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**Consultative Draft**

**LATVIA**

*Action Plan on*  
*Financial Consumer Protection*

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**THE WORLD BANK**

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# Latvia

## Action Plan on Financial Consumer Protection

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## ***Abbreviations & Acroynms***

APR	Annual Percentage Rate of Charge
CRPC	Consumer Rights Protection Center
ESIS	European Standardized Information Sheet
EU	European Union
FCMC	Financial and Capital Market Commission
FSA	Financial Services Authority
LVL	Latvian Lat
LTV	Loan-to-Value
MOE	Ministry of Economy
SECCI	Standard European Consumer Credit Information
UK	United Kingdom
US	United States of America



# Latvia

## Action Plan on Financial Consumer Protection

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*Please note: the draft action plan should be evaluated on its own merit and proposals should be viewed in the light of its added value for the well-functioning system of financial consumer protection. Many of the proposals can be funded externally, so the current budget situation of Latvian government should not be used as grounds for ruling out the measures.*

### Background

1. The following Action Plan is based on the Diagnostic Review of Consumer Protection and Financial Capability in Latvia, as prepared by The World Bank in November 2009. The Action Plan focuses on the main issues described in the Key Findings and Recommendations, as listed in the Diagnostic Review, proposing specific actions to be undertaken by Latvian authorities, financial institutions and consumer organizations so that consumer protection is strengthened and made more effective and efficient. The Action Plan should be the base upon which specific changes are prepared and against which their implementation is evaluated.
2. Beside the Diagnostic Review itself, the Action Plan draws on best international practices and experiences of regulators and supervisors that have tried to introduce improved consumer protection regimes in their countries. It should also be noted that a well balanced consumer protection regime serves also the interest of financial institutions as it provides them with better-informed clients and also makes sure that clients understand their obligations under the contracts they signed.
3. The Action Plan takes into account the current macroeconomic situation in Latvia and focuses primarily on steps with no or low impact on state finances. When actions with a funding need are recommended, the Action Plan provides an estimate of necessary costs.
4. The Action Plan is divided into five parts that cover the key areas based on the recommendations of the Diagnostic Review:
  - I. Institutions and Institutional Setup
  - II. Disclosure of Information
  - III. Business Practices
  - IV. Dispute Resolution
  - V. Financial Education and Financial Capability

## Part I: Institutions and Institutional Setup

5. All countries historically based their supervision of financial markets on prudential supervision, the primary mission of the supervisors being the need to maintain the stability of the financial sector, as unstable financial sector (especially the banking industry) may have major influence on political stability in the country and can also negatively impact the country's international image.
6. However, as retail usage of financial products grew (hand in hand with the growing complexity of financial products available to the general public), experience in many countries showed that treating customers fairly is as important as stability of the whole financial sector in the financial sector's perception by the public. Therefore, prudential supervision has been joined by market conduct supervision, and market conduct rules have started to play a more significant role in the newly drafted financial market legislation, both internationally and nationally.
7. To make sure that both the public and the financial sector understand that the country takes market conduct issues seriously, the state should unequivocally declare the importance of consumer protection in financial services and its willingness to promote proper market conduct. Therefore, when the Latvian authorities decide to develop and implement the Action Plan to increase protection of consumers of financial services, attention must be paid to publicizing the planned actions and the government's commitment to the plan. Both public and the financial industry should be informed about the goals of the plan and its deliverables.

**Action:** *Inform the public and the financial industry about the planned changes*

**Description:** *Once the government selects actions to be undertaken, explain them to the public and the financial industry so that they know what and why will be changing. Use the media to educate the public about the issues the government sees as crucial in improving their situation as users of financial products. Use the dissemination workshop for the Diagnostic Review to present these plans.*

**Responsibility:** *Consumer Rights Protection Center (CRPC) and Financial and Capital Market Commission (FCMC) in joint cooperation*

**Deadline:** *April 2010*

**Costs:** *No additional costs above budget*

**Status:** *Agreed*

8. The CRPC is the primary Latvian enforcement agency for consumer protection. While its mandate is quite broad, the CRPC should make sure it is legally equipped to deal with all relevant financial services-related complaints it receives. Therefore, it should analyze complaints it has received over the last year and compare what it could and would like to do to prevent similar cases from happening, keeping in mind that the CRPC should not be a government body to lodge complaints but a government body that takes action (based both on received complaints and its own market watch) to prevent companies from hurting consumers, and does so quickly and efficiently. Should the analysis show discrepancies

between legal powers and preferred solutions, the CRPC should propose legal changes of relevant legislation.

**Action:** *Analyze the legal powers of CRPC and define any deficiencies*

**Description:** *Analyze whether the CRPC has all powers it needs to influence the behavior of financial institutions and if not, propose legislative changes.*

**Responsibility:** *CRPC in cooperation with the Ministry of Economy*

**Deadline:** *April 2010*

**Costs:** *No additional costs above budget*

**Status:** *Agreed*

9. While CRPC is the primary Latvian enforcement agency for consumer protection in financial services, it lacks specialized staff that understands not only consumer protection but also financial products and services and financial services-related legislation. To become more effective, CRPC needs to build institutional knowledge in the area of financial services. However, as budget constraints prevent CRPC from hiring new specialized staff in the short term, there are three other approaches the CRPC should use. The first is the secondment of a few members of the FCMC staff that would educate several CRPC employees about financial products and support them in dealing with the complaints received. FCMC should also invite CRPC when it conducts educational programs such as its planned program to educate journalists about the financial market. CRPC could add information about consumer protection for the media while itself improving its understanding of financial markets and products.
10. The second option CRPC should use is to cooperate with financial industry associations and use their training programs to increase its institutional knowledge of financial products.
11. As third approach, the CRPC should focus on developing further international contacts that could help it become increasingly effective in developing a customer-oriented culture in financial services. Within the EU, the United Kingdom and Ireland are two countries with long-term experience, while countries like Czech Republic or Slovakia would be able to provide very recent lessons from trying to improve relations between financial institutions and their customers.

**Action:** *Build up institutional knowledge of CRPC*

**Description:** *Work more closely with the FCMC to build up understanding of financial products at CRPC, cooperate in educational activities with FCMC, use trainings of financial sector associations and develop international contacts across the EU.*

**Responsibility:** *CRPC in cooperation with the FCMC and financial sector associations (for training programs)*

**Deadline:** *Continuously*

**Costs:** *No additional costs*

**Status:** *Agreed*

12. Many of the proposed actions in this Action Plan will require cooperation between CRPC and FCMC as well as an active involvement of the financial industry and consumer representatives. Ministry of Economy, as the government body responsible for consumer protection, should have a high-level oversight of the whole process. Therefore, a small Steering Committee should be established with senior representatives of the Ministry of Economy, CRPC, FCMC, the Bank of Latvia, financial industry associations and consumer representatives, meeting quarterly to set priorities, monitor the progress of the Action Plan, update it as necessary and coordinate further actions. Also, such a Steering Committee will support accountability of the institutions towards the public and will act as the top-level agenda setting body.

**Action:** *Establish Steering Committee for implementation of the Action Plan*

**Description:** *Establish the Steering Committee for preparation and coordination of proposed actions with the involvement of senior representatives of the Ministry of Economy, CRPC, FCMC, the Bank of Latvia, financial industry associations and consumer representatives.*

**Responsibility:** *Ministry of Economy, CRPC, FCMC, the Bank of Latvia, financial industry associations and consumer representatives*

**Deadline:** *May 2010*

**Costs:** *No additional costs above budget*

**Status:** *Agreed and implemented*

13. An important part of effective consumer protection is the understanding of the financial industry that the government is serious about protecting the rights of consumers. Therefore, CRPC and FCMC should continue in its current active communication of cases when financial institutions breach consumer protection rules, including the names of institutions that have harmed its customers, both on its websites, the official gazette and through media. This "name and shame" policy is considered to be very effective in building a strong position of the "protector" of consumers and is also helpful in building knowledge of consumer protection organizations. Better use of websites is recommended, with CRPC drawing more attention to its new rulings as one of the hot news on its homepage, and FCMC including a section of "Financial institutions fined by CRPC for market misconduct" so that the public is more aware of cases and resulting sanctions.

**Action:** *Strengthen active communication policy for publishing cases when financial institutions harmed customers.*

**Description:** *Strengthen active communication policy for publishing cases when financial institutions harmed customers, including names of institutions and sanctions awarded.*

**Responsibility:** *CRPC and FCMC*

**Deadline:** *Starting from June 2010*

**Costs:** *No additional costs above budget*

**Status:** *Agreed*

14. Both CRPC and FCMC would be more effective in dealing with issues regarding financial sector and consumer protection if they regularly shared information on received complaints (including telephone calls inquiries; telephone, faxed, online complaints with information of consumers; nature of complaints, etc.) and actively sought measures to prevent repeated complaints. FCMC should also include information on complaints handled by supervised institutions. Received complaints could also form the basis for staff education at both institutions. To make the information exchange easier, the data should be recorded and quantified by shared rules of classification.

**Action:** *Introduce regular sharing of received complaints and inquiries and use them in policy development*

**Description:** *Share information on complaints and inquiries handled and use the information in developing proactive consumer protection policy and staff training.*

**Responsibility:** *CRPC and FCMC*

**Deadline:** *Starting from September 2010*

**Costs:** *To be estimated*

**Status:** *Agreed*

15. Any system of consumer protection can effectively function only when consumers are aware of their legal rights and about the various ways in which they can use these rights. Therefore, there should be a system of helping consumers become aware of their rights, providing common sense advice and assistance for consumers in the area of financial services and building on the experience of the helpline the CRPC currently operates for general consumer protection issues.

**Action:** *Develop an ongoing awareness campaign and assistance for consumers.*

**Description:** *Prepare and test various tools (brochures, special websites, a toll-free line for financial services, media programs) that will inform the public about their rights and that will provide basic assistance for consumers to use their rights.*

**Responsibility:** *CRPC*

**Deadline:** *Development and testing by March 2011, start from July 2011*

**Costs:** *To be estimated*

**Status:** *Agreed, but its implementation would require financial support from external donors*

16. To further support the trust of the public and to stimulate public debate about the behavior of financial institutions towards customers, the CRPC and FCMC should jointly prepare a yearly report for the government and the Parliament about the main issues they dealt with regarding consumer protection in financial services, their joint evaluation of the market situation and their plans to address the key issues in the future. The report should follow up on the report of

complaints handled by the CRPC and FCMC. Previous reports should be checked to see whether the plans were met or whether further actions are necessary.

**Action:** *Prepare yearly report on the current state of consumer protection in financial services and plans for improvement*

**Description:** *Develop the rules for the yearly report on consumer protection issues that the supervisors and other state authorities dealt with, including their market evaluation activities, and include proposals to tackle the issues that have arisen during the year. Present the report to the government and the Parliament.*

**Responsibility:** *CRPC and FCMC*

**Deadline:** *March 2011 and then every following March*

**Costs:** *To be estimated (for preparing and publicizing the report)*

**Status:** *Agreed*

17. Supervision is always more effective if there is a public demand for action against those that break the rules. Besides media attention, the public demand is strengthened when there are effective consumer protection organizations. However, as financial products are complicated, the supervisors should help build the capacity of the consumer protection organizations by teaching them about financial issues and helping them in gaining knowledge about effective assistance for mistreated clients of financial institutions. Also, cofinancing from the state budget (or from fines awarded by the FCMC and/or CRPC) of some programs of consumer protection organizations should be made available in the long term to support programs the government sees as effective in promoting rights of consumers of financial products. With the current budget situation, grants should be looked for from donors instead of government funding. However, the donors and the government should support only well-defined programs with clear and measurable targets and strict accountability of organizations managing such a program.

**Action:** *Build capacity of consumer organizations*

**Description:** *Educate representatives of consumer organizations and media about financial products and consumer rights, so that they can become an effective counterpart for financial institutions.*

**Responsibility:** *CRPC and FCMC in joint cooperation*

**Deadline:** *Continuously starting from January 2011*

**Costs:** *To be estimated (for seminars and training, for administering the assistance)*

**Status:** *Agreed, but its implementation would require financial support from external donors*

**Action:** *Support selected projects of consumer organizations*

**Description:** *Should the budget constraints allow, the CRPC should be able to administer grants supporting projects of consumer organizations in the area of financial services.*

**Responsibility:** CRPC

**Deadline:** Yearly starting from 2011

**Costs:** To be estimated (for administration of grant fund)

**Status:** Agreed, but its implementation would require financial support from external donors

18. Moreover, a regular informal communication mechanism should be established by the CRPC with financial industry associations and consumer organizations to identify and discuss important issues and try to find a common ground in dealing with them. Such consultative panels are very effective if the industry is able to self-regulate and the CRPC (in cooperation with the FCMC, the Bank of Latvia and the Ministry of Economy) should try to strengthen the self-regulation as it makes their own work more effective. There should be an informal meeting between the state and the industry at least once a year, with specific project-related agenda, discussing plans in the area of consumer protection for the next year.

**Action:** Establish informal communication mechanisms with stakeholders.

**Description:** Set up regular meetings between CRPC, FCMC, financial industry associations and consumer organizations to discuss arising issues, proposed legislation and results of business conduct supervision to inform all stakeholders about new developments and seek their cooperation in improving consumer protection.

**Responsibility:** CRPC, FCMC, the Bank of Latvia and the Ministry of Economy with financial industry associations and consumer organizations

**Deadline:** May 2010 and then at least yearly

**Costs:** No additional costs above budget

**Status:** Agreed

19. As the Action Plan defines various areas of cooperation and support between CRPC and FCMC as market-conduct and prudential supervisors, it might be helpful that these areas are covered by a Memorandum of Understanding between the organizations. The Memorandum should also define rules of cooperation in areas where responsibility of both bodies overlap.

**Action:** Prepare and sign a Memorandum of Understanding between CRPC and FCMC

**Description:** Define the rules of cooperation and information exchange between CRPC and FCMC and sign a Memorandum of Understanding.

**Responsibility:** CRPC and FCMC

**Deadline:** July 2010

**Costs:** No additional costs above budget

**Status:** Agreed

## Part II: Disclosure of Information

20. Full disclosure of information in formats that are understandable to an average customer and in a way that allows an easy comparison is the key for making informed decisions (along with financial literacy).
21. There are two major areas where disclosure should be legally defined:
  - Key Facts Statements
  - standardized contract provisions
22. The Key Facts Statements should be mandatory for each type of financial product<sup>1</sup>, listing the important information about the product in a standardized form and using standardized vocabulary to allow for an easy comparison of products of competing providers of financial services. When applicable, EU standards<sup>2</sup> should be implemented for all financial institutions in the segment, preferably by self-regulation. Also, products that are legally different but similar in their nature (e.g. mutual funds, unit-linked insurance and structured investment products) should have the relevant parts of the Key Facts Statements as similar as possible.
23. To make the Key Facts Statements an effective tool of consumer protection, their existence must be continuously publicized and all financial institutions must be responsible for providing the statements publicly and prior to contract signing. Failure to provide the Key Facts Statements should be punishable either by the FCMC or the CRPC.
24. The key goal of the Key Facts Statements is to make sure that an average customer knows what he is signing and what are the risks associated with the product. It should also bring savings to FCMC and CRPC, as the experience of FCMC shows that most complaints stem from not understanding financial products. Therefore, the prioritization of Key Fact Statement development should stem from the volume of complaints in individual areas and from the general understanding of the public about each product<sup>3</sup>.
25. The Key Facts Statements should be developed by the relevant financial industry association in cooperation with consumer organizations and then jointly approved by the CRPC and FCMC. Before approval, the supervisory authority should verify the statements from four points of view:
  - fullness: the statement should provide all key information to make an informed decision;

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<sup>1</sup> Bank accounts, savings products, credit products (whatever their provider), life and non-life insurance, investment products, pension products.

<sup>2</sup> ESIS (European Standard Information Sheet) for mortgages, Standard European Consumer Credit Information (SECCI) for consumer credit as defined by the new EU Consumer Credit Directive, etc.

<sup>3</sup> For example, the Association of Latvian Commercial Banks mentioned leasing as a rather new product most of the public has not experienced yet, therefore, it could be a prime candidate – along other credit products – for development of a Key Facts Statement.

- comparability with similar products: the statement should give enough information to compare the product not only with the same product offered by different providers, but also with other similar (but legally different) products (e.g. savings accounts vs. money market mutual funds);
- understandability: tests should be run to make sure that an average customer can understand the information provided, that the statement uses plain language and that the statement does not require unnecessary calculations<sup>4</sup> or study of other documents to find out what is needed;
- key warnings: the statement must prominently list what will happen if the consumer breaches the contract (e.g. losing the consumer's house used as collateral, penalties to be paid) and what are the risks connected with the product (e.g. impact of exchange rate fluctuations for euro-denominated loans).

**Action:** Prepare and test Key Facts Statements

**Description:** Develop and prepare Key Facts Statements for all financial products and test their usability for general public.

**Responsibility:** Relevant financial industry association should prepare the Key Facts Statements with input from consumer organizations under the guidance of CRPC and FCMC. The CRPC should focus its testing on user-friendliness of the Key Facts Statements (clarity, precision, clear language, comparability, etc.) and the FCMC should focus on financial-products related issues (technical definitions, calculations, etc.).

**Deadline:** Development for each type of products starting from July 2010 with prioritization by the Steering Committee

**Costs:** ??? for external assistance on comparability and readability tests conducted by CRPC

**Action:** Introduce Key Facts Statements into the laws and supervisory procedures

**Description:** Financial institutions should be required to provide a supervisor-approved Key Facts Statement to any client prior to a transaction and make them available on their websites. The CRPC and FCMC should be given the authority to approve the Key Facts Statements, to monitor the distribution of the Key Facts Statements during inspections and through analysis of received complaints, and to impose sanctions for companies that fail to provide clients with truthful Key Facts Statements.

**Responsibility:** Ministry of Economy, with CRPC and FCMC

**Deadline:** August 2010 for draft law changes, October 2010 for approval of Key Facts Statements, January 2011 for implementation into the sales process as one of the legal

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<sup>4</sup> For credit products, the document should not only show the APR but also the monthly payment and the total paid by the customer, as well as all sanctions. The detailed recommendation for the content of the document for credit products is on page 18 of the Country Review and could be used to improve the pre-sale disclosure required by the Consumer Credit Directive.

*requirements. The timing could be stretched out for various types of products, with consumer credit and casco insurance probably the first areas to be covered. For consumer credit, the SECCI disclosure format required by the Consumer Credit Directive should be used as the first measure for implementation of Key Facts Statements in credit products, using the experience for other sectors.*

*Costs: No additional costs above budget*

26. Standardized contract provisions should be developed by the financial industry associations and consumer organizations and approved jointly by the CRPC and FCMC, making them widely available to the public. The standardized contract provisions should include items such as definition of price, definition of service provided, rules for applying any fines and rules for complaining, setting minimum common standards in each segment of the financial market. Such standardized contract provisions should make it easier for customers to better understand the basic rules guiding their relationship with the financial institution and make it easier to study the rules before coming into contact with a financial institution that often does not give its clients enough time to study a proposed contract. Communication of these provisions should also educate consumers about the common minimum standards. The standardized contract provisions should clearly define the right of the financial institution and the rights of the consumer to make him aware of both his obligations and his powers. As these standards should set only the minimum requirements, it does not limit free-market competition that will focus on improving consumer terms.
27. It should be possible for financial institutions to deviate from the standardized contract provisions when needed but only if a "comply or explain" policy is in place. Such a policy means that the financial institution either uses the standardized contract provisions (thus giving its customers an assurance of following the market rules) or explains where and why it has decided to use different contractual provisions. This "comply or explain" policy gives the consumers power to find out non-standard contract provisions without the need of a detailed study of the contracts and each specific provision. It also creates a market and media pressure on those that would want to offer client-unfriendly conditions.

***Action:** Prepare standardized contract provisions*

***Description:** Develop and prepare standardized contract provisions for all financial products and submit them to CRPC, FCMC and the Ministry of Economy.*

***Responsibility:** Relevant financial industry associations with input from consumer organizations under the guidance of CRPC and FCMC.*

***Deadline:** January 2011*

*Costs: No additional costs above budget*

***Action:** Introduce standardized contract provisions and the rules for the "comply or explain" policy into the laws and supervisory procedures*

***Description:** Financial institutions should be required to use supervisor-approved standardized contract provisions, and to make the standardized contract provisions (or*

*explanations for using differing provisions) available to clients before a sale (including on websites). CRPC and FCMC should be given the legal authority to approve the standardized contract provisions, to monitor the use of standardized contract provisions and application of the "comply or explain" policy during inspections and through analysis of received complaints, and to impose sanctions for companies that fail to use the standardized contract provisions or apply the "comply or explain" policy.*

**Responsibility:** *CRPC with FCMC and the Ministry of Economy (for legal changes)*

**Deadline:** *February 2011 for draft law changes, April 2011 for approval of standardized contract provisions, July 2011 for implementation into the sales process as one of the legal requirements<sup>5</sup>*

**Costs:** *No additional costs above budget*

28. Customers should always be able to analyze contract conditions they are about to enter. To do so, they should be given a proposed contract (with all general or specific conditions attached) in advance to study it if they want to do so. Therefore, financial institutions should be required to provide full contract documentation to its potential clients.

**Action:** *Require financial institutions to provide clients with contract documentation in advance*

**Description:** *Prepare legal changes across financial sectors to require financial institutions to provide clients with contract documentation in advance and empower CRPC to punish institutions that fail to disclose its contracts or contract conditions as required.*

**Responsibility:** *CRPC and Ministry of Economy (for legal changes)*

**Deadline:** *July 2010 defining and submitting necessary legal changes, June 2011 for implementation in the sales process of financial institutions and the preparation of supervisory process.*

**Costs:** *No additional costs above budget*

### **Part III: Business Practices**

29. All relevant laws governing financial sector should be amended to the effect that both financial institutions and financial intermediaries are required to act in the best interest of their clients, and appropriate sanctions should be included for breaches of this duty. All financial institutions should adopt the "Know Your Customer" approach – in other words, they should make sure they understand their client's needs. Also, financial institutions and / or financial intermediaries should be responsible for testing whether an offered financial

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<sup>5</sup> The timing could be stretched out for various types of products, with consumer credit and casco insurance probably the first areas to be covered.

product and its parameters are suitable for the specific client and his needs, and should be able to prove from their records that based on the data available from the customer and a reasonable verification of his situation, the suitability test was passed. Should the client require a product that is not suitable for him, he should be given a clear and understandable warning about non-suitability and the financial institution should keep a signed copy of this warning.

30. Especially in the area of consumer credit, credit institutions should be legally required to implement rules for responsible lending, i.e. verify that the client is able to repay the provided loan based on their situation at the moment of providing the credit.

**Action:** Define the "Know Your Customer" policy

**Description:** Prepare legal changes across financial sectors to implement the "Know Your Customer" policy, in cooperation with the financial industry associations and consumer organizations, to make sure clients are offered only suitable products. Changes should include providing FCMC with the authority to check for the proper implementation of the "Know Your Customer" policy during inspections, and the authority to act when consumers complain they were offered an unsuitable product.

**Responsibility:** CRPC and FCMC in joint cooperation, Ministry of Economy for legal changes

**Deadline:** January 2011 for defining and submitting necessary legal changes, January 2012 for implementation in the sales process of financial institutions and the preparation of supervisory process.

**Costs:** No additional costs above budget

**Status:** ???

31. Codes of conduct (while being generally a self-regulatory tool) should be defined in the financial sector regulation in the terms of their use and misuse. Currently, codes of conduct have already been developed by the Association of Latvian Commercial Banks, the Insurance Association and the Association of Leasing Companies. While this is a positive development, codes of conduct should be approved by the relevant supervisors and there should be a single code of conduct for each sector, with as many common cross-sectoral rules as possible to make orientation of the public among various codes as easy as possible. It should also be a rule that the codes include a mechanism for reporting and dealing with breaches of the code by financial institutions and financial intermediaries. It is also important that codes of conduct are well communicated (in branches, at financial institutions' websites, etc.) so that the average customer knows of their existence.
32. While the Codes of conduct should always mirror the level of financial services available in the given market, the Codes of conduct in the United Kingdom and in Ireland can be used as benchmarks both in the terms of content and presentation. The UK Code of conduct is further strengthened by the explanatory rules, prepared by the Financial Services Authority (the FSA Handbook), explaining how the Code of conduct should be implemented in various situations. The FSA, as market regulator, thus has a simple tool with which it can steer the behavior of

market participants. For the Irish Code of conduct see the following website and its documents:

<http://www.financialregulator.ie/processes/consumer-protection-code/pages/codes-of-conduct.aspx>

For the FSA Handbook, see the following website: <http://fsahandbook.info>, starting with the high-level principles for business: <http://fsahandbook.info/FSA/html/handbook/PRIN>

33. To allow for increased competition on the market, the "comply or explain" policy should also be used in this area – thus allowing financial institutions to deviate from the industry code but clearly explaining the effects and reasons for such a deviation.

**Action:** Prepare or update sector-wide codes of conduct

**Description:** Have financial industry associations with consumer organizations develop and prepare sector-wide codes of conduct and submit them to CRPC and FCMC for comments. With existing codes (banking, insurance, leasing), the associations should work jointly with CRPC and FCMC to include as many cross-sectoral rules as possible, possibly under the guidance of the Steering Committee.

**Responsibility:** All financial industry associations in joint cooperation with consumer organizations.

**Deadline:** December 2010

**Costs:** No additional costs above budget

**Status:** ???

**Action:** Set the final codes of conduct and the rules for the "comply or explain" policy

**Description:** Comment on and improve the codes of conduct presented and agree on the final version (including methods of their distribution and promotion), define the rules and supervisory process for the "comply or explain" policy.

**Responsibility:** CRPC and FCMC in joint cooperation with the Ministry of Economy for any needed legal changes

**Deadline:** March 2011 for agreement on the final version, September 2011 for implementation in the sales process and the start of an awareness campaign.

**Costs:** No additional costs above budget

**Status:** ???

34. A specific area the CRPC should look at is advertising. Latvia has a good Law on Advertising and using false statements is also considered an unfair business practice under the EU legislation. Therefore, CRPC should monitor advertising of financial institutions (especially in the terms of promised returns, interest rates, etc.) and make sure the ads are not misleading. In areas where FCMC is active in monitoring advertising, develop a coordinating mechanism.

**Action:** *Set a system for monitoring financial advertising*

**Description:** *Using its powers, CRPC should monitor advertising of financial institutions and apply sanctions when rules are broken, as well as inform the public about the misleading advertisements.*

**Responsibility:** *CRPC*

**Deadline:** *January 2011*

**Costs:** *Costs for CRPC staff to enable a proactive approach*

**Status:** *???*

35. Most mis-selling incidents happen at the point of sale (rather than because of fraudulent financial products) and increased regulation should be therefore built around the sales process. Above the general "know your customer" duties and responsibility for testing the suitability of the financial product being sold, there should be rules for individuals selling financial products (a certain level of education, a test of professional knowledge periodically repeated, clean criminal record, etc.) across financial sectors to implement rules for investment and insurance mediators into other sectors.

**Action:** *Set rules of knowledge, education, competence and background for distributors of financial products*

**Description:** *Develop the set of minimum requirements for distributors of financial products to make sure they understand the products they sell, including periodic testing of their knowledge.*

**Responsibility:** *FCCM and CRPC, with FCCM focusing on financial sector-related knowledge and CRPC focusing on how distributors communicate their services to the public.*

**Deadline:** *March 2011, implementation from January 2012*

**Costs:** *To be estimated (can actually bring budget revenues if distributors pay licensing fees)*

**Status:** *To be discussed*

36. Effective supervisors must have sufficient tools to identify potential threats to consumers. Besides regular supervisory tools (i.e. findings of on-site or off-site inspections, analysis of complaints lodged with the supervisors, communication with other stakeholders), the CRPC should be legally equipped to use mystery shopping as an official tool for on-the-spot control of sales processes, especially from the point of view of properly informing potential clients and disclosing all relevant information. Legal provisions must be made so that the results of mystery shopping can be used in sanctionary proceedings against a financial institution. Mystery shopping can also be used effectively by CRPC to verify some of the complaints it receives. It may also be a tool for involvement of consumer organizations that could conduct regular mystery shopping projects with results published on the CRPC website.

37. Moreover, financial institutions should be legally required to report to the CRPC if they learn about unfair client behavior or mis-selling by other financial institutions.

**Action:** *Introduce mystery shopping and reporting requirements*

**Description:** *Include mystery shopping into the methods of supervision and ensure that financial institutions are required to report mistreating of customers they become aware of, with significant sanctions if they fail to do so. Prepare legal changes to make mystery shopping possible and provide resources for test-buying financial products.*

**Responsibility:** *CRPC and Ministry of Economy (for legal changes)*

**Deadline:** *January 2012*

**Costs:** *To be estimated*

**Status:** *???*

38. Especially in times of economic downturn, when the volume of unpaid consumer credit grows, tougher debt collections methods are sometimes used. To protect clients from abusive practices, there should be a legal base for debt collection, with legally required registration of debt collectors and legally defined ways of operation and supervision. Also, the law should strengthen the credit reporting system by opening the credit register to non-bank credit institutions and setting rules for private credit bureaus.

**Action:** *Set legal standards for debt collection*

**Description:** *Develop and approve a draft law for debt collection, including registration, debt collection process and supervision.*

**Responsibility:** *CRPC and the Ministry of Economy with support of FCMC, consumer organizations and consumer credit providers.*

**Deadline:** *January 2012*

**Costs:** *To be estimated, for law drafting and for new staff required*

**Status:** *There have been developed draft changes of Consumer Rights Protection Law for debt collection, including debt collection process and supervision.*

**Action:** *Improve rules for credit reporting*

**Description:** *Strengthen the credit reporting system by opening up the credit register to non-bank credit institutions and define rules for private credit bureaus.*

**Responsibility:** *the Ministry of Economy as the regulator of consumer credit with support of the CRPC, FCMC and the Bank of Latvia*

**Deadline:** *June 2011*

**Costs:** *None for the state budget*

**Status:** *???*

39. Very often, people become heavily indebted because they have missed relevant information or were simply overwhelmed by a situation they were not equipped to deal with. Therefore, as the level of indebtedness of individuals grows, it would be helpful to establish or support debt counseling centers that would provide information on dealing with debts, legal rights of borrowers and using the social security network properly.

**Action:** *Establish or support debt counseling centers*

**Description:** *Establish or support debt counseling centers that would assist indebted people and provide advice on responsible borrowing, including training of the debt counselors.*

**Responsibility:** *CRPC, with support of banks and non-bank credit institutions*

**Deadline:** *???*

**Costs:** *To be estimated*

**Status:** *To be agreed*

## **Part IV: Dispute Resolution**

40. Many consumers never complain as they fear the financial institution and / or do not believe a complaint may have a positive result for them. Also, many potential complainants are put off by not knowing a proper complaint procedure. To alleviate their worries, financial institutions should be required by law to set up a unified complaint-handling system that will be monitored by the FCMC as part of prudential supervision. All financial product account statements should include information on how the customer can complain if he thinks the statement is not correct. Also, maximum reaction times should be set up and customers should be clearly informed (preferably on a separate information sheet) about ways for lodging a complaint and their further rights of appeal should they not be satisfied with the outcome. When responding to a consumer complaint, the institution should be required to provide an explanation for its decision.

**Action:** *Set up a standardized complaint-handling system*

**Description:** *The FCMC should define the general rules of how complaints should be handled by financial institutions (recording, handling times, reporting and analysis), and of how the FCMC will monitor the application of the rules during on-site inspections of financial institutions.*

**Responsibility:** *FCMC with assistance from CRPC*

**Deadline:** *June 2010 for setting the standards, implementation from January 2011*

**Costs:** *No additional costs above budget*

**Status:** *???*

**Action:** Set up a standardized complaint information sheet

**Description:** All financial institutions should be legally required to include an information sheet regarding complaints procedures with all contracts and publish the information on their websites. The information sheet should include: contact information, guaranteed response times, information about codes of conduct the institution follows, and advice of whom to contact further in case the customer is not satisfied with the resolution of his complaint (an industry ombudsman, a supervisory agency, a court). CRPC should also be given powers to sanction failures to inform the consumers.

**Responsibility:** The format should be proposed by financial industry associations and approved by CRPC and FCMC, with FCMC monitoring implementation of the requirement during on-site inspections of financial institutions.

**Deadline:** June 2010 for setting the standards, implementation from January 2011

**Costs:** No additional costs above budget

**Status:** ???

41. Information about complaints is a very important tool for both the prudential and business conduct supervisors that may help them define the key areas requiring attention and potential systemic weaknesses. Therefore, all financial institutions should be required by law to report twice a year to FCMC and CRPC all complaints that were received, their categorization and the way they were handled. Both FCMC and CRPC should jointly analyze these reports and identify areas or institutions with higher number or frequency of complaints. Institutions that receive an above-average number of complaints should be supervised more actively by the FCMC as they may pose an increased risk to the stability of the financial sector.

**Action:** Include complaints analysis into defining priorities of the business conduct supervisor and for the risk-based prudential supervision

**Description:** Require financial institutions to submit a report on complaints twice a year. Develop rules for the use of complaints analysis to identify potential systemic weaknesses and to increase prudential supervision in specific financial institutions.

**Responsibility:** FCMC and CRPC in joint cooperation

**Deadline:** Implementation from January 2011

**Costs:** No additional costs above budget

**Status:** To be discussed

42. To provide additional pressure on financial institutions to deal with consumer complaints fairly, the CRPC should publish systematically important cases it has dealt with. Such a "name and shame" policy can be very effective<sup>6</sup>, especially if the media are made aware of such cases and are assisted by the CRPC in reporting them (through proper explanation of the

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<sup>6</sup> As shown by about 80,000 unique users of CRPC's website every month.

complaint, by an example of how the complaint should have been dealt with, etc.). CRPC – in cooperation with FCMC – must also have effective tools to get unfairly operating financial institutions out of the market by severe sanctions, withholding their licenses and informing the public about the misconducts and loss of a license of the institution. However, the maximum fine CRPC can use is only 10,000 LVL, which is not a significant sum for a large financial institution. Therefore, sanctioning powers of CRPC and FCMC should be aligned, using the FCMC's system of fines of up to 5% of turnover of the company that breached the rules

**Action:** Upgrade public information policy about systemically important complaints, legally define what information can be published about cases, and empower CRPC to deal with offenders effectively

**Description:** Use the complaints analysis and results of complaints handling to inform the media and the public about those that break the rules and make sure the supervisors have enough powers to stop the offenders. Use the published cases to draw general educational examples based on legal powers to publish cases. Increase the ability of CRPC to punish companies that mistreat customers.

**Responsibility:** CRPC and FCMC in joint cooperation, with Ministry of Justice in the area of sanctions and publication of cases (for necessary legal changes)

**Deadline:** January 2011

**Costs:** No additional costs above budget

**Status:** Agreed

43. To improve the effectiveness of the state authorities that deal with financial product-related complaints, there should be a program of in-depth education of selected CRPC staff, police investigators and judges to educate them about the complexity of financial products and the rules that govern their sales. Also, the authorities should make sure the police and judiciary are capable of dealing with complaints they may face and be efficient in prosecuting and judging the cases brought. The Banking Academy could be tasked with developing and overseeing this continuous educational program, with input from FCMC, CRPC and financial industry associations.

**Action:** Establish a capacity building system for CRPC staff, police and judges

**Description:** Develop a system that will help CRPC staff, police prosecutors and judges deal effectively with cases related to financial products and their mis-selling.

**Responsibility:** FCMC, CRPC and financial industry associations

**Deadline:** 2011

**Costs:** To be estimated, for program setup and for every year of operation

**Status:** ???

44. Some countries have decided to establish a financial services ombudsman to deal with individual complaints. However, such a major decision requires a very careful analysis that is

beyond the scope of this action plan. It is preferable that Latvian authorities for the moment deal with more pressing issues, including the analysis of reasons of received complaints and reconsider the potential combination of self-regulation, financial supervision and an ombudsman within 2-3 years when there is more experience with the other consumer protection activities and the time will come to review the effectiveness of the whole system. However, the state should provide ample guidance to financial sector associations if they want to (or already have) set up an industry-specific ombudsman. The guidance should focus on ensuring independence of decisions made by the ombudsman, low costs for the public and the binding nature of ombudsman's decisions for financial institutions. Also, existing industry ombudsmen should publish cases they have dealt with, and publish their yearly activity report that should also be provided to the FCMC and CRPC.

**Action:** *Provide guidance about industry-operated ombudsman schemes*

**Description:** *Support financial sector associations in developing a strong and publicly accepted ombudsman service that could deal with some complaints now dealt with by the government agencies.*

**Responsibility:** *CRPC and FCMC under the guidance of the Steering Committee*

**Deadline:** *January 2012*

**Costs:** *To be estimated*

**Status:** *Agreed*

## **Part V: Financial Education and Financial Capability**

45. To measure the effectiveness of any financial education system, a baseline financial literacy survey should be conducted across Latvia and then regularly repeated (every 3-5 years) to see whether conducted programs have the required impact. The survey should also define areas or sociodemographic groups that require special attention.

**Action:** *Run a baseline financial literacy survey and repeat it every 3-5 years*

**Description:** *Use a nation-wide financial literacy survey to define the base level of financial capability of Latvians and then repeat it to verify usefulness of financial literacy programs.*

**Responsibility:** *FCMC and CRPC in joint cooperation*

**Deadline:** *September 2010*

**Costs:** *To be estimated*

**Status:** *Agreed, but its implementation would require financial support from external donors*

46. Besides general financial literacy surveys, a special diagnostic test for schoolchildren should be conducted (with repetition every 3-5 years) to define how they understand financial issues and money in general. The diagnostic test should be a part of the system of diagnostic tests already being conducted in Latvia.

**Action:** *Run a financial issues related diagnostic test of schoolchildren*

**Description:** *Use the system of diagnostic tests of schoolchildren to define the baseline knowledge of financial issues and measure it against the agreed levels of financial literacy of schoolchildren. Repeat the test periodically to verify usefulness of financial literacy programs in school.*

**Responsibility:** *Ministry of Education, CRPC and FCMC in joint cooperation*

**Deadline:** *November 2011*

**Costs:** *3,000 LVL*

**Status:** *Agreed, but its implementation would require financial support from external donors. The diagnostic test can be developed for students in grade 9 to measure knowledge of financial issues at the end of compulsory basic education.*

47. When discussing financial education and financial capability, the distinction should be made between financial education for children and young people on one hand and financial education for adults on the other.

48. As for children and young people, the state should be primarily responsible for building up financial literacy of this target group during their school years. Standards of financial literacy should be set up for young children (up to 10 years), older children (up to 14 years) and young people (up to 18 years).

**Action:** *Define standards of financial literacy*

**Description:** *Define standards or levels of financial literacy for young children, older children and young adults to use as benchmarks for setting up financial education programs.*

**Responsibility:** *FCMC, CRPC and Ministry of Education in joint cooperation*

**Deadline:** *September 2010*

**Costs:** *No additional costs above budget*

**Status:** *Agreed, but its implementation would require financial support from external donors.*

49. Once the financial literacy levels are set, special guidelines for teachers should be developed so that they can include financial issues into their lessons (e.g. in social science courses). Special training programs should also be developed focusing on the most effective ways to teach financial issues. The already existing system of continuous teacher training could be used effectively.

**Action:** Introduce financial literacy issues into school classes.

**Description:** Once the financial literacy levels are set, develop special guidelines and training programs for teachers so that they can incorporate financial issues into their lessons.

**Responsibility:** Ministry of Education, CRPC and FCMC in joint cooperation

**Deadline:** June 2012

**Costs:** 2,000 LVL for developing training programs, for running training programs (yearly), and for training materials.

**Status:** Agreed, but its implementation would require financial support from external donors.

50. As for adults, the state should primarily be a clearinghouse for information about various educational activities, monitoring effectiveness of each program and disseminating the best practices. If possible or needed, the state could also run specific programs for minority groups requiring special attention.

**Action:** Establish information exchange about adult-oriented financial education programs

**Description:** Develop methods for gathering, analyzing, evaluating and sharing information about successful adult-focused financial education programs, increase involvement of the financial industry as it has a day-to-day experience of requests and knowledge of the public.

**Responsibility:** Financial sector associations, FCMC, CRPC and the Ministry of Education in joint cooperation

**Deadline:** Starting from January 2011

**Costs:** To be estimated for collecting and communicating the information

**Status:** Partially agreed. FCMC has agreed with Banking Academy about development of courses and incorporation of courses in appropriate study programs. There are plans to incorporate similar courses in programs of other universities of Latvia.

51. One of the accessible financial capability building tools is a regular series of tariff surveys showing comparison pricing of financial services. A series of tariff surveys (e.g. for basic bank services, several types of insurance, pension products, credit cards and other credit products) repeated every six months is a powerful tool for teaching people that comparative shopping can bring them substantial savings and also educating them about the key features they should compare when choosing a financial product.

**Action:** Develop and run a system of tariff surveys

**Description:** *Prepare a series of tariff surveys for selected financial products and develop a communication strategy for this series.*

**Responsibility:** *CRPC in cooperation with financial industry associations and media*

**Deadline:** *March 2011 for preparation and first tests, first publication in June 2011 and then continuously*

**Costs:** *To be estimated for tariff survey design, and for running it*

There are many possible recommendations regarding financial literacy. However, more detailed discussion is needed to see what would be feasible in Latvia in the short term.

## Annex: Summary of Draft Action Plan

Action	Responsibility	Description	Deadline	Costs	Status	
<b>Institutions and Institutional Setup</b>						
1	Inform the public and the financial industry about the planned changes on financial consumer protection	CRPC and FCMC in joint cooperation	Once the government selects actions to be undertaken, explain them to the public and the financial industry so that they know what and why will be changing. Use the media to educate the public about the issues the government sees as crucial in improving their situation as users of financial products. Use the dissemination workshop for the Diagnostic Review to present these plans.	April 2010	No additional costs above budget	Agreed
2	Analyze the legal powers of CRPC and define any deficiencies	CRPC in cooperation with MOE	Analyze whether the CRPC has all powers it needs to influence the behavior of financial institutions and if not, propose legislative changes.	April 2010	No additional costs above budget	
3	Build up institutional knowledge of CRPC	CRPC in cooperation with the FCMC and financial sector associations (for training programs)	Work more closely with the FCMC to build up understanding of financial products at CRPC. Cooperate in educational activities with FCMC. Use trainings of financial sector associations. Develop international contacts across the EU.	Continuously	No additional costs	Agreed
4	Establish Steering Committee for implementation of the Action Plan	MOE, CRPC, FCMC, Bank of Latvia, financial industry associations and consumer organizations	Establish the Steering Committee for preparation and coordination of proposed actions with the involvement of senior representatives of MOE, CRPC, FCMC, Bank of Latvia, financial industry associations and consumer organizations.	May 2010	No additional costs above budget	Agreed and implemented
5	Strengthen active communication policy for publishing cases when financial institutions harmed customers	CRPC and FCMC	Strengthen active communication policy for publishing cases when financial institutions harmed customers, including names of institutions and sanctions awarded.	Starting from June 2010	No additional costs above budget	Agreed

6	Introduce regular sharing of received complaints and inquiries and use them in policy development	CRPC and FCMC	Share information on complaints and inquiries handled and use the information in developing proactive consumer protection policy and staff training.	Starting from September 2010	To be estimated	
7	Develop an ongoing awareness campaign and assistance for consumers	CRPC	Prepare and test various tools (brochures, special websites, a toll-free line for financial services, media programs) that will inform the public about their rights and that will provide basic assistance for consumers to use their rights.	Development and testing by March 2010 Starting campaign from July 2011	To be estimated	Agreed, but its implementation would require financial support from external donors
8	Prepare yearly report on the current state of consumer protection in financial services and plans for improvement	CRPC and FCMC	Develop rules for the yearly report on consumer protection issues that the supervisors and other state authorities dealt with, including their market evaluation activities, and include proposals to tackle the issues that have arisen during the year. Present the report to the President and the Parliament.	March 2011. Then every following March	To be estimated, for preparing and publicizing the report	Agreed
9	Build capacity of consumer organizations	CRPC and FCMC in joint cooperation	Educate representatives of consumer organizations and media about financial products and consumer rights, so that they can become an effective counterpart for financial institutions.	Continuously starting from January 2011	To be estimated, for seminars and training and for administering the assistance	Agreed, but its implementation would require financial support from external donors
10	Support selected projects of consumer organizations	CRPC	Should the budget constraints allow, the CRPC should be able to administer grants supporting projects of consumer organizations in the area of financial services.	Yearly starting from 2011	To be estimated, for administration of grant fund	Agreed, but its implementation would require financial support from external donors
11	Establish informal communication mechanisms with stakeholders	CRPC, FCMC, Bank of Latvia and MOE with financial industry associations and consumer organizations	Set up regular meetings between CRPC, FCMC, financial industry associations and consumer organizations to discuss arising issues, proposed legislation and results of business conduct supervision to inform all stakeholders about new developments and seek their cooperation in improving consumer protection.	May 2010. Then at least yearly	No additional costs above budget	Agreed

12	Prepare and sign a Memorandum of Understanding between CRPC and FCMC	CRPC and FCMC	Define the rules of cooperation and information exchange between CRPC and FCMC and sign a Memorandum of Understanding.	July 2010	No additional costs above budget	Agreed
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### Disclosure of Information

13	Prepare and test Key Facts Statements	Financial industry association with input from consumer organizations under guidance of CRPC and FCMC.	Develop and prepare Key Facts Statements for all financial products and test their usability for general public. The CRPC should focus its testing on user-friendliness of the Key Facts Statements (clarity, precision, clear language, comparability, etc.) and the FCMC should focus on financial-products related issues (technical definitions, calculations, etc.).	Development for each type of products starting from July 2010, with prioritization by the Steering Committee	To be estimated, for assistance on comparability and readability tests conducted by CRPC	
14	Introduce Key Facts Statements into the laws and supervisory procedures	MOE, with CRPC and FCMC	Financial institutions should be required to provide a supervisor-approved Key Facts Statement to any client prior to a transaction and make them available on their websites. CRPC and FCMC should be given the authority to approve the Key Facts Statements, to monitor the distribution of the Key Facts Statements during inspections and through analysis of received complaints, and to impose sanctions for companies that fail to provide clients with truthful Key Facts Statements.	August 2010 for draft law changes. October 2010 for approval of Key Facts Statements. January 2011 for implementation in sales process as legal requirement. Timing could be stretched out for various types of products. SECCI to be used as first measure in credit products.	No additional costs above budget	
15	Prepare standardized contract provisions	Financial industry associations with input from consumer organizations under guidance of CRPC and FCMC.	Develop and prepare standardized contract provisions for all financial products and submit them to CRPC, FCMC and MOE.	January 2011	No additional costs above budget	

16	Introduce standardized contract provisions and the rules for the "comply or explain" policy into the laws and supervisory procedures	CRPC with FCMC and MOE (for legal changes)	Financial institutions should be required to use supervisor-approved standardized contract provisions, and to make the standardized contract provisions (or explanations for using differing provisions) available to clients before a sale (including on websites). CRPC and FCMC should be given the legal authority to approve the standardized contract provisions, and to monitor use of standardized contract provisions and application of the "comply or explain" policy during inspections and through analysis of received complaints, and to impose sanctions for companies that fail to use the standardized contract provisions or apply the "comply or explain" policy.	February 2011 for draft law changes. April 2011 for approval of standardized contract provisions. July 2011 for implementation in sales process as legal requirement.	No additional costs above budget	
17	Require financial institutions to provide clients with contract documentation in advance	CRPC and MOE (for legal changes)	Prepare legal changes across financial sectors to require financial institutions to provide clients with contract documentation in advance and empower CRPC to punish institutions that fail to disclose its contracts or contract conditions as required.	July 2010 for submitting necessary legal changes June 2011 for implementation in sales process of financial institutions and preparation of supervisory process	No additional costs above budget	
<b>Business Practices</b>						
18	Define the "Know Your Customer" policy	CRPC and FCMC in joint cooperation, with MOE (for legal changes)	Prepare legal changes across financial sectors to implement the "Know Your Customer" policy, in cooperation with the financial industry associations and consumer organizations, to make sure clients are offered only suitable products. Changes should include providing FCMC with the authority to check for the proper implementation of the "Know Your Customer" policy during inspections, and the authority to act when consumers complain they were offered an unsuitable product	January 2011 for submitting necessary legal changes January 2012 for implementation in sales process of financial institutions and preparation of supervisory process.	No additional costs above budget	To be agreed

19	Prepare or update sector-wide codes of conduct	All financial industry associations in joint cooperation with consumer organizations	Have financial industry associations with consumer organizations develop and prepare sector-wide codes of conduct and submit them to CRPC and FCMC for comments. With existing codes (banking, insurance, leasing), the associations should work jointly with CRPC and FCMC to include as many cross-sectoral rules as possible, possibly under guidance of the Steering Committee.	December 2010	No additional costs above budget	Agreed
20	Set the final codes of conduct and the rules for the "comply or explain" policy	CRPC and FCMC in joint cooperation with MOE (for any needed legal changes)	Comment on and improve the codes of conduct presented and agree on the final version (including methods of their distribution and promotion), define the rules and supervisory process for the "comply or explain" policy.	March 2011 for agreement on the final version September 2011 for implementation in sales process and start of awareness campaign	No additional costs above budget	Agreed
21	Set a system for monitoring financial advertising	CRPC	Using its powers, CRPC should monitor advertising of financial institutions and apply sanctions when rules are broken, as well as inform the public about the misleading advertisements.	January 2011	Costs for CRPC staff to enable a proactive approach	To be agreed
22	Set rules of knowledge, education, competence and background for distributors of financial products	FCMC and CRPC	Develop the set of minimum requirements for distributors of financial products to make sure they understand the products they sell, including periodic testing of their knowledge. FCMC focusing on financial sector-related knowledge and CRPC focusing on how distributors communicate their services to the public.	March 2011 Implementation from January 2012	To be estimated (can actually bring budget revenues if distributors pay licensing fees)	To be discussed
23	Introduce mystery shopping and reporting requirements	CRPC and MOE (for legal changes)	Include mystery shopping into the methods of supervision and ensure that financial institutions are required to report mistreating of customers they become aware of, with significant sanctions if they fail to do so. Prepare legal changes to make mystery shopping possible and provide resources for test-buying financial products.	January 2012	To be estimated	

24	Set legal standards for debt collection	CRPC and MOE with support of FCMC, consumer organizations and consumer credit providers	Develop and approve a draft law for debt collection, including registration, debt collection process and supervision.	January 2012	To be estimated, for law drafting and for new staff required	Developed draft changes of Consumer Rights Protection Law for debt collection
25	Improve rules for credit reporting	MOE as the regulator of consumer credit with support of CRPC, FCMC and Bank of Latvia	Strengthen the credit reporting system by opening up the credit register to non-bank credit institutions and define rules for private credit bureaus.	June 2011	None for the state budget	
26	Establish or support debt counseling centers	CRPC, with support of banks and other consumer credit companies	Establish or support debt counseling centers that would assist indebted people and provide advice on responsible borrowing, including training of the debt counselors		To be estimated	To be agreed
<b>Dispute Resolution</b>						
27	Set up a standardized complaint-handling system	FCMC with assistance from CRPC	FCMC should define the general rules of how complaints should be handled by financial institutions (recording, handling times, reporting and analysis), and of how FCMC will monitor the application of the rules during on-site inspections of financial institutions.	June 2010 for setting standards. Implementation from January 2011	No additional costs above budget	Agreed
28	Set up a standardized complaint information sheet	Financial industry associations, CRPC and FCMC	All financial institutions should be legally required to include an information sheet regarding complaints procedures with all contracts and publish the information on their websites. The information sheet should include: contact information, guaranteed response times, information about codes of conduct the institution follows, and advice of whom to contact further in case the customer is not satisfied with the resolution of his complaint (ombudsman, supervisory agency, court). The format should be proposed by financial industry associations and approved by CRPC and FCMC, with FCMC monitoring implementation of the requirement during on-site inspections. CRPC should also be given powers to sanction failures to inform the consumers.	June 2010 for setting standards. Implementation from January 2011	No additional costs above budget	Agreed

29	Include complaints analysis into defining priorities of the business conduct supervisor and for the risk-based prudential supervision	FCMC and CRPC in joint cooperation	Require financial institutions to submit a report on complaints twice a year. Develop rules for the use of complaints analysis to identify potential systemic weaknesses and to increase prudential supervision in specific financial institutions.	Implementation from January 2011	No additional costs above budget	To be discussed
30	Upgrade public information policy about systematically important complaints, legally define what information can be published about cases, and empower CRPC to deal with offenders effectively	CRPC and FCMC in joint cooperation, with Ministry of Justice in the area of sanctions and publication of cases (for necessary legal changes)	Use the complaints analysis and results of complaints handling to inform the media and the public about those that break the rules and make sure the supervisors have enough powers to stop the offenders. Use the published cases to draw general educational examples based on legal powers to publish cases. Increase the ability of CRPC to punish companies that mistreat customers.	January 2011	No additional costs above budget	Agreed
31	Establish a capacity building system for CRPC staff, police and judges	FCMC, CRPC and financial industry associations	Develop a system that will help CRPC staff, police prosecutors and judges deal effectively with cases related to financial products and their mis-selling	2011	To be estimated, for program setup and for every year of operation	To be discussed
32	Provide guidance about industry-operated ombudsman schemes	CRPC and FCMC under the guidance of the Steering Committee	Support financial sector associations in developing a strong and publicly accepted ombudsman service that could deal with some complaints now dealt with by the government agencies.	January 2012	To be estimated	Agreed
<b>Financial Education and Financial Capability</b>						
33	Run a baseline financial literacy survey and repeat it every 3-5 years	FCMC and CRPC in joint cooperation	Use a nation-wide financial literacy survey to define the base level of financial capability of Latvians and then repeat it to verify usefulness of financial literacy programs.	September 2010	To be estimated	Agreed, but its implementation would require financial support from external donors
34	Run a financial issues related diagnostic test of schoolchildren	Ministry of Education, CRPC and FCMC in joint cooperation	Use the system of diagnostic tests of school children to define the baseline knowledge of financial issues and measure it against the agreed levels of financial literacy of school children. Repeat the test periodically to verify usefulness of financial literacy school programs.	November 2011	3,000 LVL	Agreed, but its implementation would require financial support from external donors

35	Define standards of financial literacy	FCMC, CRPC and Ministry of Education in joint cooperation	Define standards or levels of financial literacy for young children, older children and young adults to use as benchmarks for setting up financial education programs	September 2010	No additional costs above budget	Agreed, but its implementation would require financial support from external donors
36	Introduce financial literacy issues into school classes	Ministry of Education, CRPC and FCMC in joint cooperation	Once the financial literacy levels are set, develop special guidelines and training programs for teachers so that they can incorporate financial issues into their lessons	June 2012	2,000 LVL for developing training programs, for running training programs (yearly) and for training materials	Agreed, but its implementation would require financial support from external donors
37	Establish information exchange about adult-oriented financial education programs	Financial sector associations, FCMC, CRPC and Ministry of Education in joint cooperation	Develop methods for gathering, analyzing, evaluating and sharing information about successful adult-focused financial education programs, increase involvement of the financial industry as it has a day-to-day experience of requests and knowledge of the public.	Starting from January 2011	To be estimated, for collecting and communicating the information	Partially agreed. FCMC has agreed with Banking Academy on development and incorporation of courses in study programs. Plans to incorporate similar courses in other universities.
38	Develop and run a system of tariff surveys	CRPC in cooperation with financial industry associations and media	Prepare a series of tariff surveys for selected financial products, and develop a communication strategy for this series.	March 2011 for preparation and first tests First publication in June 2011 and then continuously	To be estimated, for tariff survey design and for running it	Agreed

#### Acronyms

CRPC Consumer Rights Protection Center  
EU European Union  
FCMC Financial and Capital Market Commission

LVL Latvian Lats  
MOE Ministry of Economy