Final

**76322 v1**

ARMENIA

***Diagnostic Review of***

***Consumer Protection and***

***Financial Literacy***

**Volume I**

**Key Findings and Recommendations**

June 2012



The World Bank

Financial and Private Sector Development Vice-Presidency

Washington, DC

This Diagnostic Review is a product of the staff of the International Bank for Reconstruction and Development/ The World Bank. The findings, interpretations, and conclusions expressed herein do not necessarily reflect the views of the Executive Directors of the World Bank or the governments they represent.

**ARMENIA**

**Diagnostic Review of Consumer Protection and**

**Financial Literacy**

**Volume I – Key Findings and Recommendations**

***Contents***

[Acronyms and Abbreviation iii](#_Toc331409056)

[Acknowledgments iv](#_Toc331409057)

[Executive Summary 1](#_Toc331409058)

[I. Background on Armenian Household Finances 4](#_Toc331409059)

[II. Importance of Consumer Protection and Financial Literacy 7](#_Toc331409060)

[III. Consumer Protection and Financial Literacy in Armenia: Existing Policy and Institutional Framework 10](#_Toc331409061)

[IV. Key Findings and Recommendations 13](#_Toc331409062)

[*Institutional Framework* 13](#_Toc331409063)

[*Consumer Disclosure* 15](#_Toc331409064)

[*Regulation of Business Practices* 18](#_Toc331409065)

[*Dispute Resolution Mechanisms* 20](#_Toc331409066)

[*Financial Education* 22](#_Toc331409067)

[V. List of Recommendations 26](#_Toc331409068)

[VI. The World Bank 2012 Financial Literacy survey preliminary results 32](#_Toc331409069)

[VII. References 34](#_Toc331409070)

# Acronyms and Abbreviation

|  |  |
| --- | --- |
| AMD  AMMP  ATM  CBA | Armenian Drams  Association of Mortgage Market Participants  Automatic Teller Machine  Central Bank of Armenia |
| CIU  CMTPLI  CPMC  EU  FSM  FX  GDP  IC  LIIA  MoES  MTPL  NGO  NPL  LFMS  LIF | Collective Investment Undertaking  Compulsory Motor Third Party Liability Insurance  Consumer Protection and Market Conduct  European Union  Financial System Mediator  Foreign Exchange  Gross Domestic Product  Investment Companies  Law on Insurance and Insurance Activities  Ministry of Education and Science  Motor third party liability  Non-governmental organization  Nonperforming Loan  Law on Financial System Mediator  Law on Investment Funds |
| LIIA  LSM | Law on Insurance and Insurance Activities  Law on Securities Market |
| PCR | Protection of Consumers' Rights |
| UBA  UCO | Union of Banks of Armenia  Union of Credit Organizations |
|  |  |
|  |  |
|  |  |
|  |  |
|  | n.a. Not Available  $1 = 389.79 AMD (8 March 2012) |

# Acknowledgments

This Diagnostic Review was prepared by a team led by Susan Rutledge (Head of World Bank’s Global CPFL Program), and comprised Richard Symonds (capital markets), Tomas Prouza (banking), Deborah Senn (insurance), Juan Carlos Izaguirre (non-bank credit institutions), Johanna Jaeger (financial education) and Edgar Karapetyan (project consultant). Nelli Khachatryan from the Yerevan Office also supported the mission. Jean-Michel Happi, Country Manager, provided overall guidance to the team. Volume I of the Review was written by Tomas Prouza, Volume II was compiled from the submission of all team members.

Peer review comments were received from Arabela Aprahamian (ECSPF), Rafe Mazer (CGAP) and Leyla Castillo (FFIMS).

The team expresses its appreciation to the Armenian authorities for their cooperation and collaboration during the preparation of the Review. The project team would like to thank all those who so generously contributed to the final report.

# Executive Summary

1. **The key objectives of this Review are twofold: (i) to assess the existing financial consumer protection framework, by reviewing laws, regulations and practices in Armenia compared to international good practices; and (ii) to provide recommendations on ways to improve consumer protection and financial literacy in Armenia.** The Review is based on compliance with a set of Good Practices developed using international benchmarks, such as the principles released by the Basel Committee, IOSCO and IAIS, as well as the OECD recommendations for financial education and awareness on pensions, insurance, and credit products.[[1]](#footnote-1)
2. **The Review provides a detailed assessment of the institutional, legal and regulatory framework in four financial segments, namely banking, non-bank credit institutions, securities and insurance.** Volume I summarizes the key findings and recommendations of the Review and Volume II presents a detailed assessment of each financial segment compared to the Good Practices. Volume II also includes an annex that analyzes and provides recommendations on financial education.
3. **Many key steps have already been taken in financial consumer protection, especially at the regulatory and institutional levels.** The Central Bank of the Republic of Armenia (CBA) is the institution tasked with complete regulation and supervision of the Armenian financial market, including pawn shops and foreign exchange bureaus. The CBA is also responsible for developing, implementing and enforcing financial consumer protection policy in Armenia. The consumer protection agenda is handled by the Consumer Protection and Market Conduct (CPMC) Division, part of the Financial System Stability and Development department of the CBA. Mandate of the CPMC Division is based on the CBA objective to "ensure essential conditions for protection of rights and lawful interests of the financial system consumers" which is in line with the requirement to have a strong financial consumer protection framework – but adequate resources need to be made available for the task.[[2]](#footnote-2)
4. **To improve consumer confidence in financial institutions in Armenia, the Review proposes five key measures to strengthen the position of consumers**. These are: (i) strengthen the institutional framework for consumer protection and financial literacy; (ii) improve disclosure of information for financial consumers; (iii) develop regulation of business practices of financial institutions; (iv) upgrade dispute resolution mechanisms for consumers; and (v) develop a multi-stakeholder financial education program for consumers.
5. **Regarding the institutional framework, adequate resources need to be allocated to the consumer protection team and modern supervisory tools should be made available.** TheCPMC Division is staffed with only four people but with the new tasks it should take on an institutional needs assessment should be conducted to define proper staffing levels and position within the CBA's organizational structure. The team should also be able to use supervisory tools such as mystery shopping.
6. **Consumer organizations should be strengthened and motivated to assist the CBA in market monitoring.** There are currently no consumer organizations that would focus primarily on financial services. The World Bank and other international organizations could provide further recommendations on how the NGO sector could be strengthened up and the CBA could provide training and resources to interested consumer NGOs and support their work that would complement its own activities (e.g. monitoring of advertising, collecting information on business practices, etc.).
7. **Self-regulation through codes of conduct should be supported.** The CBA should encourage financial sector associations to upgrade or develop codes of conduct that would build on existing consumer protection regulations and further strengthen the position of the consumers.
8. **In terms of consumer disclosure, the CBA should issue regulations that require financial institutions to provide clear, understandable, timely, comparable and standardized information to consumers.** The CBA should require all financial institutions to disclose the effective price or cost of financial products, using standard calculation methods, in all advertising, marketing and sales materials. All financial institutions should also be required to provide consumers with a simple, short and standardized "key facts statement" that summarizes the key terms and conditions of each financial contract. Consumers should also have access to full information on financial products or services they acquire, including terms and conditions, contract notes, insurance policies, notifications of changes in contract terms, statements of personal investment advice, periodic account statements, etc.
9. **The CBA should also publish information to help consumers make well-informed decisions.** The CBA could publish tariff surveys that include information on interest rates, fees, charges and commissions charged for the same service by different financial institutions. In several countries the promotion of clear, standardized and comparable disclosure to consumers have proven to be an effective mechanism to promote competition, bringing down the cost of financial products and services. The CBA could also prepare a glossary of key financial terms. For the implementation of consumer disclosure measures, it would be useful to have feedback not only from the financial industry but also from consumers – possibly through consumer testing – to make sure that they clearly understand the information presented to them.
10. **In the area of regulation of business practices, the CBA should require that sales agents are well trained and should test them regularly.** The point-of-sale staff plays a very significant role in ensuring that consumers make informed decisions. Therefore, requirements should be set for the knowledge of the sales staff and they should be tested regularly with the CBA supervising the testing.
11. **Advertising needs to be regulated and monitored properly to ensure that consumers are not mislead.** The CBA needs sufficient capacity to monitor advertising of financial institutions and should also introduce rules on the content of advertising (e.g. using APR rather than nominal interest rate for consumer credit, naming the CBA as the regulator, etc.).
12. **In the area of complaints and disputes Armenia has developed a very effective Financial System Mediator.** However, its services are currently available only to private individuals but should also be made available to sole entrepreneurs, micro- and small-size businesses[[3]](#footnote-3).
13. **All financial institutions should regularly analyze the complaints received and the analysis should be provided to the CBA.** The CBA can thus receive information about potential systemic issues and could improve the existing regulations or financial education activities to deal with the most often repeated complaints.
14. **Lastly, a multi-stakeholder financial education program should be developed in Armenia to improve financial consumer protection in the long run.** The CBA, other government authorities, financial sector associations, consumer associations and private sector institutions should participate in the elaboration of the national financial education program, with both in-school programs and programs for other groups of citizens. Consumers of financial products should not only receive adequate information on financial products but should primarily be equipped to use this information to make informed decisions.
15. **The Steering Committee for the National Strategy of Financial Education should become the key body to manage financial education in Armenia.** The Steering Committee should coordinate public and private financial education programs in order to maximize financial literacy impact, leverage existing resources and avoid duplication of efforts. It should also regularly evaluate existing financial education programs and their efficiency and publicly report about effective programs.

# Background on Armenian Household Finances

1. **In recent years, the Armenian authorities have taken several forward-looking steps in improving financial sector regulation and supervision.** Following the sale of the Armenian Stock Exchange and the Central Depository to the NASDAQ OMX Group in the 2007, the Central Bank of Armenia (CBA) undertook the implementation of numerous EU Directives. Of particular importance were the “Lamfalussy” Directives related to transparency of ownership and control. In 2008, the CBA established a Financial System Mediator as a statutory ombuds service to handle disputes between financial institutions and their retail customers. In addition, the CBA established a separate Consumer Protection and Market Conduct Division within the Financial Stability Department and the Division has conducted both offsite and onsite inspection of the business conduct of financial institutions.

1. **Nevertheless financial sector remains rather shallow and financial inclusion remains very low.** Total credit to the private sector remains low at only 28 percent of GDP (2010), with household debt at 12 percent of GDP. Based on the Findex data[[4]](#footnote-4), 32% of adults used a loan originated from their family or friends, while only 19% used a loan originated by a formal financial institution in 2011. Capital market capitalization is under one percent (at just 0.3 percent) of GDP. Total insurance penetration is just 0.24 percent of GDP, although this is likely to increase with the introduction of mandatory motor third party liability (MTPL) in 2010. However even within the banking sector, financial inclusion is weak with an estimated 40 percent or more of the population being excluded from using formal financial system. The Findex data show that only 17% of adult Armenians had an account with a formal financial institution in 2011. According to the CBA, individuals represent just 59 out of 100 deposit accounts and according to the Armenian credit bureau (which includes all household loans except those made by pawnshops), only about one-third of the population borrows from formal credit providers.
2. **Consumer confidence in financial institutions is also limited.** When asked in the 2008 USAID survey why the public did not have a bank account, 71 percent responded that they lacked “confidence” in the banking sector. Almost half (43 percent) of population cited bad prior experience but only five percent noted difficulties with poor physical access to banks. Similarly a 2008 survey by the International Labour Organization (ILO) found that of households with a family member “in migration,” 30 percent did not trust the banks. Weak understanding of the risks and rewards of financial services may also play a role. In the ILO survey, almost three-quarters of households noted that they were unaware of the availability of savings products or their terms and conditions.
3. **The retail financial sector in Armenia is based on banking services.** Since 2009 (after the 2008 crisis) the banks have managed to significantly increase its assets both in real terms and related to the Armenian GDP. The increase in the volume of loans has been slower but steady. The financial sector must deal with significant dollarization of the economy both in the savings and loan markets.

*Table 1: Total assets/loans of banking system to GDP*

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **%** | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** |
| **Total assets of banking system/GDP** | 22,8 | 19,8 | 18,4 | 17,6 | 19,1 | 19,6 | 19,7 | 24,3 | 28,7 | 42,7 | 44,5 |
| **Total loans of banking system/GDP** | 9,6 | 7,1 | 6,7 | 6,6 | 7,5 | 8,7 | 9,2 | 13,5 | 17,8 | 23,7 | 27,1 |

*Source: CBA*

1. **Households use banks as the main savings institution.** With regard to demand deposits, households own 32.5 % of AMD-denominated demand deposits and 47.9 % of FX-denominated demand deposits. As for the time deposits, households own 65.2 % of AMD-denominated time deposits and a full 83 % of FX-denominated time deposits. Among various foreign currencies, the US dollar is the main savings currency. The denomination of household savings in US dollars not only brings foreign currency risk to the retail savers but also significantly reduces Armenian banks' local currency sources for lending purposes.
2. **Consumer lending is expanding in all segments of the market with borrowers bearing significant currency risks.** More than 62 % of all loans at the end of 2011 were extended in foreign currencies (see Table 2). The lack of AMD deposits and the lack of currency swap products mean that banks provide as much lending in US dollars as possible, reserving their AMD deposits for loans that must be extended in AMD (consumer credit) and that bring the highest return. All other loans are extended in US dollars with the consumer bearing all currency risks. While the ratio of AMD vs. FX-denominated loans to households is 2:1, almost 80% of loans to legal entities are FX-denominated. As for the household lending, one third of FX-denominated loans belongs to mortgages.

*Table 2: Banking system loan structure*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **31.12.2011** | **AMD '000** | **Share** | **FX '000** | **Share** | **Total '000** |
| **Total Loans** | 465 349 797 | 37,70% | 768 968 859 | 62,30% | **1 234 318 656** |
| Loans to households including sole entrepreneurs\* | 281 892 775 | 66,35% | 142 933 367 | 33,65% | **424 826 142** |
| Including |  |  |  |  |  |
| *Consumer Loans* | 187 873 874 | 86,43% | 29 502 856 | 13,57% | **217 376 730** |
| *Mortgage Loans to Households* | 61 028 937 | 55,33% | 49 270 616 | 44,67% | **110 299 552** |
| Loans to legal entities\* | 150 968 994 | 20,78% | 575 572 682 | 79,22% | **726 541 676** |
| Loans to interrelated parties and employees /includes both legal entities and households/ | 18 318 595 | 30,98% | 40 808 182 | 69,02% | **59 126 777** |
| Leasing and factoring /includes both legal entities and households/ | 14 169 433 | 59,48% | 9 654 628 | 40,52% | **23 824 061** |

*Source: CBA \*Loans include consumer credits, mortgage, agricultural loans, etc*.

1. **The insurance market is significantly underdeveloped, with only nine non-life insurance companies active in Armenia.** Most of the insurance market growth is based on the introduction of the mandatory motor third party liability introduced by law in 2010.

*Table 3: Market size and growth of the insurance sector*

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Insurance market size and growth** | | | | | | | | |
|  | **2008** | | **2009** | | **2010** | | **Sept 2011** | |
|  | **AMD bn.** | **% Growth** | **AMD bn.** | **% Growth** | **AMD bn.** | **% Growth** | **AMD bn.** | **% Growth** |
| **Life** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Non-Life** | 11.7 | n.a. | 17.0 | 45.3 | 25.6 | 50.9 | 28.7 | 12.1 |
| **Total** | **11.7** | **n.a.** | **17.0** | **45.3** | **25.6** | **50.9** | **28.7** | **12.1** |

*Source: CBA*

1. **The equity market in Armenia has suffered considerably from the 2008 crisis.** The market had been developing before the crash but has stayed flat since then. As can be seen from the following table there has been little if any increase in the activity of the market since 2008 as there are no mutual funds or Pillar III pension funds that usually drive the growth of new securities markets. This has also been reflected in the low number of listings on the NASDAQ OMX Armenia exchange. The largest number of listings is in the free market, but as of 2011 even these are quite limited in number.

*Table 4: Stock market capitalization as % of GDP*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **2007** | **2008** | **2009** | **2010** | **2011** |
| **Capitalization**  **In AMD mln.** | 32,089.9 | 53,991.1 | 53,097.2 | 52,620.7 | 53,847.2 |
| **% of GDP** | 1.1 | 1.5 | 1.6 | 1.5 | N/A |

*Source: NASDAQ OMX Armenia*

1. The size of the non-bank credit sector[[5]](#footnote-5) has significantly increased in the past three years. Table 5 shows that the total credit portfolio of credit organizations and pawnshops has almost doubled from December 2008 to September 2011, despite a slight decrease in 2009. The participation of loans to households in the credit organizations’ portfolio has also increased from 60 percent in December 2008 to 72 percent in September 2011. In terms of assets, the size of the credit organizations segment as percentage of GDP has increased from 1.8% in December 2008 to 2.5% in December 2011.

*Table 5: Size of the Non-Bank Credit Sector*

(in AMD mln.)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| cid:0__=0ABBF0BBDFC6656E8f9e8a93df@worldbank.org | **Dec-2008** | | **Dec-2009** | | **Dec-2010** | | **Sep-2011** |
| cid:0__=0ABBF0BBDFC6656E8f9e8a93df@worldbank.org | AMD mln | % GDP | AMD mln | % GDP | AMD mln | % GDP | AMD mln |
| **Credit organizations** | cid:0__=0ABBF0BBDFC6656E8f9e8a93df@worldbank.org | cid:0__=0ABBF0BBDFC6656E8f9e8a93df@worldbank.org | cid:0__=0ABBF0BBDFC6656E8f9e8a93df@worldbank.org | cid:0__=0ABBF0BBDFC6656E8f9e8a93df@worldbank.org | cid:0__=0ABBF0BBDFC6656E8f9e8a93df@worldbank.org | cid:0__=0ABBF0BBDFC6656E8f9e8a93df@worldbank.org | cid:0__=0ABBF0BBDFC6656E8f9e8a93df@worldbank.org |
| Assets | 65,239 | 1.8 | 75,823 | 2.4 | 87,195 | 2.5 | 109,660 |
| Total Loans | 58,424 | 1.6 | 50,316 | 1.6 | 59,672 | 1.7 | 70,286 |
| loans to households | 35,039 | 1.0 | 32,990 | 1.1 | 42,892 | 1.2 | 50,720 |
| **Pawnshops** | cid:0__=0ABBF0BBDFC6656E8f9e8a93df@worldbank.org | cid:0__=0ABBF0BBDFC6656E8f9e8a93df@worldbank.org | cid:0__=0ABBF0BBDFC6656E8f9e8a93df@worldbank.org | cid:0__=0ABBF0BBDFC6656E8f9e8a93df@worldbank.org | cid:0__=0ABBF0BBDFC6656E8f9e8a93df@worldbank.org | cid:0__=0ABBF0BBDFC6656E8f9e8a93df@worldbank.org | cid:0__=0ABBF0BBDFC6656E8f9e8a93df@worldbank.org |
| Total Loans | 3.92 | 0.1 | 5.15 | 0.2 | 9.93 | 0.3 | 11.58 |

*Source: CBA*

# Importance of Consumer Protection and Financial Literacy

1. **At its heart, the need for consumer protection arises from** ***an imbalance of power, information and resources* between consumers and their financial service providers, placing consumers at a disadvantage.** Consumer protection aims to address this market failure.Financial institutions know their products and services well, but individual retail consumers may find it difficult or costly to obtain sufficient information on their financial purchases. In addition, even when all relevant information is obtained, this might be difficult to process, understand and assess, especially in countries like Armenia where consumers have limited knowledge and experience using financial services.
2. **Financial consumer protection promotes the efficiency, transparency and deepening of retail financial markets.** Consumers who are empowered with information and basic rights—and who are aware of their responsibilities—provide an important source of market discipline to the financial system, encouraging financial institutions to compete by offering useful products and services, and to disclose information more transparently. In turn, this promotes consumer trust and engagement with the formal financial services market. Increased consumer trust as well as financial sector deepening and competitiveness are key elements for financial sector development in Armenia.
3. **Financial consumer protection is needed to ensure that expanded financial inclusion results in equitable growth.** Strong consumer protection helps to ensure that increased use of financial services benefits all consumers and does not create undue risk for households. Furthermore, weak financial consumer protection can cause the growth-promoting benefits of access to consumer financial products and services to be lost or greatly diminished. Weak protection combined with no appreciable financial literacy undermines consumers’ confidence and public trust, thus either discouraging households from purchasing any financial products and services or increasing the likelihood that any financial product or service they purchase will fail to meet their needs and objectives.
4. **An efficient and well-regulated financial system should provide consumers with five key elements:**

(1) ***Transparency*,** by providing full, plain, adequate and comparable information about the prices, terms and conditions (and inherent risks) of financial products and services:

(2) ***Choice*,** by ensuring fair, non-coercive and reasonable practices in the selling and advertising of financial products and services, and collection of payments;

(3) ***Redress*,** by providing inexpensive and speedy mechanisms to address complaints and resolve disputes;

(4) ***Privacy*,** by ensuring protection over third-party access to personal financial information; and

(5) ***Trust*,** by ensuring that financial firms act professionally and deliver what they promise.

1. **Financial consumer protection is delivered in two ways: financial regulation and financial education.** Such financial regulation consists of market conduct regulation, i.e. laws and regulations regarding the business conduct of financial institutions in delivering financial products and services to consumers. These rules of conduct aim to ensure that consumers: (1) receive information to allow them to make informed decisions, (2) are not subject to unfair or deceptive practices and (3) have access to recourse mechanisms to resolve disputes. Such business conduct regulation includes *government regulation*, i.e. laws and regulations issued by government agencies such as financial supervisors and consumer protection agencies; and *self-regulation*, that is, the voluntary codes of conduct and other responsible finance practices adopted by industry associations as a means of encouraging improved business practices by financial institutions. *Financial education* consists of programs of financial literacy that help consumers understand the risks and rewards, as well as their rights and obligations, in using financial products and services, and that empower consumers to purchase financial products and services that best meet their needs and those of their families. Financial education and regulation are complementary and should be combined in a program of reform of financial consumer protection. However, addressing the main weaknesses in consumer protection can be done quickly with immediate impact, whereas improving financial literacy and capability is inevitably a long-term effort, for which little, as yet, is clearly understood in terms of what works (and what does not) in improving financial behavior.[[6]](#footnote-6) Financial education should, therefore, be encouraged, but it should be rigorously tested and evaluated and be viewed as a long-term investment.
2. **Financial regulation is needed, but the challenge is to strike the right balance between government regulation and the forces of market competition.** Government intervention should be considered when it is both feasible and cost-effective. Rules need to be proactive to prevent abuses and not simply react to problems of the past. In particular, this requires that violations of regulations are sufficiently punished with the aim at least of deterring future infringements. At the same time, undue regulation can stifle financial innovation. Regulators should strive for the highest standards of consumer protection without eliminating the beneficial effects of responsible innovation on consumer choice and access to credit.[[7]](#footnote-7) Regulators should also be careful not to intervene in matters that are best dealt with through competitive market forces so as to avoid placing an undue regulatory burden on the industry. Whenever possible, the costs and benefits of proposed financial consumer protection reforms should be analyzed.
3. **Although self-regulation can be useful in improving the business practices of financial institutions, it should not be a substitute for government regulation to protect consumers.** Codes of conduct primarily act to complement financial regulation, particularly if the regulator (or supervisor) oversees the codes and reports on their effectiveness. However, particularly in developing countries, self-regulation is frequently ineffective since institutional capacities of industry associations are typically limited and financial markets are highly concentrated and dominated by a small number of institutions.

# Consumer Protection and Financial Literacy in Armenia: Existing Policy and Institutional Framework

1. **Financial literacy and consumer protection have been identified as significant elements of the Central Bank of Armenia Strategy 2012-2014.** The overall policy objective of the CBA Strategy 2012-2014 points out the importance of developing a framework designed to increase consumer protection and financial literacy and awareness levels, in compliance with best international practices. CBA is also planning to develop and implement the “National Education Strategy” in 2012, combining and coordinating the efforts of CBA, Ministry of Education and Science (MoES), Pension Awareness Center Foundation and other stakeholders.

1. **The Central Bank of Armenia is the single regulator and supervisor of the financial sector in Armenia, including pawn shops and foreign exchange bureaus.** The CBA is also responsible for developing, implementing and enforcing consumer protection policy in Armenia in the area of financial services. The consumer protection mandate of the CBA stems from Article 5. 1. f) of the Law on the Central Bank, defining the objective of the CBA to "ensure essential conditions for protection of rights and lawful interests of the financial system consumers".
2. **The CBA has a well-defined organizational structure.** There is a dedicated team in the CBA responsible for consumer protection and financial education. The team is currently housed within the Financial System Stability and Development department of the CBA. There is a board member of the CBA Board responsible for overseeing financial education activities of the CBA. However, no board member has such a responsibility for consumer protection. Financial sector regulations (from laws through CBA Regulations to supervision manuals) are prepared by the Financial System Regulation department. Legal opinions to both prepared regulations and conducted inspections are provided by the Legal department of the CBA. The Legal department is also responsible for licensing of financial institutions in Armenia. Supervision of the financial market is conducted by the Financial Supervision department of the CBA. Supervisors use a combination of on-site and off-site supervision based on the yearly plan of supervision that takes into account key risk factors such as the size of the institution, its retail activities as well as complaints against the institution. On-site and off-site supervision functions are combined in one division and in most cases both on-site and off-site supervision of a financial institution is conducted by the same supervisor or group of supervisors to ensure fluid communication and interaction.

1. **The legal setup seems to be sufficient and the CBA has enough powers to react to market developments as needed.** The CBA is responsible for drafting the financial services regulations. Many technical details of both prudential and market conduct rules are defined through the CBA Regulations that may be issued and updated speedily.
2. **The Financial System Mediator is the key person in settling financial services-related disputes out of court.** The Office of the Financial System Mediator is an independently-managed institution founded by the Central Bank of Armenia and is responsible for resolution of disputes between individual consumers and financial organizations. The Mediator’s services are free of charge with focus on mediated solutions – but the Mediator also has a power to issue a binding decision if the parties are unable to agree on a solution.

**Box 1: The Financial System Mediator**

The Office of the Financial System Mediator is an independently-managed institution founded in January 2009 by the Central Bank of Armenia in accordance with the Law on the Financial System Mediator adopted on June 17, 2008. The central mission of the Mediator is the protection of consumer rights and interests in the financial system, as well as resolving disputes between individual consumers and financial institutions. The Office of Financial System Mediator is the independent institution funded by mandatory contributions made by financial organizations (banks, insurance and investment companies, credit organizations, pawnshops, etc). The Office of Mediator is managed by the Board of Trustees (consisting of seven independent members) and the office manager, the Mediator (appointed by the Board of Trustees).

All individual consumers of financial services may apply to the Financial System Mediator for dispute resolution whether or not such a right is provided for under the contract between the customer and the financial organization. Any agreements or stipulations that confine the customer’s right to resort to the Mediator are not valid according to the Law on the Financial System Mediator.

The customer can apply to the Mediator office via phone, e-complaint forms, letters or directly visiting the office. The front office (handling specialists) receives and records complaints and provides with advice depending on whether the complaint is within the jurisdiction of the Mediator. If the complaint is within the jurisdiction of the Mediator a case handling specialist directs and helps to file a written complaint with the financial organization first. The financial organization has 10 business days to answer the complaint. If the organization doesn't respond to the complaint or the customer is not satisfied with the answer, he gets the right to submit a claim to the Mediator.

When receiving the claim the case handling specialist within one business day sends a letter to the corresponding financial organization describing the content of the claim as well as requesting additional information for the investigation. The financial organization has 14 business days to respond to the Mediator’s office. As soon as the organization replies the Mediator commences case investigation within 14 business days (in some cases the investigation process can be prolonged for extra 14 days).

During investigation the Mediator can call for oral hearings, invite an independent expert and detect industry best practice. The Mediator is using the examination results to decide whether to satisfy the claim (partially satisfy), or to decline the claim. The decision of Mediator is mandatory for both parties if the customer agrees with the decision.

During 2011 the Mediator’s office received 803 complaints against financial institutions, of which 53% against banks, 34% - insurance companies, 7% - credit organizations and 6% - pawnshops and others. At the same time, a total of 144 claims (43% against banks, 47% - insurance companies, 6% - pawnshops, 4% - credit organizations) were processed by the Office and 68% of which were resolved in favor of the client. Additionally, 43 complaints were settled down in the stage of the complaint filing to the financial institution.

During the three year of operations the Mediator has received over 1900 complaints against financial organizations, 330 claims were investigated and customers were reimbursed about 109 million AMD through reconciliation and binding decision.

1. **The State Commission for the Protection of Economic Competition may also assist in strengthening the Armenian financial sector.** The CBA and the Competition Commission have signed a Memorandum of Understanding that should improve their cooperation and coordination. The cooperation between the institutions is key in supporting competition in the financial market and developing CBA's competition know-how.
2. **In the area of financial education, the CBA is developing a national strategy but the Ministry of Education and Science is another key stakeholder.** The MOES elaborates and implements the policies agreed by the Armenian government in the education and science sectors and its National Institute of Education provides teacher trainings and development of teaching materials.

# Key Findings and Recommendations

1. **The Diagnostic Review proposes that consumer protection in respect of financial products and services in Armenia be strengthened in ways that improve consumer confidence in financial markets.** Five key areas of measures have been identified where coordinated action of all stakeholders is needed:
2. Strengthen the institutional framework for consumer protection and financial literacy;
3. Improve disclosure of information for financial consumers;
4. Develop regulation of business practices of all financial institutions;
5. Update dispute resolution mechanisms;
6. Develop a multi-stakeholder financial education program for consumers.

# *Institutional Framework*

1. **A separate Consumer Protection and Market Conduct Department within the CBA would be helpful.** The CBA has taken commendable steps to set up a separate consumer protection and market conduct division within its structures (part of the Financial Stability Department) and integrate consumer protection and financial education as parts of its responsibilities for a robust financial services market in Armenia. As the consumer protection team at the CBA faces many tasks, it should be set up as a separate Consumer Protection and Market Conduct Department to publicly proclaim market conduct to be on par with other key CBA activities. The Consumer Protection and Market Conduct Department should be responsible for on-site and off-site market conduct supervision, including inspections. Consideration could also be given to strengthen the role of the Consumer Protection and Market Conduct Department related to market conduct regulatory framework, financial education, and international cooperation to promote the advances Armenia has achieved in consumer protection compared to many other countries.

1. **The Consumer Protection and Market Conduct team should be equipped with sufficient capacity and resources.** To ensure that the department has adequate resources, an institutional needs analysis to identify and prioritize its tasks and define appropriate resources should be conducted. Based on the analysis, a long-term capacity building program needs to be put in place to ensure the continued high level of consumer protection.
2. **Sufficient supervisory powers need to be given to the Consumer Protection and Market Conduct team and the team should be allowed to use modern supervisory tools.** Mystery shopping should be used regularly by the CBA to monitor market practices, guide its regulatory work and prosecute market participants that act unfairly. The market conduct rules should prohibit unfair and aggressive business practices and full range of investigative tools set forth in the EU MiFID Directive should be accorded to the CBA.
3. **A member of the board of the CBA should be made responsible for the consumer protection agenda.** As the importance accorded to consumer protection and the number of consumer protection-related cases shows, the consumer protection agenda is significant for the effective financial sector supervision and for building public trust in financial services. Therefore, a member of the board of the CBA should be made responsible for the consumer protection agenda just as there is a board member responsible for the issue of financial education, representing the consumer protection activities both within the CBA Board and towards professional associations, consumer NGOs, media and the Armenian public.
4. **A joint effort is needed between consumer organizations, financial associations and CBA to strengthen the involvement of consumer organizations in financial services.** Consumer organizations are not yet fully effective in supporting proper consumer protection environment in Armenia. To make the consumer organizations more effective, the World Bank and other international organizations could provide advice on how to strengthen the involvement of the NGOs in the financial sector. CBA should also consider supporting some of their consumer protection and financial literacy activities through education of NGO representatives so that they better understand financial services. Institutional capacity of consumer organizations should also be supported through international cooperation. International organizations such as Consumers International should identify effective Armenian projects for consumer protection in financial services with a yearly award for best projects.
5. **Both international organizations and the CBA should provide grant funding and technical assistance to develop effective consumer protection activities for consumer organizations.** Consumer organizations could also be assigned specific tasks by the CBA to assist its consumer protection activities, such as monitoring unfair and aggressive advertising and business practices, conducting mystery shopping, and distributing financial education materials. At the same time, the CBA should support the development of guidelines for evaluation of the performance of consumer organizations.
6. **Competition in the financial services sector should be increased.** A special program or methodology to monitor and regularly evaluate the level of competition for various types of financial products could be developed. The institutional capability of the CBA to monitor and regularly evaluate the level of competition for various types of financial products should be supported and the results shared with all relevant stakeholders. Consumer complaints received by the CBA and the Financial System Mediator should also be analyzed from the point of sufficient competition, especially in the areas of pricing, tied and bundled products.
7. **Self-regulation in the area of market conduct should be supported.** The financial sector associations should be invited to build on the existing CBA regulations to define their sector-specific codes of conduct, actively promote them and deal with customer complaints related to the breaches of the codes. The Code of Banking Ethics, developed by the Union of Banks of Armenia, could be an example to build on. However, even the content of this code could be improved to reflect the most often repeated market conduct issues the CBA and the Mediator deal with. In the area of consumer credit, the Smart Campaign’s Client Protection Principles[[8]](#footnote-8) endorsed by the Union of Credit Organizations of the Republic of Armenia (UCORA) may be used as the base of further work.
8. **Codes of conduct should focus on minimum procedures needed to ensure fair and transparent relations with retail customers.** Codes of conduct address many internal issues for financial institutions but they should also highlight their rules on customer relations. This would address issues such as the number of days which the institution could take to respond to a routine customer complaint, the process for following up on complaints submitted to the institution, etc. The codes should also ensure that representatives of financial institutions ask enough questions to ensure that the service being sold is suitable for the purchaser. Codes of conduct set an ethical tone for each financial institution and help to improve common business practices in the financial sector. They should also be actively promoted in sales materials, on websites and in branches.
9. **Codes of conducts must be well communicated and enforced.** All consumers should be informed about the existence of the codes with copies readily available at branches, on the association's and member institutions' websites, etc. The associations that developed the codes should also have a right to investigate claims of breaches of the code and the members of the association should agree to an effective enforcement mechanism to be implemented, including sanctions against members that breach the code.
10. **Proper media coverage of consumer mistreatment by financial institutions may also be an effective tool in promoting consumer protection through “naming and shaming”.** However, it is important that journalists be educated to understand and transmit information on financial issues accurately and adequately. The CBA and the Financial System Mediator should regularly communicate key issues in consumer protection and actively cooperate with the media to cover the most harmful business practices they come across in their supervisory and redress activities.

# *Consumer Disclosure*

1. **Consumer disclosure for financial services should be made simple, easy to understand and comparable.** The USAID survey found that 43 percent of consumers considered financial services to be “incomprehensible.” The current disclosure regulations in Armenia define what information should be shared with consumers. To ensure that the proper information is disclosed, the CBA should conduct an information disclosure analysis and analyze whether and how the disclosed information assists consumers in making informed decisions. The analysis should also focus on the understandability and comparability of the information disclosed.
2. **The CBA should require that financial institutions provide consumers with a Key Facts Statement that summarizes in plain language the costs and key terms and conditions of the contract for any financial product or service.** Based on the analysis and with the aim to allow households to make informed decisions, simple, easy-to-understand and comparable disclosure documents should be developed and their usage should be required by CBA regulations. The CBA should require financial institutions to provide a 1- or 2-page key facts statement written in easy-to-read print and plain language. The format for each type of financial products should be developed jointly by the CBA, the financial industry and consumer representatives and regularly tested by independent research to assure understanding of the key facts statements by consumers. The key facts statement would neither replace nor be a part of the terms and conditions for a financial product or service, but would be required to be given to the consumer to help him or her understand every essential term and condition. Such statements should clearly indicate all fees and charges related to a financial contract or product, as well as the mechanisms for recourse available to the consumer in the event of a complaint[[9]](#footnote-9). Besides information on key features and all relevant costs, the Key Facts Statements should also include the key legal obligations and information on sanctions[[10]](#footnote-10) the consumer may face if he breaches the contract (e.g. by demanding an early withdrawal, overdraft of his account, late payment of a loan installment, etc.).

1. **Formulas for calculations of costs and yields of financial products should be defined by the CBA.** When any calculations are made as part of any advertising or sales materials, only formulas defined and approved by the CBA should be used to ensure that competing offers are easily comparable.
2. **For credit products, the Annual Percentage Rate (APR) should be required in all credit contracts**. This disclosure requirement should apply also to loans offered to sole entrepreneurs, micro- and small-size businesses as defined by the Armenian legislation. The credit disclosure should include monthly payment, total sum to be paid, the APR, rules for making credit registry entries as well as impacts of late payment. The CBA should study how the APR requirement was implemented in other jurisdictions to ensure the regulation is detailed enough and does not provide room for avoidance of some fees being included in the APR calculation. Based on the EU Consumer Credit Directive, the regulation of disclosure should require that APR for credit cards is shown for three typical versions of drawdown of funds. The UBA should assist the CBA in defining these typical scenarios to make it as relevant as possible.
3. **Statements for financial products should be tested for their understandability and relevance.** Research shows[[11]](#footnote-11) that there is often a misunderstanding of facts in the statements and that a properly designed statement can significantly help the understanding of consumers. Therefore, the CBA should test the content of the statements for most frequent financial products and based on the results, it could consider regulating the content of the statements to ensure consumers understand their obligations.
4. **The CBA should issue specific additional disclosure requirements for insurers and the securities market.** At minimum, insurers should be required to provide not only a key facts statement, but also a copy of the insurance policy document to the policyholders, and to follow specific disclosure requirements on premiums, fees, policy coverage and exclusions. For the securities sector, the disclosure should include the "mark-up" of the securities dealer as well as all other expenses.

1. **Proper distribution of disclosure documents including Key Facts Statements and their explanation should be actively supervised by the CBA and could also be monitored by consumer NGOs.** Disclosure should not be a compliance function but a key business practice. Therefore, the CBA (possibly in cooperation with selected NGOs) should require that the content of disclosure documents and contracts is explained to the consumer to ensure his or her understanding of the facts provided. The financial sector associations should develop best practices for disclosure communication. The CBA should use mystery shopping to verify the explanations are made properly and work with the financial sector associations on improving the sales process. The input from mystery shopping could also be used for improvement of supervision manuals, financial awareness initiatives and regular discussions with the financial industry associations.
2. **Consumer information (particularly pre-contractual information) should also be comparable.** To further improve the understanding of the public and to avoid mistreatment of consumers through hard-to-understand contracts, standardized contract clauses that would unify the main definitions for each type of financial product should be prepared by the financial sector associations under the coordination from the CBA, so that the level of consumer treatment is as similar as possible across product providers. A website with model contracts with standard clauses implemented for various products and with explanations of key provisions in each model contract should be set up under the leadership of the CBA, possibly utilizing the existing website www.abcfinance.am.
3. **To strengthen competition, a price comparison website should be set up.** The CBA should set up a website that would provide regularly updated overview of prices of the most common financial products as defined by the CBA in cooperation with the financial sector associations[[12]](#footnote-12). A CBA regulation would require all financial companies provide relevant price data to ensure that all providers report fully and truthfully. The website could be operated either internally by the CBA or by a private sector operator selected in a public tender. The CBA should use the data on prices of financial products and other information to regularly analyze and publicly report on the state of competition in the financial market.
4. **The CBA should prepare a glossary of key terms to improve consumer understanding.** Financial services are characterized by complex and proprietary terms, developed by financial institutions, to differentiate their services from those of their competitors. Preparation of a glossary of key terms and conditions would help consumers understand the nature of the financial service being purchased. Standardized terminology would also help organizations preparing comparative surveys of services offered by financial institutions. Consumer organizations should be consulted in the process of elaboration of the glossary, to ensure that it is written in plain language so that the average consumer can understand it. The CBA and the Financial System Mediator could publish the glossary on their websites, and financial sector associations as well as financial institutions could publish the same glossary on their websites or at least have a link to the CBA's website.
5. **Consumers need to be given clear information about guarantees.** When concluding a deposit contract, the first page of the contract should specifically state whether the deposit is covered by the deposit guarantee insurance and for what amount for the specific consumer, taking into account his other deposits with the bank. Should the contract be not for a specific sum but only providing framework agreement allowing the client to deposit additional money on a later date, the contract should stipulate what would be the maximum insured deposit for the individual client. The information on whether an institution's deposits are guaranteed by the deposit guarantee insurance should also be posted in the branch window/teller window to raise awareness of this protection before consumers are about to sign off on a deposit product.
6. **Customers should be notified in writing of changes in interest rates and non-interest charges associated with their financial products.** The CBA should require financial institutions to inform consumers at least a month in advance about any material changes to the conditions of their financial products. Consumers should also be given the right to exit a contract without penalty if the revised terms are not acceptable. Clear information about the right to exit the contract should be included whenever a notice of change of interest rates and non-interest charges is made.

# *Regulation of Business Practices*

1. **Day-to-day business practices, such as delivery of account statements, should be reviewed.** The CBA should ensure that full monthly statements are provided to users of bank accounts, credit cards and investment products. For insurance products yearly statements with renewal notices should be sent at least two months in advance. The statements should always be delivered to the consumer, via mail or electronically.
2. **Monitoring of advertising by financial institutions should be strengthened.** Advertising is a primary method by which consumers learn about financial services. Yet deceptive or misleading advertising can cause consumers to make poorly informed decisions. The consumer protection department should be enabled to strengthen monitoring of advertising, paying special attention to misleading advertising practices that use teaser interest rates, nominal interest rates, or any other misleading information. The CBA could cooperate with the Union of Banks of Armenia as there are rules against improper advertising in the Code of Banking Ethics and the UBA could become a stronger enforcer of a level playing field. Other financial sector associations and the consumer protection organizations should also be encouraged to participate in the monitoring process.
3. **Examples of misleading advertising should be communicated to warn the public.** The CBA should make its decisions regarding unfair advertising public and explain why it considers any specific advertising in breach of regulations. These rulings can then inform financial institutions and their advertising agencies as to what is still an acceptable practice and what forms of advertising will not be allowed. The CBA should also coordinate the efforts of all stakeholders in monitoring of unfair advertising and publicly present a report on trends in misleading advertising every 3-6 months.
4. **Standards of training for retail sales personnel should be improved.** Consumers’ understanding is significantly influenced by those who sell financial products and how they explain the products to their customers. To ensure that the agents (whether employees of financial institutions or third-party intermediaries) are well equipped to provide information to the clients, a system that ensures these agents are properly trained and equipped with sufficient knowledge should be set up. In addition, it should be clear that financial institutions are fully liable for the sales practices of all agents acting on their behalf, whether directly or acting through third-party distribution networks.
5. **All sales agents should be licensed and required to undergo regular testing.** The CBA and the industry associations should define minimum training and knowledge standards and establish regularly repeated examination procedures to test the knowledge of sales agents. The testing should be the key prerequisite besides fit-and-proper requirements for a license to sell financial products to the public, sole entrepreneurs and micro- and small-size businesses. There should also be relevant sanctions available to the CBA, including barring an individual from selling financial products for misrepresenting information or acting in bad faith towards clients. The testing of these requirements could be conducted by educational institutions, NGOs or financial associations with the CBA approving and monitoring the testing process and content.
6. **Business practices of insurers will need special attention.** The CBA should update regulation on claims practices, requiring timely investigation and payment of claims and prohibiting misrepresentation of policy terms and conditions in sales practices and advertising. As the motor third party liability (MTPL) insurance is still a new product on the Armenian market, the CBA and the Mediator should pay special attention to complaints about the insurance practices in this area. Also, on-site inspections of the insurers should include a detailed analysis of claims settlement for MTPL insurance. Should the claims-handling practice be unsatisfactory, either educational and/or regulatory action should be implemented to ensure fair and swift claims settlement.
7. **In the securities sector, companies should be liable for both oral and written misrepresentations.** The civil liabilities section of the law on securities market (LSM) needs to be broadened to include oral misrepresentations, in addition to written misrepresentations. In addition, it needs to include the failure to provide to a customer the information required by the LSM and relevant regulations.
8. **Disclosure of CBA's supervisory authority over a financial provider should be required.** In their advertising, all financial providers should be obliged to state publicly that they are regulated by the CBA. In so doing, financial firms separate themselves in their advertising from non-regulated entities and help consumers decide which institutions are safe and reliable for purposes of entrusting their finances.
9. **It would also be helpful for the CBA to publish consumer alerts of possible frauds and unfair business practices on all available media channels**. Where all financial institutions are required to be licensed and when mystery shopping is used to monitor market practices, the supervisory agency should be effective in issuing consumer alerts. Making this information available by means that reach the poor and unsophisticated public is particularly important. The CBA can create a special section on its website for consumer alerts, and updates should be shared with the media, so they get retransmitted to the general public.
10. **The CBA should evaluate whether tying and bundling practices should be permitted at all or in certain cases[[13]](#footnote-13).** The CBA should analyze specific circumstances in which insurance can be required to be mandatory. The CBA also should – in cooperation with consumer representatives and other relevant stakeholders – conduct regular studies of selling tied products and the profit this practice brings to financial institutions. Each consumer should always have at least two insurance options from different insurers to choose from and the CBA should monitor whether prices of the offered insurance options reflect competitive environment. The CBA should also monitor oral presentations of bundled products and include this area into its mystery shopping tests.
11. **Financial service providers should be required to gather sufficient information from a consumer to enable the provider to offer an appropriate financial product or service to the consumer.** The information collected from the consumer should be commensurate with the nature and complexity of the product or service either being proposed to, or sought by, the consumer. The financial institution should collect enough data about customers, their financial goals, risk profiles and their financial portfolio to match offered products with their needs. The information collected (of which the customer should always receive a copy) should also be used in any complaint resolution or lawsuit to prove whether the product was sold properly and in line with the consumer's interest. In the insurance and securities sectors, it is recommended that sales intermediaries and officers obtain consumer information through formal “fact finds” so as to assess the suitability of an insurance or securities product for a consumer.
12. **The information in the credit registers should be expanded and debt counseling should be encouraged.** The CBA should update the legislation on credit registers to include the information on pawnshop loans in the credit bureau and the CBA credit registry. Regulations on retention and sharing of consumer financial data should be brought in line with the EU Directive on Protection of Personal Data. While consumer indebtedness in Armenia is currently lower than in many similar countries, consumer organizations should be encouraged to start providing debt counseling services to the population.
13. **Credit reporting is widely used in Armenia but many customers may not understand the effects of negative credit history.** Therefore, the impact of negative credit information should be included as a separate sheet next to the Key Facts Statement for consumer credit, credit cards and mortgages. Consumers should also be clearly informed when information about late payment is provided to the credit bureau, about their right to request a free copy of the credit report once a year and about the possibility to dispute the records.
14. **The CBA should encourage consumer organizations to monitor debt collection and foreclosure practices and report regularly to CBA.** Based on this market monitoring, the CBA should consider whether debt collection and foreclosure rules need to be defined to ensure debt collection is conducted fairly and effectively.

# *Dispute Resolution Mechanisms*

1. **In setting up an independent and statutory Financial System Mediator, the CBA has established an effective mechanism for recourse on disputes related to consumer finance.** Easy access to justice and the ability to reach decisions quickly are always of key importance for the trust of the people in dealing with financial institutions. As many financial sector disputes involve relatively small amounts of money, the Financial System Mediator provides an effective and efficient alternative to courts. In this way, disputes related to consumer finance may be solved quickly and with limited costs to the parties and the state budget. The Mediator operates under clear statutory authority with authority to make decisions on consumer finance disputes for amounts up to ten million AMD (equivalent to USD 25,700). The Mediator’s decisions are de facto binding for the financial institution but still allow the consumer to initiate a lawsuit in court.
2. **The scope of the Mediator could be further expanded.** The institutional capability of the Financial System Mediator should be properly supported to allow the Mediator to deal with cases from all areas of financial services properly and quickly. In particular, the Mediator should receive not only complaints from private individuals but also complaints from sole entrepreneurs, micro- and small-size businesses (as defined by the Armenian legislation)—and all should be eligible for consideration by the Financial System Mediator.
3. **Financing of the Mediator could take into account the number of cases against each institution.** At the moment, all financial institutions pay their fee to the Mediator according to their size, independently on the number of cases that are being presented by consumers against these types of institutions. The Mediator, the CBA and financial associations could discuss the possibility that the fees scheme could incorporate a component that increases the contribution of financial institutions that receive higher number of complaints then its market share.
4. **All decisions by the Mediator (and the CBA and Stock Exchange) should be published.** In setting up the Financial System Mediator, the CBA benefitted from extensive international advice, including from the Financial Ombudsman of the United Kingdom and the Mediator’s procedures largely reflect international practice. Nevertheless to provide full regulatory disclosure, the Mediator’s procedures could be further improved. In particular, all decisions (but not disputes solved through mediation) taken by the Financial System Mediator (as well as disciplinary actions of the CBA, and the self-regulatory organizations, such as the Stock Exchange), should be published when final. In addition, the CBA should maintain a public register of licensed financial institutions including the disciplinary history of all licensed entities and all sanctions awarded to the entity by the CBA, the Financial System Mediator or the self-regulatory organizations.
5. **Once a case is started with the Mediator, it should finish before the court can assume authority over the case.** When a case is under review by the Financial System Mediator, court review should be delayed until the ombudsman has completed its review of the case. If the case is settled in the mediation phase or a decision is issued by the Mediator, the merits of the case should not be eligible for court review.
6. **At the same time, Armenia’s valuable experience with Mediator should be shared with other countries in Europe and Central Asia and worldwide.** Both the Mediator and many consumer protection activities of the Central Bank of Armenia should serve as an example to other countries dealing with the issues of consumer protection and efforts should be made to improve sharing of Armenian experience at the global level.
7. **CBA Regulation for internal complaints handling mechanism of financial institutions could be strengthened and monitoring of complaints handling should be included into onsite supervision.** The CBA should update the Regulation 8/04 so that internal complaints resolution procedures include the following features:

* all complaints must be formally recorded in a single complaint-handling system whatever method they were lodged – in writing, personally in branches, through a call center or via email
* the banks' websites and branches should make information on how to lodge complaints easily available, including providing all contacts
* all actions, communication and documents related to a complaint must be recorded in the complaint-handling system
* all complaints should be acknowledged in writing or via email or text message within three working days of receipt and the receipt should include direct contacts (name, position, telephone and email) of the person dealing with the complaint
* the answer to the customer must contain advice on what are the next steps the consumer may take if he is not satisfied with how the complaint was dealt with by the bank, including a contact for the Financial System Mediator
* received complaints should be analyzed and the board of directors should be provided with an analytical report[[14]](#footnote-14) twice a year, with recommendations on how the bank's products and processes could be updated to limit the number of received complaints
* the analytical report should also be provided to the CBA and the CBA should use the reports to consider amendments to legislation or CBA's regulations.

1. **Financial institutions should be required to provide the CBA with data on consumer complaints, and the CBA should analyze and publish such statistics.** This information provides very valuable information for the CBA to conduct its consumer protection functions, and provides it with important warning signs, especially regarding reputational and operational risks. Based on the analysis of complaint statistics, the CBA could also set up programs that address the common problems identified in retail finance—by providing additional consumer education, improving disclosure requirements or updating business conduct regulations.

1. **Training of police, prosecutors and judges in financial issues should be supported.** The investigative and judiciary bodies that come into contact with cases related to financial services should receive proper training from the CBA to understand financial services and properly interpret facts.
2. **Media coverage of financial services would benefit from a similar training of journalists.** Similar educational activities could be targeted to journalists to better educate them about the negative impact of market misconduct and misselling of financial products. The CBA should also communicate key cases more actively and encourage media coverage of consumer finance.

# *Financial Education*

1. **The government should adopt a national strategy on financial education and the financial industry should support financial education activities.** Consumers of financial products should not only receive adequate information on financial products but should primarily be equipped to use this information to make informed decisions. Therefore, a long-term national financial literacy strategy should be developed and adopted by the Government of Armenia, with both in-school programs and programs for other groups of citizens. Financial industry associations should be encouraged to develop financial education activities and materials and coordinate financial education programs among its members, reporting to the Steering Committee for the National Strategy of Financial Education on activities in their respective industry.
2. **The Steering Committee for the National Strategy of Financial Education should evaluate existing programs and develop and implement the financial education strategy.** The CBA in cooperation with ministries, the Financial System Mediator, the MTPL Bureau, the Pension Awareness Center, financial associations and consumer NGOs should closely cooperate within the Steering Committee for the National Strategy of Financial Education. The Steering Committee should evaluate existing financial education programs and develop strategies and benchmarks for financial education in schools as well as for continuous lifetime financial education programs. The Steering Committee should coordinate public and private financial education programs in order to maximize financial literacy impact, leverage existing resources and avoid duplication of efforts. The Steering Committee should also regularly evaluate existing financial education programs and their efficiency based on the pre-agreed benchmarks. Effectiveness and impact of financial education initiatives should be evaluated from the outset, so as to identify the ones that are most beneficial and should be scaled up. The Steering Committee should comprise all key stakeholders, including the CBA, the all relevant ministries and state bodies, the Financial System Mediator, the MTPL Bureau, the Pension Awareness Center, financial associations, educational institutions and consumer NGOs Meetings should be conducted on a regular basis (at least twice a year) to assess and report on the progress made in implementing the national financial education strategy and streamline and evaluate financial education initiatives.
3. **The work on the national strategy should be informed by detailed surveys of the Armenian population.** The World Bank 2012 Financial Literacy survey (with preliminary results included as part VI. of this report) should be used by the Steering Committee to select key priorities and the most effective delivery channels for the financial education programs to be implemented. The results of this survey should provide the necessary information to the policy makers to better target and develop effective financial education programs, thus allowing consumers of financial services to improve the understanding and skills and making informed decisions, through instruction (training and guidance), information (facts, data and knowledge on financial opportunities, choices and consequences) and advice. Such information is not only critical to serve as a baseline for measuring the impact of strategy implementation but even more important for developing financial education programs that are well targeted and that use appropriate channels of delivery and instruments to meet the needs of different socio-economic and demographic categories of consumers.
4. **Focus of the education activities should be on consumer rights and obligations as well the risks and rewards of using financial services.** Understanding–and properly utilizing–consumer rights are an important part of financial education and consumer empowerment. Therefore, part of the financial education programs should focus on explaining consumers' rights and how to use them. The planned financial education programs should be divided into several areas. Besides general financial education that should focus on explaining individuals' rights as consumers of financial services with the aim of increasing the trust of the public in financial institutions, specific programs should seek and focus on education during teachable moments, i.e. life situations when people need advice and are thus willing to listen to the educational message.
5. **One form of financial education is consumer disclosure.** Consumer disclosure is important as source of financial education across all financial services but the issues are particularly important for insurance and private pensions which have long-term horizons. Consumer rights (as well as consumer obligations) should be clearly defined in the legislation and also communicated clearly to consumers. For example, in the area of insurance, the regulation should include clear rules on fair claims practices and these rules should be communicated in plain language to consumers not only by insurers but also by the MTPL Bureau, the Financial System Mediator as well as by the consumer organizations. The Financial Education Steering Committee should analyze the public education program conducted before the introduction of the MTPL insurance and it should reflect on lessons learned in improving the communication of MTPL insurance in the future as well as in preparing the education campaign for the pension fund reform.
6. **Financial education in schools should be conducted throughout the curriculum.** Financial issues should be fully integrated throughout the curriculum from early grades on, including financial product-related examples and cases in mathematics, Armenian language (especially in the area of functional understanding of text), as well as civic education (consumer rights, legal system, etc.). A separate course of Economics and Finance in high schools may be helpful. Another possibility could be to restructure the current curricula by grouping "Economics" with content-related courses. In addition, a new textbook on "Economics" should be designed with an updated section on financial services in cooperation with financial industry associations. Elective programs teaching young children (under the age of 12) about earning, spending, sharing, and saving money should be further enhanced. Financial associations as well as consumer organizations should be encouraged to develop examples that could be used in various school grades.
7. **Teachers need to be properly trained to deliver financial messages effectively.** When planning educational programs in schools, proper attention should be given to educating teachers so that they feel comfortable about the subject and can properly explain the topic. The initiatives of CBA and Junior Achievement NGO need to be complemented by targeted regular trainings provided by the National Institute of Education. A survey of teachers and administrators of secondary schools about their needs to improve the quality of teaching materials and tools related to financial education should be conducted and the Financial Education Steering Committee should coordinate the development of these materials and tools.
8. **Modern technology should be widely used to reach the Armenian population.** The CBA already operates a financial education website and other modern media including social networks could be used. For example, a financial advice website and a virtual financial advisor on Facebook could be operated under the guidance and support of the CBA. The new media could also be used to collect information from the public on unfair business practices.
9. **Consideration could be given to an establishment of an Armenian Financial Awareness Foundation.** The Foundation would be jointly operated by the members of the Financial Education Steering Committee. The foundation would manage some of the nationwide financial education programs and would be financed jointly by all relevant stakeholders. The CBA and the Financial System Mediator could pool their financial education budgets and the CBA could use fines collected from financial institutions to cofinance the foundation. An agreement with the financial industry should be reached so that the industry would match the government financing of the foundation. The Armenian Financial Awareness Foundation should also operate a "fund of good ideas" for competitive selection of financial education projects by civil society.
10. **The effectiveness of financial education programs should be regularly monitored.** The evaluation of individual financial education programs should be based on the achievement of targets that would be set before launching the programs. The targets should be measurable and set in such a way that would allow for verification of the impact of the program on the targets. There should also be an overall periodic evaluation of the state of the Armenian financial sector. This evaluation should focus both on the quantitative data (number of banked citizens, savings level, usage of retail electronic payments, etc.) and qualitative data. To make the data comparable over time so that developments could be monitored and evaluated, the World Bank 2012 Financial Literacy survey now under way (with preliminary results included as part VI. of this report) could be used as a baseline and then the same questions and methodology should be used every three to five years for further surveys. In addition, a common website should be established where government authorities, consumer organizations and industry associations could upload their education materials for consumers and discuss the effectiveness of various programs and teaching approaches.

# List of Recommendations

A list of key recommendations is presented below:

|  |  |  |
| --- | --- | --- |
| **Key Recommendations** | **Responsible** | **Outputs** |
| Adequate resources need to be allocated to the Consumer Protection and Market Conduct Division and it should be given effective supervisory tools. | CBA | Adequately staffed and equipped team, new law and supervisory manual |
| Consumer organizations need to be strengthened and motivated to assist CBA in market monitoring. | CBA | NGO development and support program |
| Self-regulation through codes of conduct should be supported. | CBA, industry associations | Enforceable codes of conduct for each market segment |
| Clear, understandable, timely, comparable and standardized information should be provided to consumers, including standardized Key Fact Statements. | CBA | New disclosure rules for all segments |
| Consumers should be provided with information that helps them make informed decisions and that promotes competition. | CBA | Tariff surveys, glossaries of terms and conditions |
| All sales personnel should be well trained and the sales process should be adequately supervised. | CBA, industry associations | Standards for sales staff knowledge and testing |
| The Financial System Mediator should be available also to sole entrepreneurs, micro- and small-size businesses. | CBA, Financial System Mediator | Change of law |
| Financial institutions should analyze complaints received and provide the analysis to the CBA. | CBA, financial institutions | Update of CBA regulations |
| Multi-stakeholder national financial education program should be developed and implemented. | CBA, MoES, Ministry of Agriculture, Ministry of Finance, Ministry of Social Affairs, Financial System Mediator, financial associations, NGOs | National financial education program |
| The Steering Committee for the National Strategy of Financial Education should implement the National Strategy, coordinate and evaluate various financial education programs. | as above | Implementation and evaluation of financial education programs |

Additional recommendations, classified as short, medium and long term are listed in the table below.

|  |  |  |  |
| --- | --- | --- | --- |
| **Additional Recommendations** | **Responsible** | **Term** | **Outputs** |
| ***Consumer Disclosure*** |  |  |  |
| Require financial institutions to disclose the effective price or cost of financial products, using standard calculation methods, in all advertising, marketing and sales materials. | CBA | Short | CBA Regulation |
| Regularly analyze the understandability of the disclosure materials by an average consumer and support comparability of disclosure among institutions. | CBA,  consumer NGOs | Short | Analysis, update of regulations |
| Consumer rights should be fully and understandably disclosed to all consumers. | CBA,  consumer NGOs | Short | Update of regulations |
| Use mystery shopping to verify that sales staff explains products and related disclosure adequately. | CBA,  consumer NGOs | Medium | Analysis |
| Require key facts statements to be provided to consumers by all financial providers; develop key facts statements, starting with basic retail financial products. | CBA,  industry & consumer associations | Medium | CBA Regulation, disclosure formats |
| All contracts for deposit products and investments should clearly state whether the deposit/investment is guaranteed, to which amount and under which conditions. Information on deposit guarantees should also be presented in branches. | CBA | Medium | CBA Regulation |
| All advertising should state that the financial institution is licensed and supervised by the CBA. | CBA | Short | CBA Regulation |
| The CBA should publish and explain its decisions regarding unfair advertising to define acceptable practices. Consumer organizations should be encouraged to monitor advertising and report misleading advertising to the CBA. | CBA,  consumer NGOs | Long | Improved market monitoring and regulatory disclosure |
| Require provision of statements on all client accounts, and including mechanisms to dispute accuracy of statements. | CBA | Medium | CBA Regulation |
| For capital markets, statements be sent to customers in any month that a transaction takes place and at least quarterly for customers/investors of an investment service provider or CIU. The “mark-up” in a dealer should be shown on the notice of transaction. | CBA | Medium | CBA Regulation |
| Analyze formats of statements for understandability and if needed define compulsory format and content. | CBA,  consumer NGOs | Long | Improved disclosure, CBA Regulation |
| Standardized contract clauses should be developed and used throughout the industry wherever applicable. | CBA, industry associations,  consumer NGOs | Medium | Improved under-standing of contracts |
| A website with model contracts with standard clauses should be set up, information about consumer rights should be added. | CBA | Medium | CBA-managed website |
| Prices for key financial products should be collected regularly and the level of competition analyzed. | CBA | Long | Analysis, price comparison tables |
| Consumer credit disclosure rules should be extended also to credit products for sole entrepreneurs, micro- and small-size businesses (as defined by the Armenian legislation). | CBA | Short | Consumer Credit Law update |
| Disclosure of credit reporting should be improved, including clear information about the impact of negative information and subject's rights to review and dispute credit history information. | Industry associations, credit bureau | Short | Improved disclosure |
| The CBA should explicitly indicate the minimum period that credit organizations should keep their customers’ records, and the minimum content of such records. | CBA | Medium | CBA Regulation |
|  |  |  |  |
| ***Institutional Framework*** |  |  |  |
| A member of the board of the CBA should be made responsible for the consumer protection agenda. | CBA | Short | Board-level responsibility |
| The CBA, the Financial System Mediator and the Stock Exchange should publish all disciplinary actions and decisions (not mediated agreements for the Mediator). | CBA, FSM, Stock Exchange | Medium | Disciplinary disclosure |
| The register of licensed financial institutions should include the disciplinary history of all institutions. | CBA | Medium | Disciplinary disclosure |
| Consumer protection rights in the terms of disclosure and access to the Financial System Mediator should be extended not only to private individuals but also to sole entrepreneurs, micro- and small-size businesses (as defined by the Armenian legislation). | CBA, FSM | Short | FSM Law update |
| The CBA should strengthen three key stakeholder groups that play a significant role in developing a safe and fair financial market through communication and education:   * consumer organizations * financial associations * the police, prosecutors and the judiciary | CBA | Medium | Stronger involvement of other stakeholders |
| The LIF should be amended to provide for the segregation of assets of an investment fund from the assets of the fund’s custodian. | CBA | Short | LIF update |
| The LSM and LIF should be modified to give the CBA more authority to freeze assets and take control of licensed entities that are in distress and may put investors’ assets in jeopardy. | CBA | Short | LSM and LIF update |
| There should be provisions in place on how the MTPL Guarantee Association should operate in the case of insolvency, how insurers will be assessed for the insolvency fund and how much of the claim amounts policyholders will be able to recover. | CBA, MTPL Bureau | Medium | MTPL Law update |
| Pawnshops should be required to provide data to the credit registry and the credit bureau. | CBA | Medium | Law update |
|  |  |  |  |
| ***Business Practices*** |  |  |  |
| The "Know Your Customer" policy should require the banks to collect enough data about customers, their financial goals, risk profiles and their financial portfolio to match offered products with their needs. The information collected (of which the customer should always receive a copy) should also be used in any complaint resolution or lawsuit to prove whether the product was sold properly and in line with the consumer's interest. | CBA, industry associations | Medium | CBA Regulation and updated supervision manuals, updated Codes of Conduct |
| Legally require financial institutions to offer only products that are suitable to consumer's needs (including rules for responsible lending), update supervisory manuals to verify this requirement during inspections. | CBA, industry associations | Medium | CBA Regulation and updated supervision manuals, updated Codes of Conduct |
| Analyze the costs of tied and bundled products, verify fair pricing, allow clients to use their existing insurance policies with adequate cover and evaluate specific circumstances in which tying and bundling practices can be permitted. | CBA | Medium | Study, possible regulation |
| Allow for a cooling-off period during which new customers are allowed to revoke their contract without any penalty. | CBA | Medium | Update of laws |
| Establish and verify minimum competency requirements for staff of financial institutions dealing with consumers. | CBA, industry associations | Long | CBA Regulation |
| Customers should be notified in writing about changes in interest rate or other charges (except for variable interest rate products) at least two months in advance. | CBA | Medium | CBA Regulation |
| Provide consumers with the right to withdraw from a contract free of charge if interest rate or other charges are changed (except for variable interest rate products). | CBA | Medium | Update of laws |
| Debt collection and foreclosure practices should be monitored and analyzed and in case of need regulated. | CBA, consumer NGOs | Medium | Analysis, possibly new law |
| The sharing of information within a financial conglomerate and the consumer’s right to opt in or out should be regulated. | CBA | Medium | Update of laws |
| Rules of the EU Directive on Distance Sales should be implemented to cover the sale of all financial products. | CBA | Long | Update of laws |
| *Capital Markets Sector*   * The civil liabilities section of the LSM needs to be broadened to include oral misrepresentations. * The failure to provide to a customer the information required by the LSM and relevant regulations should form a liability under LSM. * Regulation 8/03 should apply also to CIUs. * CIUs that sell directly to customers should engage in a KYC and suitability evaluation of its customers. * LSM and Regulation 8/03 should be modified to require disclosure by investment service providers and CIUs of all entities that can have an impact on an investor’s account and any specific conflicts of interest that exist and how they are being handled. * The books and records regulation should contain more specificity as to the records that are to be maintained, including the advice given to and communications with the clients. It should also include the books and records of an investment fund. * The LSM should be amended to remove the technical and administrative insufficiencies exception in LSM Article 215 point 3. Civil liabilities for breach of the confidentiality provisions should be put into the LIF. | CBA  CBA  CBA  CBA  CBA  CBA  CBA | Short  Short  Short  Medium  Medium  Short  Short | Revised laws or CBA regulations |
| *Insurance Sector*   * The CBA should update regulation on claims practices, requiring timely investigation and payment of claims and prohibiting misrepresentation of policy terms and conditions in sales practices and advertising. * CBA should verify that insurance agents meet educational and product knowledge standards as well as personal suitability requirements and adhere to an industry code of conduct. * A stand-alone provision prohibiting misleading sales practices should be incorporated in the general LIIA. * The CBA should increase the amount of consumer-friendly information they provide on the state of markets and concerning the financial position of individual insurers. * Regulations addressing the issue of renewal notices should be adopted. A time frame should be contained in the renewal and easily understandable language about what the renewal involves. | CBA, industry association  CBA  CBA  CBA  CBA | Short  Long  Short  Medium  Long | Revised laws or CBA regulations |
|  |  |  |  |
| ***Dispute Resolution*** |  |  |  |
| Require financial institutions to collect and analyze data on consumer complaints, disputes and inquiries, which should be available for inspection by CBA. | CBA | Medium | CBA Regulation |
| The institutional capacity of the Financial System Mediator should be supported to deal with cases from all areas of financial services. | FSM | Short | Analysis, capability building |
| The outreach activities of the Financial System Mediator should be extended and the Mediator should analyze how effective is the compulsory disclosure about the service by financial institutions and how well it reaches various segments of the population. | FSM | Medium | Awareness building programs |
| Complaints from sole entrepreneurs, micro- and small-size businesses (as defined by the Armenian legislation) should be eligible for consideration by the Financial System Mediator. | FSM, CBA | Short | Update of the FSM Law |
| When a case is under review by the Financial System Mediator, court review should be delayed until the ombudsman has completed its review of the case. If the case is settled in the mediation phase or a decision is issued by the Mediator, the merits of the case should not be eligible for court review. | Ministry of Justice, CBA | Medium | Update of laws |
| Consideration could be given to evaluate the current scheme of fees for the Mediator that depends only on the assets of the financial institution to incorporate a component that increases the contribution of financial institutions that receive higher share of complaints then their market share. | FSM, CBA | Long | Analysis, possible fee structure change |
|  |  |  |  |
| ***Financial Literacy*** |  |  |  |
| Develop and implement the National Strategy for Financial Education (NSFE). | Members of the Steering Committee for the NSFE | Short | National strategy |
| Analyze the results of the 2012 World Bank Financial Literacy survey and use it to inform the work of the Steering Group. | Members of the Steering Committee | Short | Analysis of results, recommendation for topics and targets. |
| Establish evaluation mechanisms both for existing and new programs under the NSFE and conduct regular evaluations, publish results and case studies. | Members of the Steering Committee | Medium | Evaluation mechanisms, published results |
| Provide financial education and information to consumers through the media, encourage civil society and industry associations to expand their financial education activities and share their materials. | Members of the Steering Committee | Medium | Financial education programs and materials |
| Consider establishing an Armenian Financial Awareness Foundation to finance key financial education initiatives. | Members of the Steering Committee | Long | Analysis |
| Evaluate and update school curricula. | MoES, CBA | Short | Updated curriculum |
| Develop and improve teaching materials and tools and train teachers in financial issues. | MoES, CBA, industry associations | Medium | Teaching tools and teacher training |
| The CBA should strengthen its relationship with the media, including by providing financial education to journalists. The CBA should prepare press statements and articles that summarize findings of reports that relate to consumer finance, summarize and explain in simple terms draft regulations that are related to consumer protection issues. | CBA | Medium | Improved media coverage of consumer protection issues |
| Provide reliable and objective information on financial sector issues to consumers (e.g. glossary of terms, brochures). | CBA | Medium | Informational materials |
| Implement regular surveys and evaluations to assess the impact of financial capability initiatives. | CBA | Long | Surveys and studies |
| Establish a virtual (internet/Facebook) financial advisor to answer questions from the public. | CBA | Medium | Opening a modern communica-tion channel |

# The World Bank 2012 Financial Literacy survey preliminary results

Financial Capability Survey in Armenia (hereinafter: Survey) was implemented by AM Partners Consulting Company. Client of the Survey is World Bank, and the beneficiary of Survey results is Central Bank of Armenia (hereinafter: CBA). Data collection of the Survey was implemented in period of April 11 to May 20, 2012.

The objective of the survey was to establish a nationally representative baseline of financial capabilities in Armenia that would provide the Government of Armenia with the information required to design financial education programs that will address the most important needs of the population. Such a baseline will also be important for allowing the government to be able to assess the effectiveness of certain financial education programs later on and decide which initiatives should be continued and perhaps scaled up and which should be modified or discontinued.

For the Survey implementation the Consultant used the methodology developed by the Russia Financial Literacy and Education Trust Fund (FLIT). The methodology has universal characteristics and was used in a number of countries. At the moment of Survey implementation in Armenia similar surveys were being implemented in Colombia, Mexico, Uruguay, Lebanon and Turkey. There were 2,000 interviews conducted.

Some of the key results from the survey include:

* 89% of respondents plan how to spend their money but only 51% always spend the money as they plan it

* majority of respondents plan for only short periods of time (37% weekly/less than a month, 21% daily/less than a week and 12% do not plan at all)

* only 32% of respondents have any money left after primary expenses (primary expenses are regular expense, including food expenses, bills for communal services, education fee or transport payments, and expenses for other necessities)
* when asked about reasons for being short of money for their primary expenses, 75% quote insufficient or low income, 31% rise in prices and 18% fluctuating/unsteady income
* 59% of respondents have a debt to repay; 70% of them have borrowed an amount of their limits and could not afford borrowing more and 20% have borrowed more than they could really afford, only 10% still have ability to borrow more if needed
* 81% will not be able to cover unexpected major expenses fully without borrowing money if they had to do it the next day, 64% are very concerned about covering unexpected major expenses
* 51% of respondents up to 60 years of age have no idea how they will cover their expenses in older age, 26% plan to rely on government pension
* primary financial products are obligation related (formal loans from financial institutions at 49%, other loans from family and friends at 48%, insurance at 40%), only 39% of respondents use a bank account and 25% uses money transfers, only 6% of respondents have deposits and 3% other investments
* Armenian consumers seem to be shopping around – 76% say they always get information or advice when they have to make a financial decision, most of them consider many alternatives before they make a decision of using a certain financial product and they say they get introduced to the terms and conditions of certain financial product in details
* however, the primary sources of advice are friends and family (58%) and spouse/partner (35%), only 8% quote bank or financial sector professionals as their source of financial services consultancy
* of those who had a conflict with financial institution, 60% took an action (primarily by stopping using the services before the expiration date of contract and non-formally complaining to the company employees). Only 10% complained formally to the institution and 10% also approached the Financial System Mediator.
* for those who did not take any action, the main reasons are that they believe the customers are not properly protected by law (43%), did not have time or they gave no importance to the issue (36%), 21% did not know any state authority to apply for help

# References

Ardic, Oya Pinar, Joyce A. Ibrahim and Nataliya Mylenko, *Consumer Protection Laws and Regulations in Deposit and Loan Services: A Cross-Country Analysis with a New Data Set*, The World Bank and CGAP, January 2011

Armstrong, Mark, "Interactions between Competition and Consumer Policy," *Competition Policy International*, Volume 4, Number 1, Spring 2008

Benston, George, "Consumer Protection as Justification for Regulating Financial Services Firms and Product," *Journal of Financial Services Research*, 17:3, pp. 277-301, 2000

Braunstein, Saundra and Carolyn Welch, "Financial Literacy: An Overview of Practice, Research, and Policy," *Federal Reserve Bulletin*, vol. 87, November 2002

Brix, Laura and Katharine McKee, *Consumer Protection Regulation in Low-Access Environments: Opportunities to Promote Responsible Finance*, CGAP Focus Note No. 60, February 2010

Centre for European Policy Studies and Van Dijk Management Consultants, *Tying and other potentially unfair commercial practices in the retail financial service sector*, Final Report submitted to the European Commission, DG Internal Market and Services, ETD/2008/IM/H3/78, November 2009

Chatain, Pierre-Laurent, Andrew Zerzan, Wameek Noor, Najah Dannaoui, and Louis de Koker, *Protecting Mobile Money against Financial Crimes: Global Policy Challenges and Solutions*, The World Bank, 2011

Cole, Shawn and Gauri Kartini Shastry, *If You Are So Smart, Why Aren’t You Rich? The Effects of Education, Financial Literacy, and Cognitive Ability on Financial Market Participation,* October 2007

Consumers International, *Safe, fair and competitive markets in financial services: recommendations for the G20 on the enhancement of consumer protection in financial services,* March 2011

CGAP/The World Bank Group, *Financial Access 2010: The State of Financial Inclusion Through the Crisis*, September 2010

Dittus, Peter and Michael Klein, “On harnessing the potential of financial inclusion”, *BIS Working Paper 347*, May 2011

European Commission, *Communication on Financial Education* COM (2007) 808

---------, *Discussion paper for the amendment of Directive 87/102/EEC concerning consumer credit*

---------, *Second meeting of the Expert Group on Financial Education: The financial crisis and financial education Report*, April 28, 2009

---------, *Survey of Financial Literacy Schemes in the EU27,* November 2007

Gross, Karen, “Financial Literacy Education: Panacea, Palliative, or Something Worse?”, *St. Louis University Public Law Review* 24(2): 307-312, 2005

Herring, Richard J. and Anthony M. Santomero, *What is Optimal Financial Regulation?*, Wharton Financial Institutions Center, 1999

Hilgert, Marianne A. and Jeanne M. Hogarth, “Household Financial Management: The Connection between Knowledge and Behavior”, *Federal Reserve Bulletin*, July 2003

Joint Forum of the Basel Committee on Banking Supervision, the International Organization of Securities Commissions and the International Association of Insurance Supervisors, *Customer suitability in the retail sale of financial products and services*, April 2008

Klapper, Leora, Annamaria Lusardi and Georgios Panos, *Financial Literacy and the Financial Crisis: Evidence from Russia*, March 2011

Llewellyn, David T., "The Economic Rationale for Financial Regulation, Financial Services Authority," *FSA Occasional Papers in Financial Regulation* (U.K.); No. 1:1-57, April 1999

Lusardi, Annamarie and Olivia Mitchell, *Financial Literacy and Retirement Preparedness: Evidence and Implications for Financial Education,* Business Economics, January 2007

Mandell, Lewis, *The Financial Literacy of Young American Adults: Results of the 2008 National Jump$tart Coalition Survey of High School Seniors and College Students*, Jump$tart Coalition for Personal Financial Literacy, 2009

Mundy, Shaun, *Financial Education in Schools: Analysis of Selected Current Programmes and Literature – Draft Recommendations for Good Practices,* published in proceedings of OECD-US Treasury International Conference on Financial Education, Washington DC, 7-8 May 2008, Volume II

Organisation for Economic Co-operation and Development, *Financial Literacy and Consumer Protection: Overlooked Aspects of the Crisis, OECD Recommendation on Good Practices on Financial Education and Awareness relating to Credit,* 2009

---------, *Improving Financial Education and Awareness on Insurance and Private Pensions*, August 2008

---------, *Improving Financial Literacy: Analysis of Issues and Policies*, November 2005

---------, Directorate for Science, Technology and Industry, Committee on Consumer Policy, *Mobile Commerce*, DSTI/CP(2006)7/FINAL 16-Jan-2007

Rutledge, Susan, *Consumer Protection and Financial Literacy: Lessons from Nine Country Studies*, Policy Research Working Paper No. 5326, World Bank, June 2010

---------, *Country Studies Provide Powerful Lessons in Financial Consumer Protection*, Knowledge Brief No. 26, World Bank, July 2010

The Mastercard Foundation, *Taking Stock: Financial Education Initiatives for the Poor*, 2011

Thomas, David and Francis Frizon, *Resolving disputes between consumers and financial businesses: Fundamentals for a financial ombudsman,* Consultation draft, World Bank, June 2011

US Department of Housing and Urban Development and Department of TreasuryJoint Task Force, *Curbing Predatory Home Mortgage Lending*, June 2000

Willis, Lauren E., "Against Financial-Literacy Education," *Iowa Law Review*, Issue 94(1): 197-285*,* November 2008

World Bank, Financial and Private Sector Development Vice Presidency, *Good Practices for Financial Consumer Protection*, Consultative Draft, March 2011

1. The Good Practices incorporate provisions of directives, laws, regulations and codes of business practices from the EU, United States, Australia, Canada, France, Ireland, Malaysia, Mexico, New Zealand, Peru and South Africa. While the Good Practices are based on successful experiences primarily of middle- and high-income countries, the basic ideas are of universal application and should be part of financial consumer protection strategies for countries worldwide. The *Good Practices for Financial Consumer Protection* and country reports on financial consumer protection are available at [www.worldbank.org/consumerprotection](http://www.worldbank.org/consumerprotection). [↑](#footnote-ref-1)
2. Consumer protection is part of the statutory objectives of financial supervisory agencies in several countries like Austria, Colombia, Ireland, Singapore, Sweden and United Kingdom. According to a survey undertaken by CGAP and the World Bank, 99 countries (out of 142) reported that central banks or bank regulators are responsible for at least some aspect of financial consumer protection (see Ardic et al (2011)). [↑](#footnote-ref-2)
3. As defined by the Armenian legislation. [↑](#footnote-ref-3)
4. For further details and country comparison, see the full Findex database at http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2012/04/19/000158349\_20120419083611/Rendered/PDF/WPS6025.pdf [↑](#footnote-ref-4)
5. The full segment of non-bank credit institutions is regulated and supervised by the CBA. After the approval of the Law on Credit Organizations in 2002 and the Law on Pawnshops and Pawnbrokerage in 2003, all microfinance organizations, credit companies and pawnshops were required to be licensed by the CBA as credit organizations or pawnshops. The segment of credit organizations is thus composed of five different types of institutions: savings unions, credit unions, leasing organizations, factoring organizations and universal credit organizations. [↑](#footnote-ref-5)
6. For a summary of several country programs see Mundy (May 2008) andfor a summary of academic research on the limited effectiveness of financial education in the US, see Cole and Shastry (October 2007). Other studies that analyze the effects of financial education on consumer decision-making include Mandell (2009), Willis (November 2008), Klapper, Lusardi and Panos (March 2011). The World Bank’s *Good Practices for Financial Consumer Protection* (March 2011) includes a brief summary of measures that have pointed to some success in financial education programs. [↑](#footnote-ref-6)
7. Chairman Ben S. Bernanke’s Speech *Financial Innovation and Consumer Protection* at the Federal Reserve System's Sixth Biennial Community Affairs Research Conference, Washington, D.C. April 17, 2009 [↑](#footnote-ref-7)
8. The core principles relate to appropriate product design and delivery, prevention of overindebtedness, transparency, responsible pricing, fair treatment of clients, privacy of client data, and complaint resolution mechanisms. [↑](#footnote-ref-8)
9. Examples of key facts statements include the EU’s Standard European Consumer Credit Information, the US’ Schumer Box for credit cards, Peru’s Hoja Resumen (Summary Sheet), South Africa’s Pre-Agreement Statement & Quotation for Small Credit Agreements, Ghana’s Pre-Agreement Truth in Lending Disclosure Statement. [↑](#footnote-ref-9)
10. For example, Regulation 8/03 (Article 48, item 13) already indicates that information on credits published in newsletters and websites should include warnings about possible negative consequences for a borrower that does not pay obligations on time, in a prominent place and with different typewriting (e.g. “Warning: if you do not pay your interests and principal on time, this information will be included in the credit register”). [↑](#footnote-ref-10)
11. As an example, see the example of the United States where the Federal Reserve Board has conducted extensive consumer testing of credit card disclosure information in order to develop an easily understood format. For a summary of lessons learned, see the following website:

    http://www.federalreserve.gov/pubs/bulletin/2011/articles/DesigningDisclosures/default.htm [↑](#footnote-ref-11)
12. Publication of such information is done by financial supervisory authorities in countries like Ireland, Slovakia and Peru. For example, the Irish Financial Regulator periodically compiles offers by different financial institutions and then issues its comparative tariff survey with a press release. The Slovak Ministry of Finance collects average APR rates for pre-defined loan products and publishes average rates to allow consumers to compare the proposed rate with the market average. The Superintendence of Banking, Insurance and Private Pension Funds of Peru publishes all the components of an indicator of effective cost of credit per financial institution on its website and national newspapers. The Superintendence of Banking, Insurance and Pension Funds of Peru, for example, found that online publication of consumer loan rates reduced the average consumer lending rate by 1000 basis points (or ten percentage points) at a time of stable interest rates (see <http://www.sbs.gob.pe>). [↑](#footnote-ref-12)
13. Tying occurs when two or more products are sold together in a package and at least one of these products is not sold separately. Bundling occurs when two or more products are sold together in a package, although each of the products can also be purchased separately on the market. [↑](#footnote-ref-13)
14. The taxonomy of complaints by product and complaint type should be standardized and defined by the CBA's regulations. [↑](#footnote-ref-14)