



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. ____ Series of 2024 ____

Subject: Financial Consumer Protection and Market Conduct Supervision Framework

The Monetary Board, in its Resolution No. ____ dated ____ 2024, approved the adoption of the Financial Consumer Protection and Market Conduct (FCPMC) Supervision Framework of the Bangko Sentral ng Pilipinas (BSP). The FCPMC Supervision Framework implements various provisions of Republic Act (RA) No. 11765 or the "Financial Products and Services Consumer Protection Act" (FCP Act), in particular, Sections 6 (b), (c), (d) and (g).

Section 1. The FCPMC Supervision Framework is distinct and separate from, but of equal importance and works together with, the BSP Supervisory Assessment Framework or SAFr under Memorandum No. M-2020-005 dated 05 March 2020, to render the BSP's full risk assessment methodology.

Section 2. Part Ten of the Manual of Regulations for Banks (MORB) and Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) shall include a new Section 1002 / 1002Q as follows:

1002/1002-Q Financial Consumer Protection and Market Conduct Supervision Framework

Supervision Approach. The Financial Consumer Protection and Market Conduct (FCPMC) Supervision Framework is the Bangko Sentral's risk-based supervisory approach for assessing a Bangko Sentral Supervised Institution (BSI)'s business conduct and practices that pose risk of loss or other harm to financial consumers. The supervisory approaches and principles in this Framework are adapted from international best practices.

The FCPMC Supervision Framework is distinct and separate from the BSP Supervisory Assessment Framework (SAFr) described under Memorandum No. M-2020-005 dated 05 March 2020. These Frameworks enable the BSP to undertake its functions of supervising prudential matters and financial consumer protection matters, providing a more accurate and holistic perspective of the risks to the Philippine financial system.

On the one hand, SAFr assesses a BSI's systemic importance and risk profile using a prudential lens, and looks at market conduct risk and its impact on the soundness and strength of the BSI as a financial service provider.

On the other hand, the FCPMC Supervision Framework looks at a BSI's market conduct risk using a consumer protection lens, focused on the assessment of the impact and risks of its business operations to financial consumers.

The separation of FCPMC supervision from prudential supervision is consistent with Sections 6 (b), (c), (d) and (g) of Republic Act (RA) No. 11765 or the “Financial Products and Services Consumer Protection Act” (FCP Act). Section 6 (b), in particular, states that:

“Financial regulators may conduct surveillance and examination, on-site or off-site, on their respective supervised financial service providers, consistent with their respective risk-based supervision policies, to ascertain that the provisions of the Act are complied with. The examination for financial consumer protection compliance may be conducted separately from examination of prudential regulations compliance. The provisions on the conduct of examination and surveillance provided in the respective charters of financial regulators, and pertinent special laws, shall be made applicable in the examination and surveillance activities under this Act.”

The FCPMC Supervision Framework provides an overview of the principles, concepts and processes involved when the BSP assesses Financial Consumer Protection (FCP) Risks of a BSI. Guided by such assessments and the principle of proportionality, the Framework supports:

- A. The crafting of FCP-focused supervisory plans for industry-wide monitoring and individual BSI-specific assessments;
- B. The application of risk-based supervision by determining supervisory attention having regard to industries and/or BSIs that may have higher impact on, and/or pose greater risks to, financial consumers; and
- C. Calibrated supervisory actions to instill good market conduct and customer-centric business practices.

Scope of Application. The FCPMC Supervision Framework applies to **all BSIs**, which refer to a person, natural or juridical, that provides financial products or services under the jurisdiction of the Bangko Sentral, as provided in existing laws, rules and regulations. This is in line with the scope of Republic Act (RA) No. 11765 or the “Financial Products and Services Consumer Protection Act” (FCP Act) of 2022 and its implementing rules and regulations (IRRs) such as BSP Circular No. 1160 Series of 2023.

Definition of Terms. All the Terms defined under the FCP Act and its IRRs, such as BSP Circular No. 1160 dated 28 November 2022, are hereby adopted.

For purposes of the FCPMC Supervision Framework, the following terms are hereby defined:

- A. *Consumer Protection and Market Conduct Office (CPMCO)*– Refers to the BSP office responsible for promoting consumer protection and fair market conduct, including onsite and offsite supervision, in line with the FCPMC Supervision Framework.
- B. *Consumer Protection Risk Management System (CPRMS)* – Refers to a BSI’s governance structure, policies, processes, measurement and control procedures which ensure that FCP risks are identified, measured, monitored and mitigated. The CPRMS is integrated into the BSI’s enterprise-wide risk management processes and risk governance framework. It must be carefully devised and implemented, serving as the foundation for ensuring the BSI’s compliance with the Consumer Protection Standards of Conduct under the FCPA Act and its implementing rules and regulations such as BSP Circular No. 1160, and other relevant laws, rules and regulations.

- C. *Consumer Protection Standards of Conduct (Standards)* – Refers to the range of requirements that a BSI must adhere to at all times in its dealings with financial consumers, as provided under the FCP Act, BSP Circular No. 1160 and other relevant laws, rules and regulations. These Standards are benchmarked with international best practices. They also correspond to the five (5) inalienable rights of financial consumers under the FCP Act, as follows:
1. Equitable and Fair Treatment;
 2. Disclosure and Transparency of Financial Products and Services;
 3. Protection of Consumer Assets Against Fraud and Misuse;
 4. Data Privacy and Protection of Client Information; and
 5. Timely Handling and Redress of Complaints.
- D. *FCP Market Conduct (MC)* – Refers to the manner by which a BSI designs and delivers its financial products and services, and manages its relationship with its clients and the public.
- E. *FCPMC Risk* – Refers to the risk arising from a BSI's conduct or business practice that could negatively affect, or cause financial loss or other harm to financial consumers. This FCP-focused market conduct risk should be contrasted from the conduct risk that may be considered from a prudential perspective.

Elements of the FCPMC Supervision Framework. The FCPMC Supervision Framework has three (3) major elements:

- A. The BSI's FCPMC impact on financial consumers;
- B. The BSI's FCPMC risk assessment; and
- C. The corresponding FCPMC supervisory intensity.

A BSI with higher FCP Impact and higher FCP Risk Profile requires a more intense FCPMC-focused supervision.

FCP Impact Assessment. The FCP Impact Assessment captures the potential impact of a BSI's failure to identify, measure, monitor and mitigate FCPMC risks and related harm to consumers, which could result to diminished consumer trust and confidence in the financial system. It involves evaluating, among others, the size and complexity of a BSI's operations; its dependency on third parties and agents for its consumer-facing activities; and the number and profile of its retail client base.

FCP Impact Grade and Indicators. The FCP Impact Indicators refer to a set of quantitative and qualitative information, metrics and/or variables that are analyzed and correlated to determine whether a BSI's FCP Impact Grade is **Low, Moderate, Above Average** or **High**.

Examples of indicators that may be used as basis for assessing the FCP Impact of a BSI include, but are not limited to, the following:

<i>Indicator Group</i>	<i>Indicator Description</i>	<i>Correlation</i>
Size of Retail Operations and Complexity Financial Products Offered	<ul style="list-style-type: none"> • Market share, volume and value of retail financial products and services • Proportion of retail financial products and services delivered through digital or electronic channels • Speed, depth and breadth of expansion of retail operations, branch network and/or agent network 	<ul style="list-style-type: none"> • The higher the market share, value, volume, and proportion of retail financial products and services delivered through digital channels, the greater the FCPMC Risks • The more aggressive the expansion of retail operations, the greater the FCPMC Risks
Dependency on Third Parties and/or Agents	<ul style="list-style-type: none"> • Number of third parties and/or agents to which the BSI outsourced all or parts of its operations • Nature of the BSI's outsourcing agreements with third parties and/or agents 	<ul style="list-style-type: none"> • The higher the number, and the more consumer-facing activities are outsourced by the BSI to third parties and/or agents, the greater FCPMC Risks
Number and Profile of Retail Client Base	<ul style="list-style-type: none"> • Total number of retail clients served by the BSI • Proportion of vulnerable clients (<i>as defined under C1160</i>) to the total number of retail clients served by the BSI 	<ul style="list-style-type: none"> • The higher the number, and proportion of the vulnerable retail clients, the greater the FCPMC Risks
Volume and Types of Consumer Complaints	<ul style="list-style-type: none"> • Number and type of complaints processed under the BSI's Financial Consumer Protection Assistance Mechanism (FCPAM) • Number and type of complaints escalated by consumers to all channels of the BSP Consumer Assistance Mechanism (CAM), including the BSP Online Buddy chatbot 	<ul style="list-style-type: none"> • Subject to the type of complaint, the higher the number lodged under BSI's FCPAM, the greater the FCPMC Risks • The higher the number and proportion of complaints escalated by consumers to BSP CAM, the greater the FCPMC Risks

The Bangko Sentral may use other indicators as may be necessary, anchored on international best practices in FCPMC supervision, and subject to data or information availability. The determination of a BSI's FCP Impact Grade shall be based on such indicators, which may change over time, subject to financial industry developments and emerging market behaviors.

A BSI's Impact Grade shall be the basis for its prioritization as subject of an FCPMC-focused supervision. BSIs with High FCP Impact Grade shall be prioritized to merit the conduct of regular FCP Risk Management Assessment and commensurate degree of FCPMC Supervisory Intensity by the Bangko Sentral. BSIs with Above Average FCP Impact Grade may also be prioritized, subject to such other factors that the Bangko Sentral may determine. BSIs with Moderate and Low FCP Impact Grade shall merit an appropriate degree of FCPMC Supervisory Intensity.

FCP Risk Management Assessment. The FCP Risk Management Assessment process shall focus on the quality of a BSI's Consumer Protection Risk Management System (CPRMS). It aims to determine the adequacy, efficiency and effectiveness of the BSI's CPRMS in identifying, measuring, mitigating and controlling risk events and incidents that could pose direct or indirect harm to its clients in particular, and to financial consumers or the public in general.

Assessment of the quality of a BSI's CPRMS shall cover **all Standards** relating to the following key areas of financial consumer protection and market conduct, as defined in the FCP Act, BSP Circular No. 1160 and other relevant laws, rules and regulations:

Disclosure and Transparency. This pertains to the truthfulness, accuracy and adequacy of a BSI's disclosures about its products, services, policies, procedures to financial consumers and the general public;

Protection of Client Information. This pertains to the adequacy of BSI's systems and controls to ensure security, integrity, and confidentiality of client data;

Fair Treatment. This pertains to the fair, ethical and professional behavior of a BSI towards its existing and potential clients, in all stages of their relationship;

Effective Redress. This pertains to the adequacy, effectiveness and efficiency of the BSI's Financial Consumer Protection Assistance Mechanism (FCPAM) as a first-level recourse for financial consumers;

Protection of Consumer Assets Against Fraud and Misuse. This pertains to the provision of relevant and timely information and assistance on fraudulent or unauthorized transactions and the adequacy of policies, procedures and protocols that are essential in curtailing and detecting fraudulent or unauthorized transactions; and

Other FCPMC Standards. This pertains to other standards, such as but not limited to responsible pricing and appropriate product design, as required under the FCP Act, BSP Circular No. 1160, and other relevant laws, rules and regulations.

FCP Risk Indicators. The Bangko Sentral shall use a **combination of quantitative and qualitative indicators** to inform the conduct of FCP Risk Management Assessments. Such indicators shall measure a BSI's adherence to the above Standards.

Aside from information gathered from supervisory reports and internal BSI data, the Bangko Sentral, at its discretion, may utilize information from verified, credible external sources such as but not limited to, social media monitors, reports shared by other financial regulators, and/or public data purveyed by relevant government agencies, as inputs into the conduct of its FCP Risk Management Assessments.

Examples of FCP Risk Indicators may include, but are not limited to, the following:

FCP Standards of Conduct	Sample Indicators for Assessing FCP Risk Elements ¹
Disclosure and Transparency	<ul style="list-style-type: none">• Adequacy of sales and marketing policies and procedures• Accuracy of public disclosures and advertisements

¹ These risk elements may be considered as the equivalent of "inherent risk" in prudential supervision, per SAFr terminology.

	<ul style="list-style-type: none"> • Clarity and timeliness of notifications about interest rates, fees and charges
Protection of Client Information	<ul style="list-style-type: none"> • Adequacy and quality of consumer consent management policies and procedures • Incidence of breach or unauthorized disclosure of consumer data to third parties • Proportion of complaints about unauthorized disclosure of consumer data to total number of accountholders
Fair Treatment	<ul style="list-style-type: none"> • Clarity and legal soundness of product terms and conditions • Fairness and non-discriminatory execution of client onboarding policies and procedures • Complaints on unfair collection practices, including those against third party collection firms or agents
Effective Redress	<ul style="list-style-type: none"> • Adequacy and timeliness of FCPAM policies and procedures, including service level agreements with third party customer assistance providers • Incidence and duration of unscheduled downtime of FCPAM channels • Average turn-around-time of complaints resolution under FCPAM, and ratio of FCPAM-resolved complaints to CAM-escalated complaints
Protection of Consumer Assets from Fraud and Misuse	<ul style="list-style-type: none"> • Adequacy of linkage between Fraud Management System and CPRMS • Incidence of fraud or unauthorized transactions and amount of financial loss of affected accountholders • Volume of complaints about fraud or unauthorized transactions compared to total transactions for the same product type.

FCP Risk Profile. The FCP Risk Profile refers to the end-product or result of the Bangko Sentral's FCP Risk Management Assessment process. It represents an evaluation or estimation of the risks that a BSI's business conduct and operations pose to financial consumers, within a given period, and taking into account the BSI's overall **Institutional Level Support**, which may consist of an evaluation of its Corporate Governance, Risk Governance, Compliance Management and Internal Audit, among others. A BSI's Institutional Level Support may either be a mitigating or aggravating factor affecting the BSI's FCP Risk Profile.

A BSI's FCP Risk Profile indicates whether a BSI's CPRMS is **Strong**, **Acceptable**, **Adequate** or **Weak**:

<i>FCP Risk Rating</i>	<i>FCP Risk Profile</i>	<i>Description</i>
4	Strong	The BSI has a strong CPRMS. FCP Risks are well-managed across the institution. There is a well-developed customer-centric business conduct and culture from the Board and Management to frontline operations. Risks to financial consumers, and to public trust and confidence in the BSI are minimal.
3	Acceptable	The BSI has a stable CPRMS. FCP risks are adequately managed across the organization. FCPMC supervisory

<i>FCP Risk Rating</i>	<i>FCP Risk Profile</i>	<i>Description</i>
		concerns are within the ability of the Board and Management to address. FCP risks can be mitigated through minimal adjustments in policies, procedures and selected areas of operations. Risks to financial consumers, and to public trust and confidence in the BSI are at an acceptable level.
2	Inadequate	The BSI's CPRMS is inadequate in identifying, measuring, monitoring and controlling FCP Risks. FCP Risks are not adequately managed across the institution. FCPMC supervisory concerns are not given immediate attention by Board and Management. Risks to financial consumers, and to public trust and confidence in the BSI are above an acceptable level, thus requiring additional mitigating measures.
1	Weak	The BSI's CPRMS is absent, or weak and unable to identify, measure, monitor and control FCP Risks. FCPMC supervisory concerns are grave, and beyond the capability of the Board and Management to address. The BSI is unlikely to withstand an adverse event that could lead to frequent and tangible harm or loss to financial consumers. Risks to financial consumers, and to public trust and confidence in the BSI are severely above an acceptable level, thus requiring immediate additional mitigating measures.

FCPMC Supervisory Intensity. FCPMC supervisory intensity refers to the degree of supervisory attention required for, and applied to a BSI. The degree of supervisory attention is defined by the FCPMC-focused supervisory activities that may be undertaken by the Bangko Sentral with respect to the BSI. The determination of supervisory intensity is anchored on the BSI's FCP Impact Grade and FCP Risk Profile, as represented by its FCP Risk Rating.

The main FCPMC-focused supervisory activities that may be employed by the Bangko Sentral include the following:

<i>Supervisory Activity</i>	<i>Particulars</i>
FCPMC- focused market surveillance and monitoring	This entails the analysis of data/information about the BSI, its financial products and services, policies and procedures, that are observed from its regular reports to the Bangko Sentral; from public sources (i.e., website, social media accounts, marketing materials, advertisements, news articles); and/or special sources (i.e., granular or explanatory reports, key informant interviews or meetings with BSI Management, mystery shopping feedback, among others).
FCPMC-focused onsite examination of individual BSI	This entails the inspection, on premises, of a BSI's market conduct, to assess its compliance with the FCP Act, BSP Circular No. 1160 and other relevant laws, rules and regulations.
FCPMC-focused offsite supervision of individual BSI	This entails an ongoing review, analysis and assessment of a BSI's market conduct, gathered from market surveillance and monitoring, and/or the most recent FCPMC onsite examination.

<i>Supervisory Activity</i>	<i>Particulars</i>
FCPMC-focused thematic risk assessment of a group of BSIs	This entails an offsite supervision and/or onsite examination of a selected group of BSIs within an industry or across industries; and covers selected, specific FCPMC areas or Standards.

A BSI's **FCP Impact Grade and FCP Risk Profile** are **periodically updated** based on results of the conduct of FCP Risk Management Assessments and other supervisory activities.

Section 3. Interface of the FCPMC Supervision Framework and Supervisory Assessment Framework. The products or outputs resulting from the supervisory activities under the FCPMC Supervision Framework shall be distinct and separate from the supervisory products and prudential reports generated in the Bangko Sentral's implementation of SAFr.

However, the outputs generated under SAFr and the FCPMC Supervision Framework may be used as reference and/or inputs into each other's supervisory activities, outputs, reports and enforcement actions.

The Bangko Sentral, in due time, and subject to financial sector developments and market behavior, may consider a more integrated interface between the FCPMC Supervision Framework and SAFr.

Section 4. Inter Sectoral Collaboration. The CPMCO, under the Regional Operations and Advocacy Sector, shall be primarily responsible for the conduct of FCP Risk Management Assessments and implementation of the FCPMC Supervision Framework. This approach is aligned with the global "internal twin peaks" concept and practice of market conduct supervision.

In undertaking its mandate, the CPMCO shall have authority to coordinate with relevant Departments of the Financial Supervision Sector and Payments and Currency Management Sector to ensure alignment and consistency of policy and supervisory approaches and timelines. The concerned Sectors shall institutionalize data and information sharing arrangements, and procedural guidelines to ensure seamless and integrated coordination and collaboration among their relevant Departments with the CPMCO.

Section 5. Enforcement Actions. In the exercise of Its functions under this Circular, the Bangko Sentral may deploy enforcement actions pursuant to the provisions of Sections 002/348/941/942 of the Manual of Regulations for Banks (MORB); Sections 002-Q/329-Q/941-Q/942-Q of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI); Sections 6(d) and 16 of RA No. 11765 or the FCP Act; Section 19 of RA No. 11127 or the National Payment Systems Act; and other relevant laws, rules and regulations related to consumer protection.

Section 6. Supplemental Guidelines. The Bangko Sentral may revise and supplement the FCPMC Supervision Framework with guidelines and other issuances as it deems necessary for its effective implementation, consistent with relevant provisions of the FCP Act and other relevant laws, rules and regulations.

Section 5. Transitory Provision. The Bangko Sentral shall undertake the supervisory activities under this FCPMC Supervision Framework upon completion of an internal FCPMC Supervision Guidelines and FCPMC Manual of Operations, but not later than the fourth quarter of CY 2025.

Section 7. Effectivity. The FCPMC Supervision Framework shall take effect fifteen (15) days after its publication in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD

ELI M. REMOLONA, JR.
Governor

_____ 2024

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