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# FINANCIAL STABILITY IN TIMES OF CHANGE

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December 4, 2020

# Two topics...

- A large share of financial authorities' resources in 2020 have been dedicated to address the economic consequences of the pandemic, both in terms of regulation and supervision.
- Key concerns:
  - Business continuity.
  - Credit risk: additional information and forward-looking approach (importance of stress testing).
  - Complementarity with fiscal and monetary tools.
- Comparative analysis from diverse entities has been very valuable.
- However, it is crucial to maintain a medium-term agenda in addressing risks and market developments.
- This presentation focuses on two topics:
  - Recent progress in industry and regulators closing the gaps with best practices we had identified in mid-2019...and related to risks that have materialized or become more prevalent in the last year.
  - Medium-term challenges for the Chilean financial system.

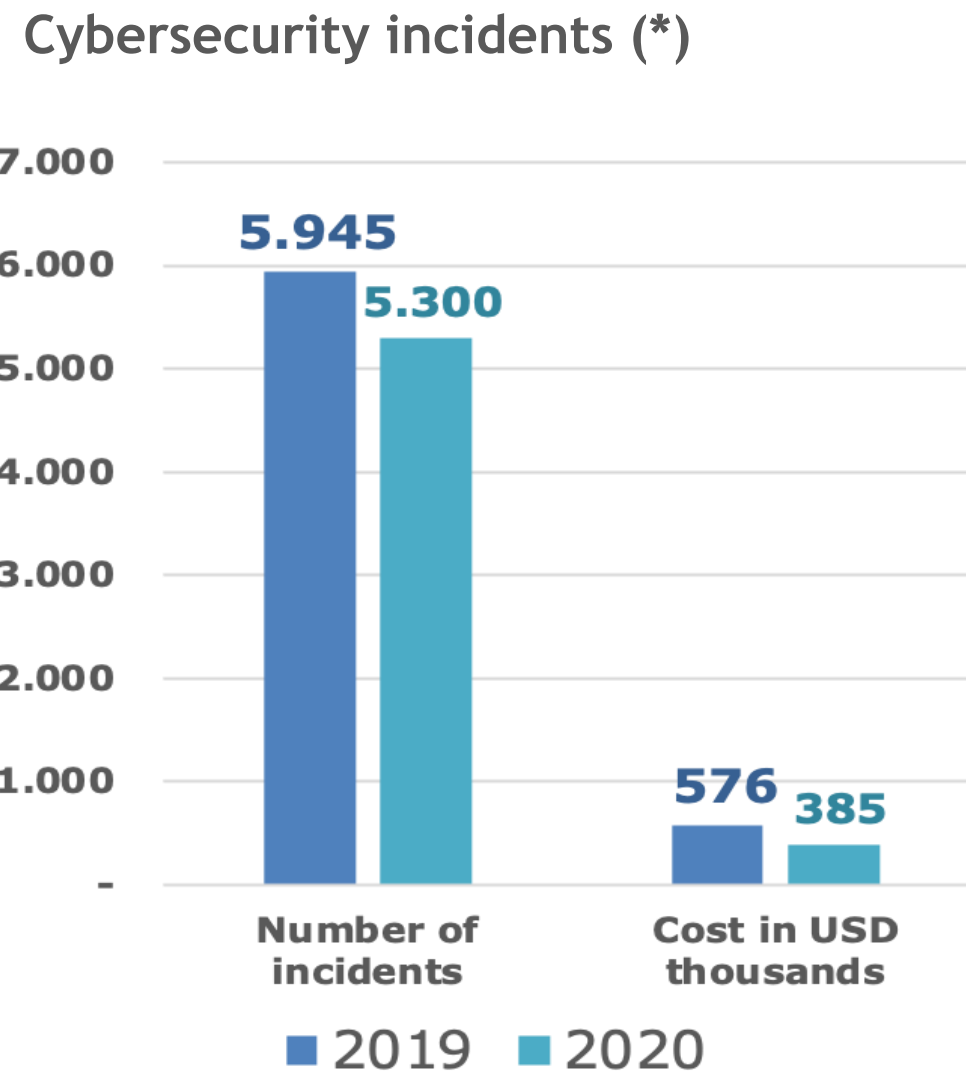
# We have moved forward in closing gaps with international best practices...

- Publication of secondary regulation for Basel capital framework:
  - Capital sufficiency is the new focus. Pillar 2 already in force.
  - Implementation deferral designed to support pandemic recovery, but capital is essential in changing times - no further delays should be expected.
- Enhanced tools for prompt corrective action in banks and contingency planning (in the CMF and in MoU with CBCh).
- Enhanced monitoring of conglomerates within an integrated supervisor.
- 6 QIS of risk-based capital in insurance and enhanced capital requirements in law.
- Road map to address risks (in banks and insurance companies) and disclosure related to climate change.
  - Enhanced ESG disclosure in consultation process.

# ...but several challenges remain

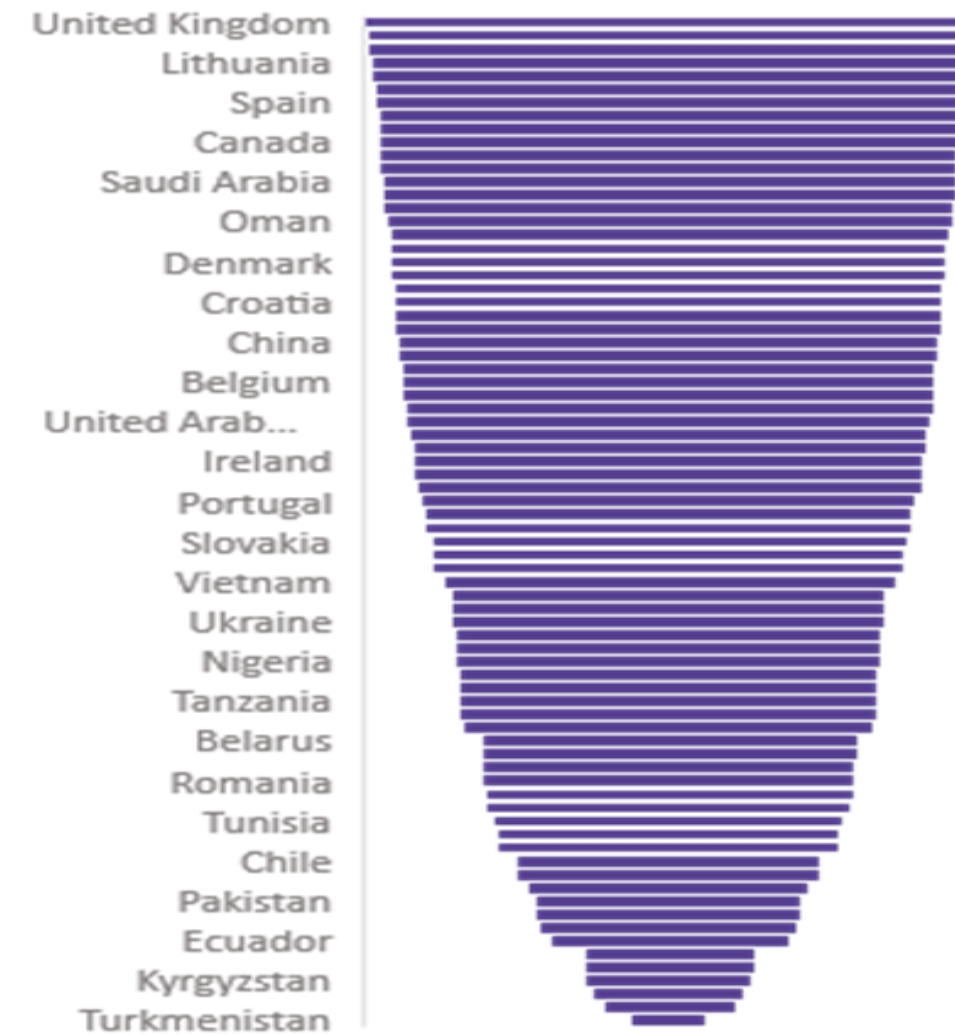
- Adoption of Basel framework for industry and CMF:
  - Pillar 2, including stress testing.
  - Internal models.
- Legal changes to enhance resolution tools (TC with OTA).
- Fully-fledged framework for financial conglomerates.
- Robust risk and capital framework for insurance sector (Solvency II)
  - A legal proposal was sent in 2011, and further revisions sent to Chile's Ministry of Finance in 2018.
  - Hope for a prompt discussion.
- The pandemic has brought renewed concerns and attention to cybersecurity risks:
  - Increased risks: teleworking (point of entry).
  - Increased costs: online platforms have become crucial for continuity of service.

# Regulatory and private progress in cybersecurity, but country-wide coordination mechanisms can be improved



(\*) Data aggregated over 10 months. Includes banks, cooperatives, and credit card issuers.  
Source: CMF.

Countries best prepared for cyberattacks



Source: Comparitech.com



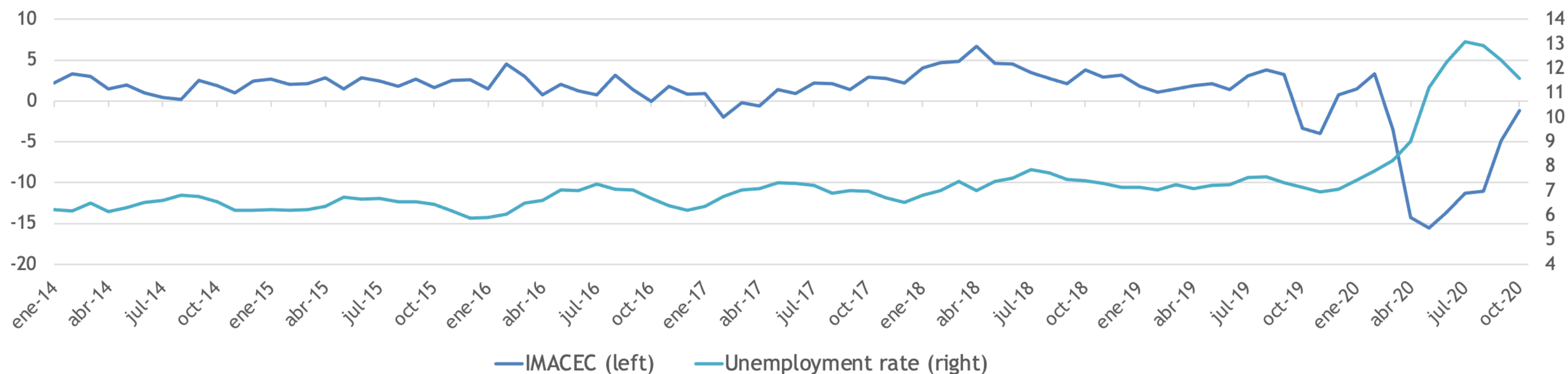
# Medium-term challenges: looking past the pandemic

- Insurance products linked to private pension schemes are facing a very challenging environment:
  - Annuities: low interest rates, low inflow of retirees.
  - SIS: low interest rates, increased claims, direct negative impact of 10% withdrawals.
  - Importance of the CMF's technical role in the discussion of legal reforms in pensions that address SIS.
- Several legal initiatives designed to help financial clients, erode the capacity of the financial sector to support the recovery, and in some cases can severely weaken specific institutions.
- Greater confidence in the financial sector an important starting point for this discussion.
- Some key dimensions to ensue this are:
  1. Support economic recovery, in particular financing of SMEs (employment vs GDP).
  2. Move forward in financial inclusion in payments, savings and insurance.
  3. Enhance both consumer financial protection and market conduct.

# 1. Supporting economic recovery

- Importance of government guarantees, particularly for sectors that are still being impacted by COVID restrictions (e.g. services).
- Enhanced credit information system and open data regulation.
- Non-bank credit intermediation:
  - FINTECH law.
  - Facilitate market financing: automatic registry, expand private and exempt placements (including small scale financing).

Macroeconomic indicators  
(YOY variation)

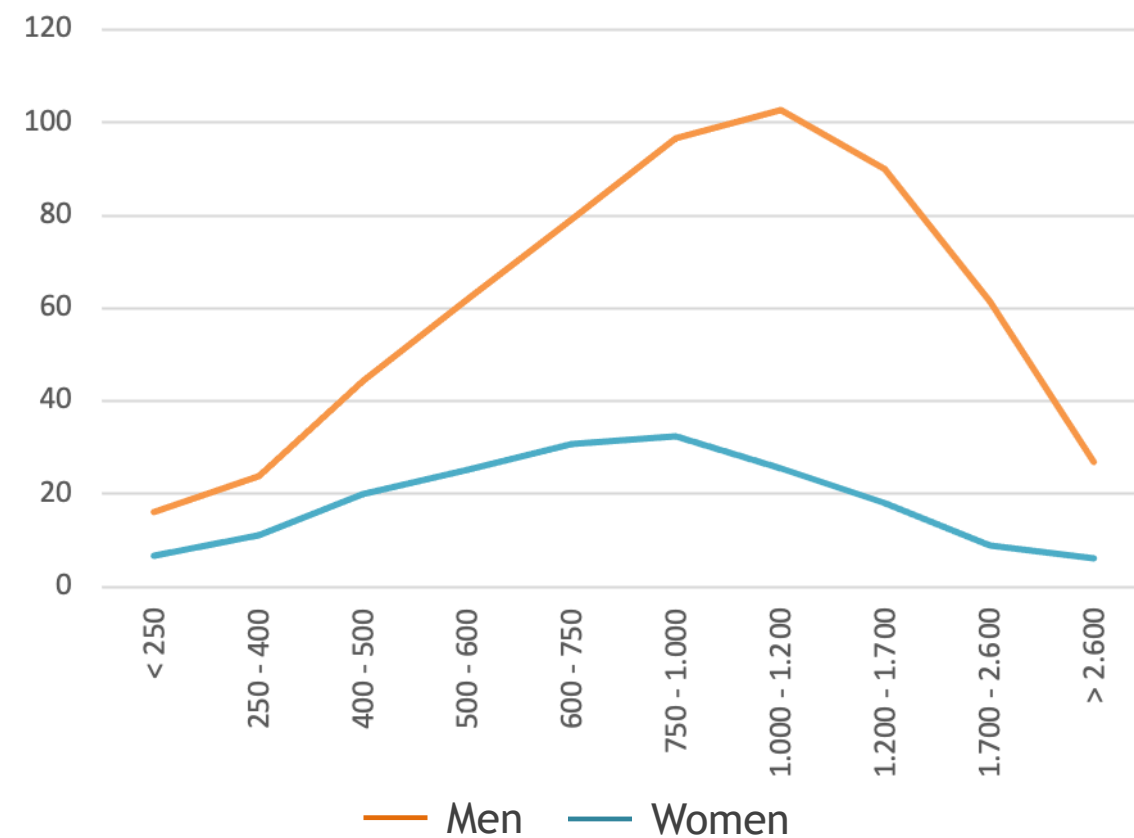


Source: Central Bank of Chile.

# 2. Moving forward with inclusion and financial education

- Considering our per capita income, Chile has a large and complex financial sector.
- The main relationship of many households with the financial sector is through debt.
- Scope to expand coverage of insurance products

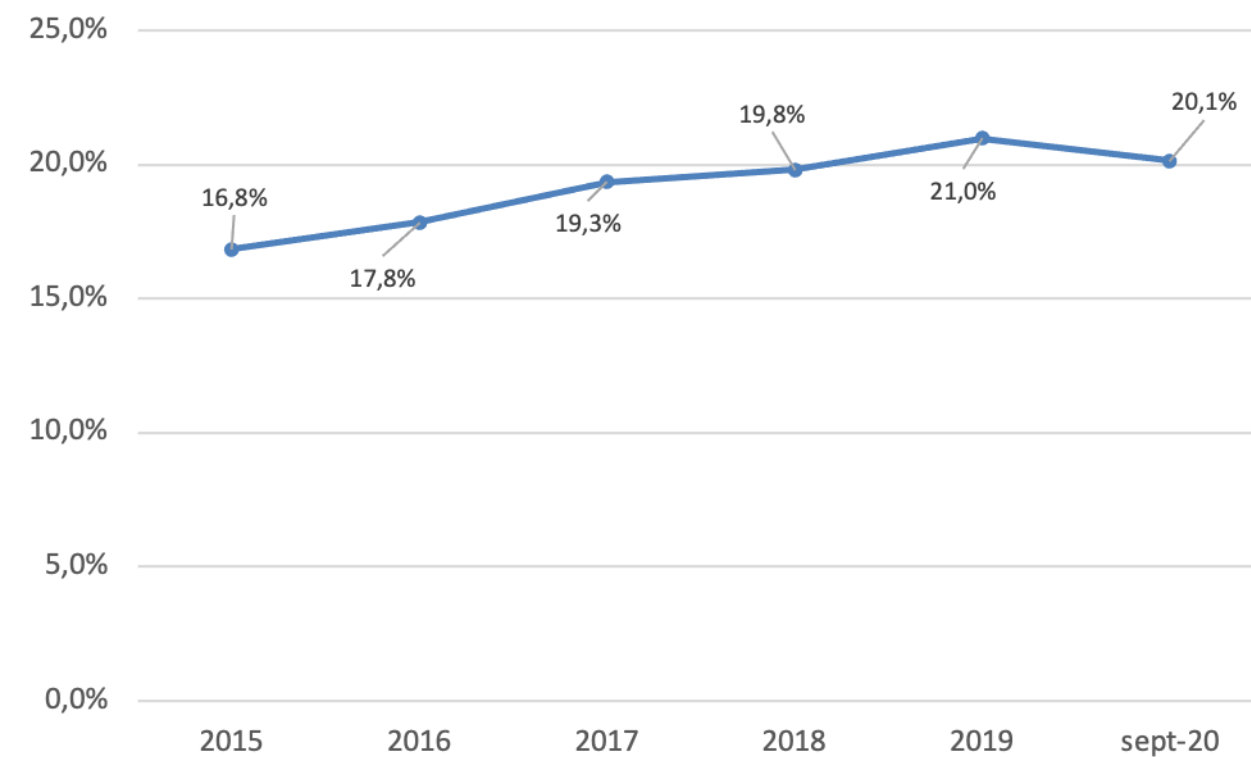
**Mean of consumption debt to savings balances in banks**  
(number of times)



Source: CMF's 2020 Gender Report.

**Mass coverage insurance products**

(percentage of the direct premium of mass insurance with respect to the total premium in each period)



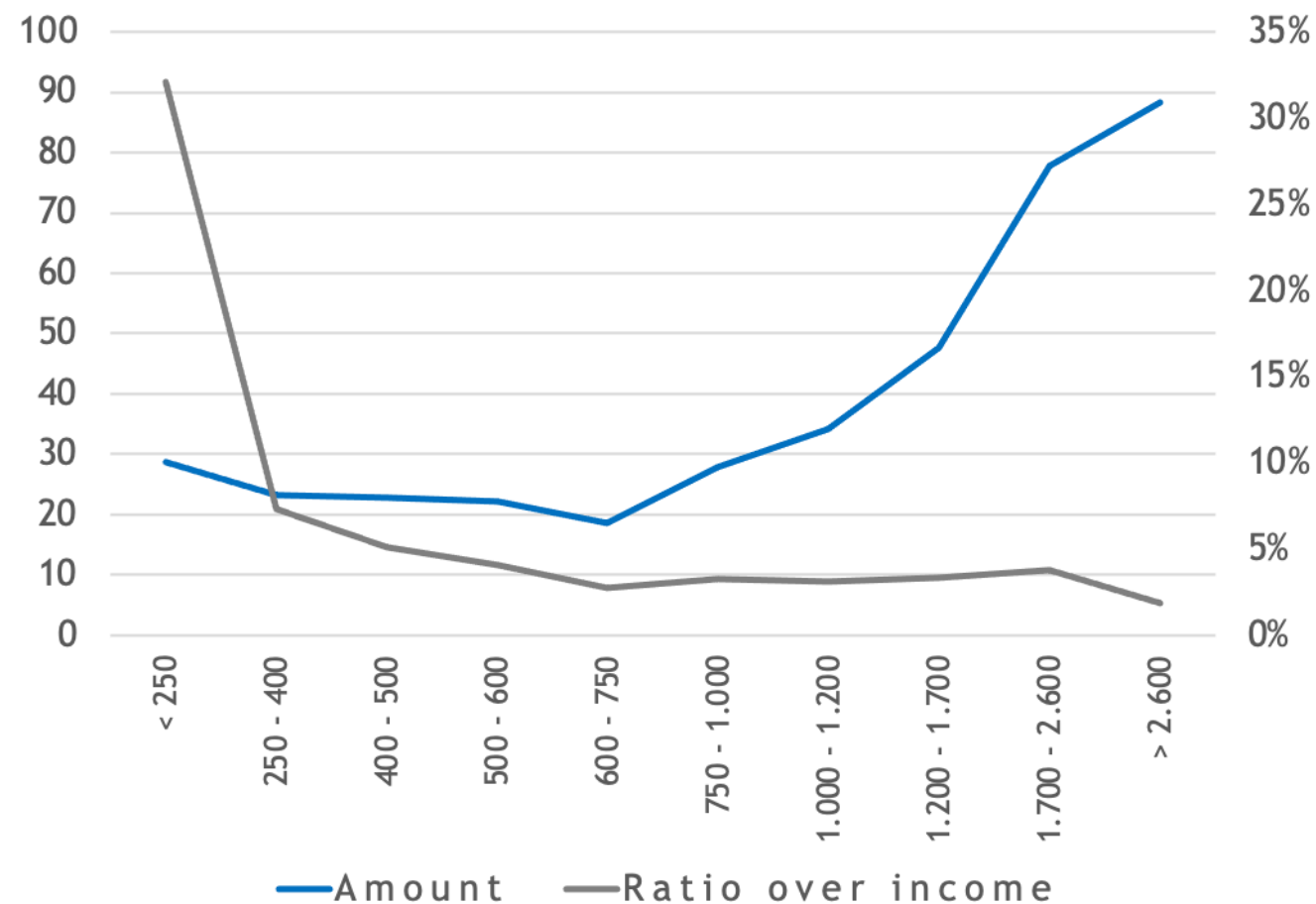
Source: CMF, based on information provided by insurance companies.



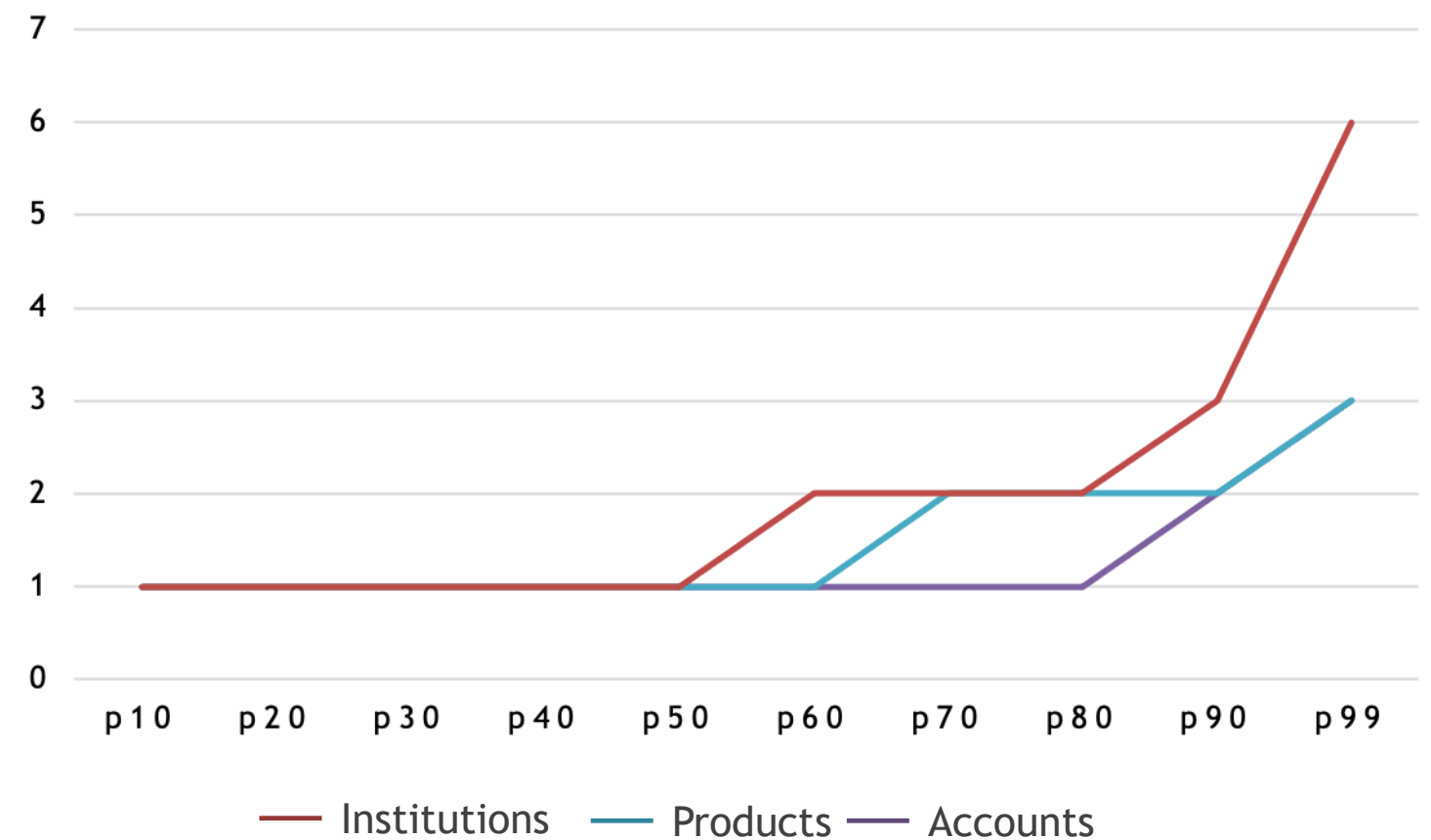
# 2. Moving forward with inclusion and financial education

- Financial education is still low compared to OECD countries.
- Direct term savings are low, concentrated and not diversified (at a time that pension savings are being withdrawn).

**Mean of term savings**  
(thousands of CLP, percentage for income range)



**Concentration of savings**  
(number by decile of population)

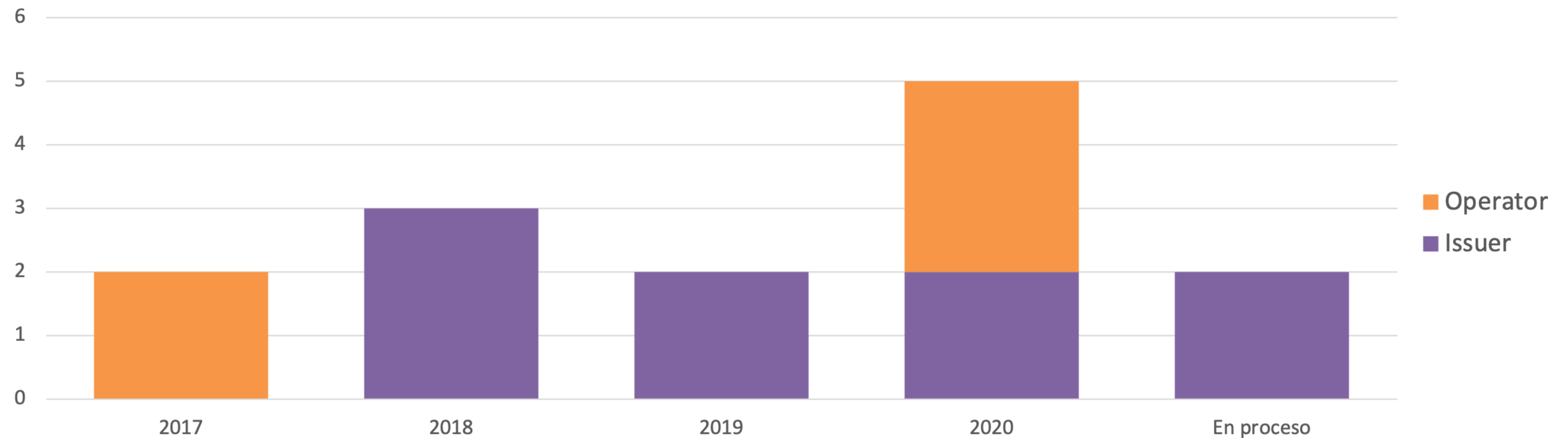


Source: Term Savings in the Financial system, CMF 2020.

# Payment legislation has experienced important developments, but important challenges remain

- Very high percentage of population with debit accounts

Retail payment system licensing (\*)  
(number)



(\*) Authorization of existence  
Source: CMF.

# 3. Strengthening market conduct

Enhance regulation and supervision: “Twin Peaks” structure and CMF’s strategic plan.

## Consumer protection

- **Tone from the top:**
  - Principles: fair treatment, clear product information, conflict of interest, complaint management, and data protection.
  - Procedures, policies, and controls.
- **Enhance regulation and enforcement of consumer financial protection, reinforcing efforts undertaken in recent years in insurance and banking.**

## Market integrity and transparency

- Continue to use changes introduced in the CMF’s law (2017).
- Legal proposals currently in Congress:
  - Increased fines.
  - Whistleblowers.
  - Introduction of blackout periods.



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