

MSCI ESG Ratings Methodology: Consumer Financial Protection Key Issue

MSCI ESG Research LLC

October 2023

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Introduction

This document provides essential information on the components of the Consumer Financial Protection Key Issue to enable users of ESG Ratings to understand how our outputs are determined. Consumer Financial Protection is a Key Issue in the Social Pillar of the MSCI ESG Ratings model. Financial institutions are evaluated on product stewardship and transparency, including efforts to mitigate potential reputational and regulatory risks arising from unethical lending practices or mis-selling financial products to consumers.

For additional details on the MSCI ESG Ratings Model, refer to Section 2, Data, ratings and scores, of “ESG Ratings Methodology.”

Exhibit 1: MSCI ESG Key Issue hierarchy

3 Pillars	10 Themes	33 ESG Key Issues
Environment	Climate Change	Carbon Emissions
		Climate Change Vulnerability
		Financing Environmental Impact
		Product Carbon Footprint
	Natural Capital	Biodiversity & Land Use
		Raw Material Sourcing
		Water Stress
	Pollution & Waste	Electronic Waste
		Packaging Material & Waste
		Toxic Emissions & Waste
	Environmental Opportunities	Opportunities in Clean Tech
		Opportunities in Green Building
		Opportunities in Renewable Energy
Social	Human Capital	Health & Safety
		Human Capital Development
		Labor Management
		Supply Chain Labor Standards
	Product Liability	Chemical Safety
		Consumer Financial Protection
		Privacy & Data Security
		Product Safety & Quality
		Responsible Investment
	Stakeholder Opposition	Community Relations
		Controversial Sourcing
	Social Opportunities	Access to Finance
		Access to Health Care

3 Pillars	10 Themes	33 ESG Key Issues
		Opportunities in Nutrition & Health
		Board
		Pay
		Ownership & Control
		Accounting
		Business Ethics
		Tax Transparency
Governance	Corporate Governance	
	Corporate Behavior	

Risks associated with this Key Issue

- Unanticipated credit losses due to non-transparent or unsustainable products.
- Loss of market access due to regulatory change.
- Increased costs from litigation, regulatory penalties.

Consumer Financial Protection Key Issue Score

The Consumer Financial Protection Key Issue Score evaluates the company's level of exposure to, and management of risks on this Key Issue. The Key Issue Score is based on the Exposure Score and the Management Score using the formula below. The Exposure Score and the Management Score are combined such that a higher level of exposure requires a higher level of demonstrated management capability in order to achieve the same overall Key Issue Score.

$$KI_i = 7 - (\max(EXP_i, 2) - MGMT_i)$$

Where:

- KI_i is the Key Issue Score for company i .
- EXP_i is the Exposure Score for company i .
- $MGMT_i$ is the Management Score for company i .

Consumer Financial Protection Management Score

The Consumer Financial Protection Management Score evaluates the company's ability to manage its exposure to risks on this Key Issue. It is based on an average of the scores associated with each of the Management Score categories listed below, modified by Controversies. These scores are derived from data points that are scored on a 0-10 scale, with 10 corresponding to best practice and 0 corresponding to lack of management. Refer to Section 3.3, Analyzing risk management, of "ESG Ratings Methodology" for additional details. Sources are company disclosures except where otherwise indicated. The following formula is used to calculate the Consumer Financial Protection Management Score - Excluding Controversies:

$$MGMT_{CFP,i} = \frac{PRA_{CFP,i} + PERF_{CFP,i}}{2}$$

Where:

- $MGMT_{CFP,i}$ is the Consumer Financial Protection Management Score - Excluding Controversies for company i .
- $PRA_{CFP,i}$ is the Practices Score for company i .
- $PERF_{CFP,i}$ is the Performance Score for company i .

The following data points, without constituting an exhaustive list, are representative of the inputs to the Management Score and are used in the Management Score calculation:

Management Score category: Practices

- **Debt collection policy.**
Definition: Indicates whether the company has a formal debt collection policy supported by training of relevant employees.
- **Employee training on consumer financial protection.**
Definition: The scope of employee training programs related to consumer financial protection, including financial literacy and ethical selling practices.
- **Fair advertising policy.**

Definition: Indicates whether the company has a policy on fair marketing practices supported by an oversight committee or training of relevant employees.

- **Financial education initiatives and stakeholder outreach.**

Definition: The extent of programs to improve financial literacy, either through formal partnerships with financial education organizations, targeted initiatives for specific demographics or general outreach programs.

- **Company offers loan modification options.**

Definition: Describes loan modification options available to retail customers through income-based repayment plans or access to escalation options.

- **Oversight of complaint resolution process.**

Definition: Indicates whether there is board-level oversight, management-level committee oversight, or a formal monitoring group for customer complaints.

- **Financial product complaint handling process.**

Definition: Indicates whether the company has a formal process to handle customer complaints through a customer ombudsman, an internal complaint review body or a complaint hotline.

- **Oversight of financial product or service reviews.**

Definition: Indicates whether there is board-level oversight, management-level committee oversight or another internal review body that is responsible reviewing products and services.

Management Score category: Performance

Representative performance metrics:

- Involvement in high-risk lending, insurance or investment products.

- Complaint growth.

Sources: Company disclosures, U.S. Consumer Financial Protection Bureau, Australian Financial Complaint Authority, UK Financial Conduct Authority, UK Financial Ombudsman Service, Reserve Bank of India.

Controversies

A controversy deduction ranging from 0 to -5 points is subtracted from the overall Management Score, based on the severity and type of controversies facing the company on this Key Issue. The following categories of controversies are used in the assessment.

- Product safety controversies

For more details on how controversies are included in the MSCI ESG Ratings model, refer to Section 3.3.2, Controversies cases, of “ESG Ratings Methodology.”

Consumer Financial Protection Exposure Score

The Consumer Financial Protection Exposure Score evaluates the company’s exposure to risks on this Key Issue. It is assigned by default. All companies get a default exposure score of 7 on a 0-10 scale, with 10 corresponding to the highest risk and 0 corresponding to the lowest risk. Refer to Section 3.2, Analyzing risk exposure, of “ESG Ratings Methodology” for additional details.

Model Update History

In November 2020, the Consumer Financial Protection Key Issue was updated with new methodology to assess financial product sales practices and removal of risk exposure as a differentiating factor between companies.

Contact us

[msci.com/contact-us](https://www.msci.com/contact-us)

AMERICAS

Americas	1 888 588 4567 *
Atlanta	+ 1 404 551 3212
Boston	+ 1 617 532 0920
Chicago	+ 1 312 675 0545
Monterrey	+ 52 81 1253 4020
New York	+ 1 212 804 3901
San Francisco	+ 1 415 836 8800
São Paulo	+ 55 11 3706 1360
Toronto	+ 1 416 628 1007

EUROPE, MIDDLE EAST & AFRICA

Cape Town	+ 27 21 673 0100
Frankfurt	+ 49 69 133 859 00
Geneva	+ 41 22 817 9777
London	+ 44 20 7618 2222
Milan	+ 39 02 5849 0415
Paris	0800 91 59 17 *

ASIA PACIFIC

China North	10800 852 1032 *
China South	10800 152 1032 *
Hong Kong	+ 852 2844 9333
Mumbai	+ 91 22 6784 9160
Seoul	00798 8521 3392 *
Singapore	800 852 3749 *
Sydney	+ 61 2 9033 9333
Taipei	008 0112 7513 *
Thailand	0018 0015 6207 7181 *
Tokyo	+ 81 3 5290 1555

* = toll free

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