensuring adequate mechanisms for industry engagement. In some countries, MCSs collaborate with existing industry associations to develop, strengthen, or monitor codes of conduct, guidelines, oversight procedures, trainings, and other member resources (e.g., India's Microfinance Institutions Network and the Association of Community Development Finance Institutions).

How to use this tool

MCSs can organize a wide range of industry engagement activities to gather market intelligence in a structured manner. Key steps an MCS can take when adopting this tool include:

1. Set clear supervisory objectives for industry engagement.
2. Determine the types of actors that may participate (e.g., all or a subset of industry associations, all supervised FSPs, FSPs within a subsector, all supervised FSPs that offer a particular type of product, new entities).
3. Indicate the type of FSP staff that should participate. This may vary depending on the objective, type of engagement, and the topic raised in a specific activity.
4. Set up clear and transparent rules of engagement for industry participants (e.g., confidentiality, no retaliation, transcription of meeting).
5. Formalize engagement both within an MCS—through its incorporation into the supervisory planning and designation of responsible staff—and with industry players through official MCS communications.
6. Establish frequency of engagement, which may be adjusted over time.
7. Develop a feedback and evaluation process to assess the results and weaknesses of the engagement and refine the approach for future engagements.

Limitations of this tool

- **Resource intensity.** It can be resource intensive for an MCS to effectively engage industry actors for market monitoring purposes. For basic activities, intensity may focus on administrative tasks that secure the participation of key FSP staff members and recording meeting details, usually with the help of an off-the-shelf corporate management IT system. Record-keeping can store key ideas and information exchanged, including the evolution of market views over time, and facilitate the subsequent analysis of gathered market intelligence. Greater allocation of skilled resources is required for more advanced activities, for example, staffing regulatory sandboxes or other innovation facilitators.

- **Regulatory capture.** MCSs should be aware of the potential for corruption and regulatory capture when the possibility exists for supervised institutions to exercise excessive influence on an MCS through direct engagement. A "captured" supervisor acts primarily in the interest of FSPs rather than in accordance with their mandate. One source of regulatory capture may be a revolving door of employees who move from a supervisory agency to FSPs—and vice versa. Record-keeping can help maintain transparency in an MCS's dealings with industry players and prevent regulatory capture (or the perception of it).
- **Complexity.** Some industry lobbying aims to steer MCSs away from customer outcomes and toward business, macroeconomic, or other outcomes. An MCS can prevent such efforts by establishing clear engagement goals and the procedures to preserve them, and by applying other tools that gather firsthand consumer experience (e.g., phone surveys, social media monitoring) or that engage consumer representatives. Findings from industry engagement must be verified against other sources. As with the other tools discussed in this toolkit, industry engagement alone does not lead to effective market monitoring.

Effective market monitoring requires a strong mix of tools, including basic tools such as the analysis of traditional regulatory reports. Different tools complement and reinforce each other, and positive consumer outcomes and changes in market practices depend on how an MCS uses tools, combines them with other evidence, and takes timely action to generate changes in market practices, reform regulations, clarify supervisory expectations, and penalize poor conduct.

Other resources

- Market Intelligence Gathering at Central Banks (BIS 2016)
- How to Build a Regulatory Sandbox: A Practical Guide for Policy Makers (CGAP 2020)
- Early Lessons on Regulatory Innovations to Enable Inclusive FinTech: Innovation Offices, Regulatory Sandboxes, and Regtech (UNSGSA 2019)