CENTRAL BANK OF TRINIDAD & TOBAGO

Market Conduct Survey

Industry Report

February 2021

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1. Introduction

The Central Bank of Trinidad and Tobago ("Central Bank") is mandated by section 5 (3)(a) of the Financial Institutions Act, 2008 ("FIA") "*to promote efficient and fair banking and financial services markets"*. In furtherance of this mandate, the Central Bank issued the Market Conduct Guideline ("Guideline") on November 15, 2018 to provide guidance to the banking industry on the Central Bank's expectation of proper market conduct practices, policies and procedures to facilitate a sustainable, fair and sound financial environment for customers. Licensees[1] were required to incorporate the elements of the Guideline into their policies, procedures, processes, and practices as appropriate.

Market Conduct is defined by the Central Bank as "*the manner in which a bank designs its products and services and manages its relationship with customers and the public*".

Accordingly, the Central Bank issued a Market Conduct Survey ("Survey") to all licensees in June 2020 to assess the level of the industry's compliance with the Guideline.

2. Survey Design and Methodology

The Survey was divided into six (6) sections, which mirrored the key principles in the Guideline as follows:

i. **Inclusive & Competitive marketplace -** *Consumers can easily find products that meet their needs, are affordable and suit their financial capability and risk tolerance. They have choices, and can easily change products and switch service providers*;

ii. **Products & Services -** *Product mix and the suitability of the products to different segments of the market. Product research and development systems employed by the institution*;

iii. **Transparency in Marketing -** *Consumers are at all times properly informed about the product or service in order to make effective and informed decisions. They are not misled. They are able to compare the nature, value and cost of products and make informed choices*;

iv. **Complaints & Conflicts -** *Consumers are served according to professional ethics and acceptable standards. The institution has a documented procedure to handle customer complaints and customers are aware of the procedure and the resolution options available*;

[1] Commercial banks and nonbanks licensed under the FIA.

v. **Due Care -** *Customers are treated fairly, with due care and diligence over the entire duration of product usage*; and

vi. **Safety & Soundness -** *Consumers feel protected from harm and, if the financial service provider fails, have proper protection (including guarantee schemes). They are protected from the loss of personal assets and data, misuse and fraud or other unwanted intrusion*.

Licensees were required to incorporate the Guideline into their policies, procedures, processes, and practices as appropriate.

To assess the sector's compliance with the Guideline, the Central Bank issued a Market Conduct Survey ("Survey") to all licensees in June 2020. Banks and non-banks[2] within the same financial group were asked to submit one (1) survey response only. The Survey design enabled assessment of the six (6) key principles outlined in the Guideline and included two additional sections on Governance and Gap Analysis. Questions pertaining to Governance were included to assess oversight of the market conduct practices by licensees while the section on the Gap Analysis was included in the Survey to determine whether institutions had conducted such an exercise. Accordingly, the responses to these two sections were not included in scoring the institutions' compliance with the Guideline and were treated separately.

The response rate to the Survey was 96% as twenty-three (23) of the twenty-four (24) institutions complied in a sufficiently timely manner, with the non-respondent citing difficulties in completing the questionnaire due to Covid-19 related challenges.

A findings matrix and scoring methodology was developed to rate the institutions. A rating key ranging from "Unacceptable" to "Excellent" was then developed to determine an overall institutional compliance rating as demonstrated in Table 1 below:

Table 1 - Survey Rating Key

Total Score as a %	Compliance Rating
> 85%	Excellent
70% - 85%	Very Good
51% - 69%	Satisfactory
40% - 50%	Fair
< 40%	Unacceptable

[2] Non-banks refers to nonbank financial institutions licensed under the FIA. Examples of licensed nonbanks include investment banks, merchant banks, finance houses, and trust and asset management companies.

3. Main Findings and Recommendations

Table 2 shows a summary of the scores based on the Survey responses. The table shows the sector's level of compliance with each principle in the Guideline as well as the overall average compliance of the banks and nonbanks with the Guideline.

Table 2 - Sector's Level of Compliance

Section	Banks	Non-Banks	All
Inclusive & Competitive Marketplace	63%	76%	69%
Products & Services	71%	60%	66%
Transparency in Marketing	76%	57%	66%
Complaints & Conflicts	65%	61%	63%
Due Care	78%	79%	78%
Safety & Security	70%	58%	64%
Sector Average	***68%***	***66%***	***67%***

Generally, licensees' compliance with the Guideline were rated as either "satisfactory" or "very good"" based on their responses. Consequently, there is room for improvement in the industry with regards to their market conduct practices. No institution was found to be fully compliant with the Guideline.

It should be noted that the Central Bank's assessment was based solely on responses to the Survey. No onsite examination or offsite verification of banks' market conduct practices were conducted except where the institution's response was checked against the information displayed on their websites.

Overall, the banks' highest average scores were in the areas of 'Due Care' and 'Transparency in Marketing'. Banks also scored fairly well in the areas of 'Products and Services' and 'Safety and Security', but performed weakest in the areas of 'Complaints and Conflicts', and 'Inclusive and Competitive Marketplace'.

Similar to the banks, non-banks' average scores were highest in the areas of 'Due Care', and 'Inclusive & Competitive Marketplace', as they appear to be more competitively priced and serve a wider range of customers. Non-banks were weakest in 'Transparency in Marketing' and 'Safety and Security'.

The Survey has alerted some of the institutions to gaps and shortfalls in their operations and some have already indicated their commitment to closing these gaps within specific timeframes.

Based on the responses received, the main findings and recommendations were as follows:

1. **Inclusive & Competitive Marketplace**

   Certain consumers would find it challenging to locate bank products that met their needs, and which were affordable. Most of the banks' products were not geared towards lower income customers. They appear to target the customer base (mid to high income) that is more likely to maximize the returns to the bank, which could leave some groups underserved. However, the products offered by non-banks were considered simpler and more suitable to this segment of the population.

   Further, at some banks, differently abled persons could encounter difficulties accessing products and services due to the fact that bank branches do not adequately cater for access by physically disabled persons as well as ABMs may not be specifically configured for use by visually and hearing impaired persons.

   It is recommended that licensees review their products and services and consider providing more or better options for lower income customers, senior citizens, and differently-abled customers to encourage financial inclusion.

2. **Products & Services**

   Most banks maintained robust product research and development systems. While banks conducted in-depth market research of their products, non-banks were found lacking in doing the same prior to launching a product. Further, some non-banks did not conduct customer satisfaction surveys.

   It is recommended that licensees conduct market research prior to launching products and services, and conduct customer satisfaction surveys at least annually as part of their normal review of market conduct practices. Such surveys should consider disaggregation by product or services and by branch to gear consistent performance.

3. **Transparency in Marketing**

   Banks were generally compliant in disclosing their interest rates, fees, and charges in advertisements and marketing or promotional material. Most of the banks also have a direct link to the Guideline on their websites. However, non-banks were observed as being less compliant whereby in two cases, the listing of their fees and charges were not readily available to customers, while two other non-banks stated that they only identified interest

rates on their promotional material. One non-bank was also cited for nine complaints relative to misleading advertising.

Licensees are reminded that they are required to place a link to the Guideline on their websites. In addition, licensees must also ensure that all interest rates and fees are clearly articulated in all promotional and marketing material.

4. **Complaints & Conflicts**

Banks generally had comprehensive documented complaints processes in place. However training for staff should be enhanced to ensure that they are familiar with the procedures for handling complaints and treating with conflicts**.**

It is recommended that licensees conduct regular training of staff in their customer complaints handling processes. In addition, licensees should ensure that the Market Conduct Guideline is included as part of the staff training process.

5. **Due Care**

Most banks indicated that customers are treated fairly, with due care and diligence. They indicated that their employees were acquainted with the internal policies that incorporated the Guideline. However, staff training on the Guideline was lacking within the non-banks.

Same recommendations as for (4) above.

6. **Safety & Soundness**

Banks generally took steps to ensure that consumers felt protected from the loss of personal assets and data, or misuse and fraud. Most banks advised customers of the types of accounts and quantum that were covered by deposit insurance. Most banks also maintained professional indemnity insurance for errors and omissions.

Non-banks however were less compliant as several of them had neither professional indemnity insurance nor an integrated information strategy in place. In addition, some non-banks did not conduct vulnerability assessments nor did they have a documented process in place. Several non-banks also did not have a policy in place to reimburse customers who may fall prey to cyber incidents that could result in a loss of funds.

It is recommended that licensees maintain professional indemnity insurance as a safeguard against errors and omissions. Licensees should also ensure the vulnerability assessments are conducted, documented and approved by senior management. Licensees must also ensure that policies for the reimbursement of customers that have been negatively impacted financially by cyber incidents are formally documented and approved.

The assessment scores of these two areas are highlighted in Table 3 below:

Table 3

Governance and Gap Analysis

Section	Banks	Non-Banks
Governance	63%	60%
GAP Analysis	66%	36%

The licensees' responses to questions on governance of market conduct and the conduct of a gap analysis, the following observations were noted:

- **Governance**

  While all institutions have adopted and operationalized the Guideline to some extent, **governance of market conduct appears to be an area requiring improvement across the banking industry**[3]. Compliance with the Guideline did not appear to be treated as a matter requiring close oversight at the Board level. In some non-banks, no member of senior management was assigned the responsibility for ensuring compliance with the Guideline, while others did not develop key performance indicators to facilitate oversight for compliance with the Guideline.

- **Gap Analysis**

  Non-banks scored weaker than the banks in conducting a gap analysis to review their policies, procedures, and systems against the requirements of the Guideline to determine areas for strengthening.

[3] The banking industry refers to both banks and non-banks.

In order to strengthen governance of licensees' market conduct practices the following actions are recommended:-

i. ***Licensees are reminded to develop procedures for the reporting on compliance with the Market Conduct Guideline to the Board. This should include the development of key performance indicators to assess the fair treatment of customers and the conduct of periodic self-assessments to monitor compliance with the Guideline on an ongoing basis.***

ii. ***Where a gap analysis has not been conducted to ensure compliance with the Guideline, licensees are required to incorporate this exercise in their compliance schedule and submit a report to the Board within the next 12 months.***

iii. ***Licensees should ensure that at least one member of senior management is assigned responsibility for market conduct, including implementation of measures for compliance with the Market Conduct Guideline.***

Appendix 1 –

Compilation of Specific Gaps by Banks and Non-banks

Inclusive & Competitive Marketplace

Banks

- Bank's products were geared towards the middle income and high income individuals and small businesses. Affordability of products appears to be geared more towards the middle and high income bracket.
- Credit facilities were not seen as favorable for lower income customers.
- Most banks had no special savings accounts designed for persons in the lower income bracket.
- Accessibility of financing to emerging enterprises was low, as this segment was viewed as unfavourable by some banks due to the high risk involved in this market segment.
- There were limited products available for senior citizens and persons with disabilities.
- Some banks were found to have very limited product offerings geared towards customers in vulnerable segments such as low-income persons, minors, students, and small businesses.
- Most banks were equipped to serve, differently abled persons with limited mobility and illiterate persons. However, some improvement is still required.
- Some ABMs are not specifically configured / designed to serve visually and hearing impaired persons.

Non-Banks

- Non-banks scored the second highest in this section, which was primarily due to the simplicity of the products offered and the focus on quality customer service. Furthermore, it was noted that the termination of facilities and relationships were hassle free.

Products & Services

Banks

- The research process for the development of new products did not always incorporate local market research when the parent company was domiciled in another jurisdiction.
- 88% of the banks conducted customer satisfaction surveys.

Non-Banks

- Most of the non-banks did not provide sufficient details to assess the market research that is conducted nor the internal procedures followed prior to launching a new product or service.
- 81% of the non-banks conducted customer satisfaction surveys.

Transparency in Marketing

Banks

- Most banks indicated that their interest rates and other relevant fees and charges for banking products/services were clearly displayed on advertisements, marketing material or other promotional material.
- 75% of the banks had a link to the Guideline on their websites.

Non-Banks

- In some cases, internal customer satisfaction surveys highlighted advertising as one of the areas for improvement. 81% of the non-banks indicated that they identified the interest rates and fees on their promotional material.
- 81% of the non-banks stated that a listing of all their Fees and Charges was readily available to customers.
- 88% of the non-banks had a link to the Guideline on their websites.

Complaints & Conflicts

Banks

- All banks had a complaints process in place, however; further improvement was required in its documentation to make it more robust and effective.
- 75% of the banks conducted training to ensure that relevant staff understood their bank's customer complaints process and also conducted staff training in the handling of customer complaints.

Non-Banks

- Some non-banks did not conduct staff training in the handling of customer complaints.

Due Care

Banks

- Most banks indicated that their employees were acquainted with the internal policies that incorporated the Guideline.
- 25% of the banks did not reference the Guideline in staff training (particularly frontline staff).

Non-Banks

- Several non-banks required improvement on training staff in the Guideline.

Safety & Security

Banks

- 88% of the banks had professional indemnity (errors and omissions) insurance.
- All the banks with the exception of one indicated that customers were advised of the type of accounts and quantum of deposit insurance protection (with the Deposit Insurance Corporation) provided on deposits.

Non-Banks

- Only 19% of the non-banks maintained professional indemnity (errors and omissions) insurance.
- Most non-banks had an integrated information security strategy in place.
- Some non-banks did not conduct vulnerability assessments nor did they have a documented process in place.
- Several non-banks did not have a policy in place to reimburse customers who have fallen prey to a cyber-incident, which may result in a loss of funds.

Governance & Gap Analysis

Banks

- Most banks indicated that reports on compliance with the Guideline were submitted to the Board.
- 75% of the banks indicated that a member of senior management was assigned the responsibility for ensuring compliance with the Guideline
- Most banks utilized key performance indicators to obtain reasonable assurance that they are in compliance with the Guideline.

Non-Banks

- Several non-banks did not conduct a Gap Analysis to determine compliance with the Guideline.
- Several non-banks did not have a member of senior management assigned the responsibility for market conduct including ensuring compliance with the Guideline.
- Some non-banks did not develop key performance indicators to facilitate oversight for compliance with the Guideline.