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ARMENIA

Action Plan on Financial Consumer Protection

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Armenia

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Abbreviations & Acronyms

AMD	Armenian Drams
CBA	Central Bank of Armenia
CIU	Collective Investment Undertaking
CPMCD	Consumer Protection and Market Conduct Division of the CBA
EU	European Union
FSM	Financial System Mediator
FX	Foreign Exchange
GDP	Gross Domestic Product
LIA	Law on Insurance and Insurance Activities
MTPL	Motor third party liability
NGO	Non-governmental organization

n.a. Not Available

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The key actions identified in this Action Plan are based on the findings of the Diagnostic Review of Consumer Protection and Financial Literacy, conducted¹ by The World Bank in January 2012. The key findings were discussed at a workshop, organized by the Central Bank of Armenia and The World Bank in July 2012 with participation of all key stakeholders. More than 50 representatives of the Central Bank of Armenia, the government, the financial industry, the civil society and the media participated in the workshop. Comments received during the workshop have been incorporated into the Diagnostic Review, as well as follow-up comments shared by the Central Bank of Armenia.

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¹ This Diagnostic Review was prepared by a team led by Susan Rutledge (Head of World Bank's Global CPFL Program), and comprised Tomas Prouza (banking), Juan Carlos Izaguirre (non-bank credit institutions), Richard Symonds (capital markets), Johanna Jaeger (financial education,) Deborah Senn (insurance), 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.

Introduction

1. **The Action Plan on Financial Consumer Protection for Armenia is based on the Diagnostic Review of Consumer Protection and Financial Literacy, prepared by the World Bank in 2012.** Similar to the Diagnostic Review, the Action Plan draws on international good practices² and successful experiences of regulators and supervisors that have improved financial consumer protection regimes in developing and developed countries.
2. **A well-balanced financial consumer protection regime serves the interests of both financial institutions and financial consumers.** An adequate financial consumer protection regime should provide financial institutions with better-informed and more knowledgeable clients and make sure that clients understand their obligations under the contracts they signed. In addition, adequate consumer protection and financial literacy help individuals gain confidence to approach and use the formal financial sector.
3. **The Action Plan focuses on the key recommendations listed in the Diagnostic Review, and proposes specific actions to be undertaken by Armenian stakeholders.** The Action Plan identifies the activities needed to implement key high-priority recommendations that could be implemented in the short term. These recommendations cover four areas: (i) institutional framework, (ii) consumer disclosure, (iii) business practices, and (iv) dispute resolution.
4. **The Action Plan also identifies the actors that would play a key role in implementing the activities.** These actors might include not only the central bank and other government authorities, but also the financial industry and relevant civil society or consumer organizations. This multi-stakeholder approach aims to building broad-based support to the action plan, promoting coordination and collaboration, and ensuring that the activities are implemented more effectively and efficiently by taking into account different angles and expertise.
5. **This Action Plan aims to provide Armenian authorities with a first key input for the development of their own final Consumer Protection Strategy.** It is advisable that the final Consumer Protection Strategy be approved and formalized, in order to give a clear and unquestionable sign to the market – and to other authorities – of the importance placed to the issues of financial consumer protection. The Consumer Protection Strategy will also help monitor the progress of implementation of key financial consumer protection reforms.

² 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.

Institutional Framework

6. **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". As the consumer protection agenda is rather new to the CBA, the CBA as well as other stakeholders would benefit from a long-term consumer protection strategy, approved by the CBA Board and publicly communicated to inform the stakeholders about the CBA plans.

Action 1	Develop a long-term Financial Consumer Protection Strategy and an Action Plan for its implementation
Activities	<ol style="list-style-type: none"> 1. Develop a long-term Financial Sector Consumer Protection Strategy, defining key goals of the CBA in the area of consumer protection. 2. Share the draft strategy with other government stakeholders. 3. Revise the draft strategy based on comments received, if needed. 4. Present the strategy to the CBA Board for approval. 5. After the approval of the strategy, prepare an Action Plan to implement it.
Outputs	Financial Sector Consumer Protection Strategy Action Plan to implement the strategy
Actors	Leading: CPMCD of the CBA Consultation: the Financial System Mediator, Pension Awareness Center, MTPL Bureau, financial sector associations, consumer NGOs
Priority	High
Timeframe	2012-2013
Resources	CBA, the World Bank

7. **An effective consumer protection regime must be based on adequate legislation and effective supervision of market conduct of financial institutions.** To achieve these goals, the CBA should take four steps after the Consumer Protection Strategy is approved – update the Armenian financial sector legislation, assess and develop institutional capacity of the consumer protection and market conduct team and update supervision manuals.
8. **The new legislation needs to be comprehensive, ensure level playing field and provide flexibility to the CBA to react to new market developments.** When drafting new or updating current laws or regulations, the CBA should ensure the rules are as similar as possible to ensure that the whole financial sector is covered and there are no loopholes allowing for subprime consumer protection through repackaging of financial products into a product with more relaxed consumer protection rules. Verifying for options for regulatory arbitrage should thus be an integral part of conducting the legal gap analysis. Moreover, the new or updated laws should give enough flexibility to the CBA to issue regulations where needed so that it can react quickly to new market developments.

Action 2	Update the Armenian legislation on financial consumer protection
Activities	<ol style="list-style-type: none"> 1. Based on the Diagnostic Review of Consumer Protection and Financial Literacy, prepared by the World Bank in 2012, this Action Plan, CBA experience with consumer protection activities and the approved Consumer Protection Strategy, identify areas where financial sector laws and CBA regulations need to be strengthened or updated. 2. Based on the legal gap analysis and international good practices, draft a plan of legislative work to draft amendments of the financial sector legislation. 3. Provide the CBA with adequate supervisory powers, including mystery shopping and ability to take control of licensed entities that may put clients' assets into jeopardy. 4. Share draft amendments with other stakeholders (other government institutions, financial industry, civil society). 5. Revise amendments based on comments received, if needed. 6. Present amendments to the government to start the legislative process.
Outputs	<p>Plan of legislative revisions to ensure sufficient coverage of the whole financial sector, relevant rules for disclosure and business practices and adequate CBA mandate to conduct effective market conduct supervision</p> <p>Amendments to the CBA Law and financial sector laws (Law on Banks and Banking, Law on Consumer Credits, Law on Attraction of Bank Deposits, Law on Credit Organizations, Law on Pawnshops and Pawnbrokerage, Law on the Securities Market, Law on Investment Funds, Law on Insurance and Insurance Activities, Law on Compulsory Insurance of Liability Arising Out of the Use of Motor Vehicles, other laws and CBA regulations if necessary)</p>
Actors	<p>Leading: CPMCD and Legal department of the CBA</p> <p>Collaborators: other departments of the CBA, the Financial System Mediator</p> <p>Consultation: Pension Awareness Center, MTPL Bureau, financial sector associations, consumer NGOs</p>
Priority	High
Timeframe	2013-2015
Resources	CBA, the World Bank

9. The CBA must have enough capacity and adequate capabilities to conduct its consumer protection and financial education tasks. An assessment of institutional capacity and authority should be conducted and based on the results, the CBA should update the organization and staffing of the consumer protection and market conduct division. Also, a long-term capacity and knowledge building programs should be designed to assist the CBA staff in their professional development and effectiveness.

Action 3	Strengthen institutional capacity and authority of the CBA's consumer protection and market conduct division
Activities	<ol style="list-style-type: none"> 1. Conduct an assessment of consumer protection and market conduct institutional capacities of the CBA, which would map the resources (number of employees, qualification of the employees, time and budget) currently deployed to consumer protection issues in the CPMCD and other units of the CBA, and would estimate resources needed by the CBA to effectively implement consumer protection mandate. 2. Evaluate the effectiveness of the existing system of cooperation between the CPMCD and the supervision department in the execution of the market conduct supervision. 3. If needed, ensure that additional resources are deployed as necessary to ensure an effective consumer protection and market conduct regime.

	<p>4. Elaborate a capacity and knowledge building programs on consumer protection for the CBA.</p> <p>5. Assign a member of the CBA Board with responsibility for financial consumer protection, different from that responsible for prudential supervision.</p>
Outputs	<p>Assessment of CBA's institutional capacity</p> <p>Analysis of effectiveness of the execution of market conduct supervision</p> <p>Recommendations on capacity and capability of the CBA to ensure effective execution of market conduct supervision and financial education activities</p> <p>Assignment of responsibility for financial consumer protection to a CBA Board member</p> <p>CBA staff capacity building program</p>
Actors	CBA
Priority	High
Timeframe	2012-2013
Resources	CBA, the World Bank

10. Supervision processes and supervision manuals must be updated to reflect the changes in the market conduct rules. As the first step, a supervision process gap analysis should be undertaken to define areas in the need of attention. Based on the results and the consultation process within the CBA, the supervision processes should be updated, including the update of existing on-site supervision manual and the development of off-site manuals. Special attention should be paid to systematically important market conduct cases (so-called mass cases) where damage was caused to significant number of customers and the situation may have financial stability implications.

Action 4	Update supervision process and supervision manuals
Activities	<p>1. Based on the World Bank's Consumer Protection and Financial Literacy Diagnostic Review, Consumer Protection Strategy, Actions 1-3 above and new or updated legislation, conduct a supervision process gap analysis.</p> <p>2. Consult the results of the supervision process gap analysis with other stakeholders and seek their input.</p> <p>3. Update the supervision process and coordination of the CBA units, as well as the supervision manuals, according to the results of the supervision process gap analysis and consultation with stakeholders.</p> <p>4. Design a process within the CBA under which systematically important market conduct cases are discussed by all stakeholders within the CBA, taking into account also the information provided by the Financial System Mediator under the CBA-FSM Memorandum of Understanding.</p>
Outputs	<p>Supervision process gap analysis</p> <p>Update of the market conduct processes, including updates or development of on-site and off-site inspection manuals</p> <p>Update of CBA internal rules to define the handling of systematically important market conduct cases, including those referred to by the Financial System Mediator under the CBA-FSM Memorandum of Understanding</p>
Actors	CPMCD and the Supervision department of the CBA
Priority	High
Timeframe	2013-2015
Resources	CBA

11. While the CBA is the key institutional authority in the area of financial consumer protection, other institutions should be strengthened as well. There are three key stakeholder groups the CBA should seek to strengthen and involve in the support for a safe and fair financial market: consumer organizations and financial associations.

Action 5	Strengthening of other stakeholders
Activities	<ol style="list-style-type: none"> 1. Support the involvement of consumer organizations in the development of financial sector legislation. 2. Motivate consumer organizations to collect market intelligence and regularly provide information to the CBA on issues their target groups come across. 3. Support the involvement of financial associations in the development of financial sector legislation. 4. Motivate financial associations to develop effective and enforceable self-regulatory tools prepared in line with the CBA's consumer protection policies and communicate them to the public.
Outputs	<p>Program to support consumer organizations to be more active in the development of financial sector and market monitoring, based on the related World Bank report.</p> <p>Effective, enforceable and publicly communicated self-regulatory codes of conduct promoting safe and fair financial markets.</p>
Actors	<p>Leading: CBA</p> <p>Collaborators: Financial System Mediator, Pension Awareness Center, consumer organizations, financial associations</p>
Priority	Medium
Timeframe	2013-2015
Resources	CBA, consumer organizations, financial associations, the World Bank

Consumer Disclosure

12. Armenian consumers across all sectors need information that is simple, accessible and easy to understand, so that they can make informed decisions. Some of the disclosure regulations³ apply only to selected parts of the financial market, thus causing distortions in the level of consumer protection. The current regulations define – for some types of products – many details of information disclosure but the CBA should ensure the information provided is understandable to the public and uses the same vocabulary and definitions (especially for penalties) for the same products, services and processes. Therefore, current disclosure documents for key financial products should be tested and if needed, regulation updated to ensure maximum relevance of information provided. The same disclosure rules should also be made applicable to all similar financial products. Financial providers should be required to disclose the effective price or cost of financial products, using standard calculation and presentation methods, in all advertising, marketing and sales materials.

Action 6	Test the disclosure for key financial products (advertising, marketing and sales
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³ Regulation 8/03 and 8/05.

	materials) for understandability by average consumers, and develop standard terminology for retail financial products
Activities	<ol style="list-style-type: none"> 1. Define key financial products for the Armenian market (e.g. current account, term deposit, credit card, consumer credit, mortgage, pawnshop loan, MTPL insurance, home insurance). 2. Test a sample of advertising, marketing and sales materials for these products for truthfulness and understandability through consumer research. 3. Consult the results with the financial sector associations and consumer organizations. 4. Require that all advertising states that the financial institution is licensed and supervised by the CBA. 5. Require that financial providers disclose the effective price or cost of all retail financial products, using standard calculation and presentation methods, in all advertising, marketing and sales materials. 6. Based on the analysis, update CBA Regulations defining the rules for advertising and disclosure or agree on self-regulatory changes to disclosure. 7. In cooperation between financial associations and the CBA, develop glossaries of key terms for each financial sector, and ensure they are widely available. 8. 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. 9. Develop a consumer awareness campaign on the new disclosure rules and glossaries.
Outputs	<p>Amended CBA Regulations 8/01 and 8/03</p> <p>Consumer awareness campaign</p> <p>Update of the internal processes of the CBA to conduct regular consumer testing of disclosure documents</p> <p>Sector-specific glossaries of key terms and penalties</p> <p>Evaluation report for consumer awareness campaign</p>
Actors	<p>Leading: CBA</p> <p>Consultation: financial sector associations and consumer organizations</p>
Priority	High
Timeframe	2013-2015
Resources	CBA, financial sector associations, the World Bank

13. **Statements are an important communication channel and attention should be paid to their understandability and information relevance.** After a contract is concluded, statements are usually the most frequent tool of communication between the financial institution and the consumer. Therefore, attention needs to be paid not only to proper delivery of statements but also to their content and understandability.

Action 7	Ensure that statements are delivered properly to consumers and that their content is relevant and understandable.
Activities	<ol style="list-style-type: none"> 1. Analyze a selection of statements for understandability and if needed define compulsory format and content, including advice on how to dispute their accuracy. 2. Ensure that statements are provided to all clients effectively. 3. If needed, update CBA Regulations defining the rules for advertising, disclosure and statements or agree on self-regulatory changes to disclosure.
Outputs	Updated Regulation 8/05

	Update of the internal processes of the CBA to conduct regular consumer testing of statements
Actors	Leading: CBA Consultation: financial sector associations and consumer organizations
Priority	Medium
Timeframe	2014-2015
Resources	CBA, financial sector associations, the World Bank

14. **Consumers should be encouraged to shop around and information in the disclosure documents should thus be as comparable as possible.** Special attention should be paid to the comparability of presented information to ensure consumers may compare offers easily. Therefore, not only content but also format of compulsory disclosure should be regulated. The CBA should also regularly monitor effective prices of financial products and publish them in publicly accessible comparison tables.

Action 8	Collect information on effective prices of retail financial products, develop and publish comparative tables for retail financial products
Activities	<ol style="list-style-type: none"> 1. Collect information on effective costs and returns of key financial products from all financial service providers. 2. Design formats of comparison tables with effective costs and returns and other key information of key financial products per provider, and publish them on at least a quarterly basis. 3. Use the results of comparisons to analyze the level of competition and take necessary steps if needed. 4. Develop a consumer awareness campaign on the new comparison tables. 5. Monitor impact of consumer awareness campaign.
Outputs	Definition of key financial products Comparison tables of effective costs and returns and key information of financial products Consumer awareness campaign Evaluation of the consumer awareness campaign
Actors	Leading: CBA Consultation: financial sector associations and consumer organizations
Priority	High
Timeframe	2014-2015
Resources	CBA, financial sector associations, the World Bank

15. **There are no requirements for financial services providers to give consumers a key fact statement – a standardized one- or two-page document summarizing, in plain language, terms and conditions of contracts of basic retail financial products.** 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 before contract signing, to help him or her understand every essential term and condition. It is recommended to start with the development of a key facts statement for the most common products used by retail financial consumers, namely consumer loans. Key fact statements should also be developed early for the pension funds before the pension reform starts. The key facts statement should then be used by all providers of such product.

Action 9	Develop and test key fact statements, require key facts statements to be provided to consumers by all financial providers.
Activities	<ol style="list-style-type: none"> 1. Identify international models of key facts statements for various types of financial products. 2. Prepare draft key facts statement format for consumer loans and pension funds, with inputs from associations of banks and non-bank credit institutions and the Pension Awareness Center. 3. Undertake consumer testing of draft key facts of statements. 4. Issue a CBA Regulation requiring key facts statements for consumer loans and pension funds. 5. Develop guidelines for monitoring compliance with the distribution and explanation of key facts statements (e.g. including mystery shopping) and include it into the planned off-site supervision manual. 6. Undertake consumer awareness activities. 7. Obtain feedback from financial industry and consumers. 8. Develop and test key fact statements for other types of financial products, update the relevant regulation accordingly.
Outputs	<p>Consumer research report based on international experiences</p> <p>Key facts statement for consumer loans and pension funds</p> <p>Update of the CBA Regulations 8/03 and 8/05 to include key facts statement for consumer loans and pension funds</p> <p>Consumer awareness materials</p> <p>Guidelines for supervision of compliance as part of the new off-site supervision manual</p> <p>Key facts statement for other types of financial products</p> <p>Update of the CBA Regulation 8/03 and 8/05 to include key facts statement for other types of financial products</p> <p>Consumer awareness materials</p>
Actors	<p>Leading: CBA</p> <p>Consultation: financial associations, Pension Awareness Center</p>
Priority	High
Timeframe	2013 (key fact statements for consumer loans and pension funds), 2014-2015 for other types of financial products
Resources	CBA, financial associations, Pension Awareness Center, the World Bank

16. Given the importance of consumer credit for Armenian consumers, special attention needs to be paid to the disclosure of credit products and credit history. Many sole entrepreneurs (especially farmers in rural areas) purchase credit products and use it both for their business and personal use – but do not receive protection reserved for non-business retail products. Also, pawnshops do not report loans to the credit bureau, making the credit history of many individuals incomplete. And as credit history is used also outside the provision of financial products (e.g. by employers screening the credit history of potential new employees), consumers need to be aware about the credit registry and the impact of negative information in their credit history.

Action 10	Extend disclosure rules in the area of consumer credit, ensure that the credit bureau contains full credit history and strengthen the understanding of the credit history by the public.
Activities	<ol style="list-style-type: none"> 1. Extend consumer credit disclosure rules also to credit products for sole entrepreneurs, small farmers and micro-size businesses.

	<ol style="list-style-type: none"> 2. Require pawnshops to provide data to the credit registry and the credit bureau. 3. Test the existing information disclosure about the credit bureau and using the results, improve the disclosure of credit reporting, including clear information about the impact of negative information and subject's rights to review and dispute credit history information.
Outputs	<p>Update of the Law on Consumer Credits Update of the Regulations 8/03 and 8/05 Update of the Law on Pawnshops and Pawnbrokerage Update of the Law on Circulation of Credit Information and Activities of Credit Bureaus and of the Resolution 142-N on Creation of Credit registry and terms and conditions of participation of banks, credit organizations and branches of foreign banks operating in Armenia Standardized one-page information sheet (separate from the key fact statement) informing the consumers about the credit bureau, credit history and the right (and procedures) to obtain a credit report and dispute information listed</p>
Actors	<p>Leading: CBA Consultation: ACRA Credit Bureau, financial associations, consumer organizations</p>
Priority	Medium
Timeframe	2014-2016
Resources	CBA

17. Develop standard contract clauses to improve comparability and legal certainty for consumers. Standard parts of contracts, such as definitions, calculations, delivery of documents, penalties, etc. should be standardized and used in all financial service contracts. They should also be published at the CBA's consumer website and effects of each of the clauses explained so that consumers better understand their rights and obligations.

Action 11	Develop standard contract features, publish them on the CBA's consumer website and implement them into financial service contracts
Activities	<ol style="list-style-type: none"> 1. Analyze current financial service contracts and select provisions that should be standardized in each sector. 2. Draft standard wording for selected provisions. 3. Consult the proposed wording with the financial associations and consumer organizations. 4. Issue a new CBA regulation requiring the implementation of the standard contract clauses into all financial service contracts for retail consumers, including sole entrepreneurs, small farmers and micro-enterprises. 5. Publish and explain the standard contract features at the CBA's consumer website. 6. Update the off-site supervision manual to include the verification of the implementation of the standard clauses.
Outputs	<p>Analysis of which contract clauses should be standardized in each financial sector. Wording of standard contract clauses New CBA regulation on standard contract clauses Publication of the standard contract clauses, including their explanations, at the CBA's consumer website Updated off-site supervision manual</p>
Actors	<p>Leading: CBA Consultation: financial associations, consumer organizations, Financial System Mediator</p>
Priority	Medium

Timeframe	2013-2016
Resources	CBA, the World Bank

18. Transparency rules should apply across the whole financial sector and information about licensed institutions and their history should be readily available. Consumers should be made aware about the existence of the CBA and its role in licensing financial service providers. Consumers should be taught to use the register of all licensed institutions available at the CBA's website to allow them easy verification of the existence of the license of the financial service provider. It is also important that the whole financial sector is covered by the transparency rules.

Action 12	Make information about licensed entities and their disciplinary history easily accessible.
Activities	<ol style="list-style-type: none"> 1. Within public awareness campaigns, teach consumers to verify whether a financial service provider is licensed through the register of licensed financial service providers on the CBA's website. 2. Verify that all entities acting in the financial sector are covered by transparency rules and remove the current exclusion for the payment settlement providers that act as intermediaries to financial institutions. 3. The CBA, the Financial System Mediator and the Stock Exchange should publish all disciplinary actions and awarded decisions (not mediated agreements for the Mediator).
Outputs	<p>Information about the register of licensed entities included among public awareness messages about the CBA</p> <p>Update of the Law on the Central Bank and the Law on Financial System Mediator</p> <p>A complete register of financial service providers licensed by the CBA, including their disciplinary history.</p>
Actors	<p>Leading: CBA</p> <p>Consultation: Financial System Mediator and the Stock Exchange</p>
Priority	Medium
Timeframe	2014-2015
Resources	CBA, Financial System Mediator and the Stock Exchange

Business Practices

19. Effective self-regulation allows stronger consumer protection regimes. However, it must be enforceable across the market. Codes of conduct and other self-regulatory tools should be supported to develop a strong and flexible consumer protection regime. To make self-regulation truly effective, the CBA must be equipped with tools to monitor the compliance with the self-regulatory rules and consumers must be able to raise complaints about the breaches of self-regulatory rules.

Action 13	Develop strong and effective self-regulatory environment
Activities	1. Analyze current self-regulatory activities (including codes of conduct) by financial

	<p>sector associations.</p> <ol style="list-style-type: none"> 2. Propose the model self-regulatory design, including the enforcement mechanism for the self-regulation. 3. Support financial associations in the development of self-regulatory rules and approve proposed codes of conduct. 4. Develop and conduct public awareness activities to promote consumer rights protected by self-regulatory measures. 5. Require that financial associations report to the CBA annually about complaints received regarding the breaches of the codes of conduct and other self-regulatory rules. 6. Based on the reports and own monitoring activities (including mystery shopping and market monitoring reports from consumer organizations) work with financial associations to improve self-regulation. 7. If self-regulation improvements are not effective, regulate the issues.
Outputs	<p>Analysis of the existing self-regulatory activities Proposal of a model self-regulatory design Public awareness program to inform the public about self-regulation rules and programs Updated supervision manuals to allow for monitoring of effectiveness of the self-regulation Annual reports by the financial associations to the CBA about complaints received related to the codes of conduct and other self-regulatory rules</p>
Actors	<p>Leading: CBA Collaborators: financial sector associations</p>
Priority	Medium
Timeframe	2013-2016
Resources	CBA, financial associations, financial service providers

20. Introduce the Know Your Customer principle and the principle of responsible advice.

The "Know Your Customer" policy should require the financial service providers to collect enough data about customers, their financial goals, risk profiles and their existing 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.

Action 14	Introduce the Know Your Customer principle and the principle of responsible advice for the sales of financial products.
Activities	<ol style="list-style-type: none"> 1. Update the legislation to require that financial service providers collect enough data about customers, their financial goals, risk profiles and their existing financial portfolio to match offered products with their needs. 2. Update the legislation to require all financial service providers to act in the best interest of their consumers. 3. In cooperation with the Financial System Mediator, issue guidance to financial service providers on how the requirement to act in the best interest of consumers will be evaluated during inspections and complaints handling, 4. Update the legislation to require financial service providers to provide consumers with a copy of the information used to verify suitability of the offered product, store it for five years after the end of the contract and make it available to any self-regulatory body, the Financial System Mediator, the CBA and the law enforcement bodies

	dealing with any consumer complaint related to the sale of the product. 5. Develop and update supervision manuals (including the mystery shopping rules) to allow for the verification of these requirements.
Outputs	Update of CBA Regulation 8/05 Update of all sector laws to require financial institutions to act in the best interest of their clients Updated supervision manuals
Actors	Leading: CBA Consultation: Financial System Mediator, financial associations
Priority	High
Timeframe	2013-2016
Resources	CBA, Financial System Mediator, financial associations, the World Bank

21. **The rules of the sales process need to be improved to ensure consumers have a right to a cooling-off period and are not overcharged for tied or bundled products, the sales agents are adequately trained, there are specific rules on distance sales of financial products and sharing of information about customers is well regulated.** Cooling-off periods provide an effective method of protecting consumers from high-pressure sales tactics. Cooling-off periods are particularly important for contracts with a long-term component, such as mortgage loans, and in contexts where the terms and conditions of products and services are generally not available or cannot be compared. However, in the cases of securities and investment funds, rapid changes in market prices make unworkable any form of cooling-off period. The CBA also needs to 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. To ensure that consumers are provided with relevant information, minimum competency requirements for staff of financial institutions dealing with consumers should be established and tested. There should also be specific rules regarding distance sales of financial products, based on the EU Directive on distance Sales. Privacy of consumer information needs to be protected and sharing of information within a financial conglomerate and with third parties as well as the consumer's right to opt in or out should be regulated.

Action 15	The rules of the sales process need to be improved to ensure consumers have a right to a cooling-off period and are not overcharged for tied or bundled products, the sales agents are adequately trained, there are specific rules on distance sales of financial products and sharing of information about customers is well regulated.
Activities	<ol style="list-style-type: none"> 1. Provide for a cooling-off period during which new customers are allowed to revoke their contract without any penalty for all products where possible (i.e. except for securities and investment products). 2. 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. 3. Test disclosure documents to ensure consumers are fully informed about the costs of tied and bundled products, verify that the costs of these products are adequately included into the total cost calculations and that consumers are fully informed about their right to use other similar products. 4. Set minimum competency requirements for staff of financial institutions dealing with consumers and the method of the sales staff education and testing.

	<p>5. Define disclosure rules for distance sales of financial products in line with the EU Directive on Distance Sales.</p> <p>6. Define rules for the protection of privacy of consumer information and for sharing of information within a financial conglomerate and with third parties, including the consumer's right to opt in or out.</p>
Outputs	<p>Cost analysis of tied and bundled products compared to cost of similar products sold on stand-alone basis</p> <p>Analysis of disclosure information about tied and bundled products</p> <p>Amended Regulation 8/05 for cooling-off periods Amended CBA Regulations to define details of disclosure for tied and bundled products</p> <p>New CBA Regulation (or an agreement on self-regulatory rules) on minimum competency requirements for staff of financial institutions dealing with consumers, including a system for their education and testing of their competency</p> <p>Update of the financial sector laws to include provisions in line with the EU Directive on Distance Sales</p> <p>New CBA Regulation on sharing of information about consumers within financial conglomerates and third parties</p>
Actors	<p>Leading: CBA</p> <p>Consultation: financial associations, consumer organizations</p>
Priority	Medium
Timeframe	2014-2017
Resources	CBA

22. Customers should be informed about unilateral changes of contract conditions and given sufficient time to withdraw from a contract free of charge if they disagree with the changes. Customers should be notified in writing about changes in fees, interest rate or other contract conditions (except for interest rate changes for variable interest rate products) at least two months in advance. If they disagree with the proposed changes, consumers should be provided with the right to withdraw from a contract free of charge.

Action 16	Customers should be informed about unilateral changes of contract conditions and given sufficient time to withdraw from a contract free of charge if they disagree with the changes.
Activities	<ol style="list-style-type: none"> 1. Update the legislation to require that customers are notified in writing about changes in fees, interest rate or other contract conditions (except for interest rate changes for variable interest rate products) at least two months in advance. 2. Define the format and content of the disclosure of the proposed unilateral changes of contract conditions and the right of the consumer to withdraw from the contract free of charge. 3. Update the legislation to give the consumers a right to withdraw from a contract free of charge if they disagree with the proposed changes.
Outputs	Update of the CBA Regulation 8/05
Actors	<p>Leading: CBA</p> <p>Consultation: financial associations</p>
Priority	Medium
Timeframe	2014
Resources	CBA

23. Debt collection and foreclosure practices should be monitored and analyzed and in case of need regulated. While apparently not a major issue at the moment in Armenia, international experience shows that aggressive and unfair debt collection practices and weak foreclosure rules may become a source of major consumer protection conflicts. Therefore, existing rules and market practices should be monitored and analyzed, and if significant issues are found, self-regulation should be developed or regulation introduced.

Action 17	Debt collection and foreclosure practices should be monitored and analyzed and in case of need regulated.
Activities	<ol style="list-style-type: none"> 1. Conduct a research to collect information and analyze current debt collection and foreclosure practices. 2. Encourage consumer organizations to monitor debt collection and foreclosure practices continuously and report on the market practices to the CBA. 3. If needed, design rules for debt collection and foreclosures, including licensing of debt collection agencies.
Outputs	<p>Research on current debt collection and foreclosure practices</p> <p>Agreement with consumer organizations about monitoring of debt collection and foreclosure practices</p> <p>If necessary, preparation of a debt collection and foreclosure regulatory framework</p>
Actors	<p>Leading: CBA</p> <p>Consultation: consumer organizations, financial associations, Financial System Mediator</p>
Priority	Medium
Timeframe	2015-2017
Resources	CBA, consumer organizations

24. Specific changes related to the securities sector should be implemented. According to the World Bank's Consumer Protection Diagnostic Review, there are several specific changes to support safe and fair capital markets.

Action 18	The development of the capital markets should be strengthened by improving the consumer protection rules.
Activities	<ol style="list-style-type: none"> 1. The civil liabilities section of the LSM needs to be broadened to include oral misrepresentations. 2. The failure to provide to a customer the information required by the LSM and relevant regulations should form a liability under LSM. 3. 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. 4. 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.
Outputs	<p>Updated Law on the Securities Market</p> <p>Updated Law on Investment Funds</p>
Actors	<p>Leading: CBA</p> <p>Consultation: Stock Exchange</p>
Priority	Medium
Timeframe	2014-2015

Resources	CBA
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25. Specific changes related to the insurance market should be implemented. According to the World Bank's Consumer Protection Diagnostic Review, there are several specific changes to support safe and fair insurance sector.

Action 19	The development of the insurance market should be strengthened by improving the consumer protection rules.
Activities	<ol style="list-style-type: none"> 1. Define rules on claims practices, requiring timely investigation and payment of claims and prohibiting misrepresentation of policy terms and conditions in sales practices and advertising. 2. A stand-alone provision prohibiting misleading sales practices should be incorporated in the general LIIA. 3. CBA should increase the amount of consumer-friendly information they provide on the state of markets and concerning the financial position of individual insurers. 4. 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. 5. Provisions should be put 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.
Outputs	<p>Updated Law on Insurance and Insurance Activities Updated Regulation 8/05 An insurance industry code of conduct Updated Law on Compulsory Insurance of Liability Arising Out of the Use of Motor Vehicles</p>
Actors	<p>Leading: CBA Consultation: insurance association</p>
Priority	Medium
Timeframe	2014-2015
Resources	CBA

Dispute Resolution

26. Consumer complaints are an important guide to what financial service providers and the regulator should focus on when designing safe and fair financial market. All financial institutions should not only record consumer complaints but should also regularly analyze them and ensure the institution takes action to limit the most typical complaints. **The data on consumer complaints, disputes and inquiries should also be available for to the CBA** for analyses and research purposes. The CBA should annually analyze information on consumer complaints received by financial service providers, the Financial System Mediator and itself, publish the analysis and propose actions to limit the most typical complaints.

Action 20	Require financial institutions to establish and disclose procedures for resolution of
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	consumer complaints, and provide minimum guidelines on such procedures. Analyze received complaints and strive to limit the most typical complaints.
Activities	<ol style="list-style-type: none"> 1. Require that financial service providers record all complaints received and their solution in an information system. Require financial service providers to submit to their management body an annual analysis of complaints received and the management body to implement policies to limit the causes of the most frequent complaints. 2. Require all financial service providers to submit periodic statistics on complaints, following a predetermined format, and the annual analysis and the decision of the management body to the CBA. 3. Develop a system to monitor compliance with these requirements (ad 1-3). 4. The CBA should annually analyze information on consumer complaints received by financial service providers, the Financial System Mediator, the MTPL Bureau and itself, publish the analysis and propose actions to limit the most typical complaints.
Outputs	<p>Updated Regulation 8/04 on Minimum Principles and Requirements on Internal Complaint Handling Processes in Financial Institutions.</p> <p>Annual reports of received complaints submitted to the management body of each financial service provider and the CBA.</p> <p>Annual CBA analytical report of consumer complaints received by financial service providers, the Financial System Mediator and the CBA.</p> <p>CBA proposals to update legislation, disclosure or business practices to decrease the most typical complaints of the Armenian public.</p>
Actors	<p>Leading: CBA</p> <p>Consultation: financial associations, Financial System Mediator, MTPL Bureau, consumer organizations</p>
Priority	Medium
Timeframe	2014
Resources	CBA, Financial System Mediator, financial service providers

27. The Financial System Mediator has been very effective in significantly improving access to justice to consumers of retail financial services. Other groups besides individuals should benefit from its services. The services of the Financial Services Mediator should become available also to sole entrepreneurs, micro- and small-size businesses. Many of these users of financial services combine the services for both their personal and business use, not necessarily distinguishing between the two (and often having a similar level of financial literacy as average private individuals). The Mediator should also be able to deal with complaints against any part of the financial sector, including the payment system providers, in the case damage to consumers was caused directly by these system providers.

Action 21	Opening the Financial System Mediator to sole entrepreneurs, small farmers, and micro-size businesses, ensuring the coverage of the whole financial sector
Activities	<ol style="list-style-type: none"> 1. Update the Law on Financial System Mediator to allow sole entrepreneurs, small farmers and micro-size businesses to approach the Mediator with their complaints as soon as disclosure and business conduct rules will start applying to them as well. 2. Develop and execute an outreach campaign to inform sole entrepreneurs, small farmers and micro-size businesses and their associations about the existence and services of the Mediator. 3. Require financial service providers to inform sole entrepreneurs, small farmers and micro-size businesses that are their active clients about their right to approach the

	Mediator when they are not satisfied with the complaint handling by the provider. 4.
Outputs	Updated Law on Financial System Mediator and updated Regulation 8/04 Updated rules on disclosure and business conduct to cover also the sole entrepreneurs, small farmers and micro-size businesses An outreach campaign targeting sole entrepreneurs, small farmers and micro-size businesses Updated disclosure rules about the Mediator for financial service providers
Actors	Leading: Financial System Mediator Collaborators: CBA
Priority	High
Timeframe	2014-2015
Resources	Financial System Mediator, CBA, financial service providers

28. The Financial System Mediator should be given sufficient flexibility to deal with a case and the opportunity to finish a case it has started. Currently, the Mediator's decision comes into force only after 30 days and when the consumer agreed to the decision. However, while the consumer should be given up to 30 days to decide, the decision should become binding immediately after the consumer has expressed his agreement.

Action 22	Strengthen the flexibility of the Financial System Mediator and its ability to finish an open case
Activities	1. . 2. The decision of the Mediator should become binding immediately after the consumer agrees to it without the need of the expiry of the current 30-day period.
Outputs	Updated Law on Financial System Mediator Updated Civil code
Actors	Leading: Financial System Mediator Collaborators: CBA
Priority	Medium
Timeframe	2013-2014
Resources	Financial System Mediator, CBA