

GLOBAL SURVEY ON CONSUMER PROTECTION AND FINANCIAL LITERACY: RESULTS BRIEF

REGULATORY PRACTICES IN 114 ECONOMIES



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This brief summarizes the results of the Global Survey on Consumer Protection and Financial Literacy. The survey was made possible by the generous contribution of time and expertise by central bank and financial regulatory authority officials in the 114 economies who responded to this year's survey.

The survey is a product of the World Bank Financial Inclusion & Infrastructure Global Practice conducted in conjunction with FinCoNet. Douglas Pearce and Gaiv Tata provided overall guidance. The team led by Nataliya Mylenko comprised Adetola Adenuga, Roziah Baba, Elizabeth Davidson, Ros Grady, Johanna Jaeger and Valentina Saltane. Siegfried Zottel, Michael Fuchs, Rekha Reddy, Samuel Maimbo and Andrej Popovic provided substantive inputs in the survey design and results analysis. The survey was designed with inputs from FinCoNet, as coordinated by John Rossi.

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1 BACKGROUND

About two billion adults worldwide have a deposit or a loan with a regulated financial institution.¹ Customers not served by the formal system rely on informal providers for their savings, borrowing, payments and insurance needs.² Access to basic financial services is a fundamental element of inclusive economic systems and contributes to poverty reduction. When using financial products, consumers should know and understand product features. Yet information asymmetries, power imbalances and behavioral biases in financial markets may result in poor outcomes for both consumers and for financial service providers. Financial consumer protection and financial education policies, in conjunction with the regulation of financial institutions and markets, need to ensure safe access to financial services and support financial stability and financial inclusion objectives.

As financial products and the related delivery channels become more complex, the need for effective consumer protection rises. Emerging-market economies in which a large number of people join the formal financial system for the first time face particular challenges. In Peru, the number of depositors more than doubled between 2005 and 2011, adding 5.2 million new clients as financial inclusion initiatives drew more customers to banks. Bangladesh doubled the number of depositors in the same period, adding 16.9 million new depositors.³ Until recently, in low- and middle-income economies, formal financial institutions focused only on high-income groups serving a small portion of the population. As retail financial

services expand and more people gain access to deposit, payment and credit services, there is a new category of clients who have no prior experience, including in their family or among friends, of dealing with banks or any other formal financial services providers.

Consumer protection and financial literacy can contribute to improved efficiency, transparency, competition and access to retail financial markets by reducing information asymmetries and power imbalances among providers and users of financial services. Rapid progress toward widespread financial inclusion must be appropriately complemented with “checks and balances” that ensure a responsible provision of financial services and products. Consumer protection and financial literacy and capability can support financial inclusion by encouraging competition which leads to more cost-effective and higher quality products and by increasing consumer confidence and reducing risk when purchasing financial products and services, because they know remedies exist when things go wrong.

The global financial crisis has highlighted the importance of financial consumer protection for financial stability. The report of the Financial Stability Board (FSB) on Consumer Finance Protection with Particular Focus on Credit⁴ endorsed by the G20 notes that “[p]olicies that protect the interests of consumers of financial products and services contribute to enhanced risk management by households, more competitive financial markets, and greater financial stability. This financial crisis demonstrated the desirability of strengthening such policies and ensuring that the use (or misuse) of individual financial products do not become a source of financial instability.” The report calls for further work on identifying good practices in financial consumer protection,

1 For estimates using supply side data please see Kendall, Jake, Nataliya Mylenko, and Alejandro Ponce, 2010, “Measuring Financial Access around the World,” Policy Research Working Paper 5253, World Bank, Washington, DC. For demand side estimates please see Asli Demirgüç-Kunt and Leora Klapper, 2012, “Measuring Financial Inclusion: The Global Findex,” World Bank Policy Research WP 6025.

2 Collins, Daryl, Jonathan Morduch, Stuart Rutherford, and Orlanda Rutheven, 2009, *Portfolios of the Poor: How the World's Poor Live on \$2 a Day*, Princeton, NJ: Princeton University Press.

3 Data for Peru and Bangladesh from Financial Access Survey, IMF Financial Access database <http://fas.imf.org/>

4 FSB, 2011, “Consumer Finance Protection with Particular Focus on Credit,” http://www.financialstabilityboard.org/publications/r_111026a.pdf.

including on institutional arrangements and supervisory tools and for greater international coordination.

A number of international efforts are in place to improve dialogue and identify best practices in financial consumer protection. The G20 Principles for Innovative Financial Inclusion adopted in 2010 include consumer protection as one of the nine principles urging countries to “encourage a comprehensive approach to consumer protection that recognizes the roles of government, providers and consumers.”⁵ The High-level Principles on Financial Consumer Protection were endorsed by the G20 Finance Ministers and Central Bank Governors at their meeting in October 2011⁶ (Box 1). The World Bank published *Good Practices for Financial Consumer Protection*⁷ in 2012, based on in-depth country-level reviews of consumer protection and financial literacy. The Good Practices are a compilation of the most frequently used practices that have been successfully carried out in the field. They represent a summary of useful approaches for the improvement of conduct of financial institutions when dealing with retail customers and aim to provide a reference for policymakers in designing their financial consumer protection frameworks.

To contribute to the international dialogue on financial consumer protection the World Bank in conjunction with FinCoNet, an international cooperation platform for supervisory agencies in the area of financial consumer protection, conducted a Global Survey on Consumer Protection and Financial Literacy to collect information from financial regulatory agencies in 114 economies. This report provides a summary of the survey results.

WORLD BANK GLOBAL SURVEY ON CONSUMER PROTECTION AND FINANCIAL LITERACY 2013

The World Bank Global Survey builds on a body of work by the World Bank Group (World Bank, CGAP, IFC), including various surveys, individual country diagnostics and case stud-

BOX 1. HIGH-LEVEL PRINCIPLES ON FINANCIAL CONSUMER PROTECTION ENDORSED BY THE G20

1. Legal, Regulatory and Supervisory Framework
2. Role of Oversight Bodies
3. Equitable and Fair Treatment of Consumers
4. Disclosure and Transparency
5. Financial Education and Awareness
6. Responsible Business Conduct of Financial Services Providers and Authorized Agents
7. Protection of Consumer Assets against Fraud and Misuse
8. Protection of Consumer Data and Privacy
9. Complaints Handling and Redress
10. Competition

ies.⁸ The results of the earlier surveys provided comprehensive information and benchmarking of the key financial consumer protection regulations worldwide. This year, the World Bank Global Survey updates this information and collects new information on the financial education efforts by financial regulators and on issues related to responsible lending to help monitor progress in financial consumer protection reforms.

The World Bank Global Survey on Consumer Protection and Financial Literacy was conducted during the period of February to May 2013. The questionnaire was developed in conjunction with FinCoNet, with a view to expand and improve the earlier version, and to help provide baseline information to support ongoing research on institutional arrangements by FinCoNet. The questionnaires were sent to central banks and bank supervisors in 145 economies and 114 responses were received. The survey focused on the financial consumer protection legal and institutional arrangements in relation to deposit and credit services. The Global Survey assessed the progress in a number of areas using the data from the earlier

5 <http://www.g20.utoronto.ca/2010/to-principles.html>.

6 <http://www.oecd.org/daf/fin/financial-markets/48892010.pdf>. Progress report <http://www.oecd.org/finance/financial-education/G20EffectiveApproachesFCP.pdf>.

7 World Bank, 2012, “Good Practices for Financial Consumer Protection,” <http://responsiblefinance.worldbank.org/-/media/GIAWB/FL/Documents/Misc/Good-practices-for-financial-consumer-protection.pdf>.

8 Please see World Bank, 2012, “Good Practices for Financial Consumer Protection”; Ardic, Ibrahim, and Mylenko, 2011, *Consumer Protection Laws and Regulations in Deposit and Loan Services: A Cross-Country Analysis*, World Bank Policy research Working Paper 5536; Rutledge, S.L., 2010, “Consumer Protection and Financial Literacy: Lessons from Nine Country Studies,” World Bank Working Paper, and individual country diagnostics available at www.worldbank.org/financialinclusion.

survey conducted in 2010.⁹ Of the 114 countries, 109 have data for both 2010 and 2013 allowing for comparison. While other financial services such as insurance, payments and investment services are essential elements of financial systems and equally require clear and effective financial consumer protection framework, this year, World Bank Global Survey did not cover these products. Future iterations of the survey may expand the scope to analyze these issues.¹⁰

Institutional arrangements for financial consumer protection vary greatly among countries and include multiple agencies. The focus and primary objective of this survey is to review

the role and responsibilities of financial supervisors within a broader financial consumer protection context, building on the earlier research and following High-level Principles on Financial Consumer Protection endorsed by the G20 and World Bank Good Practices for Financial Consumer Protection. The survey collected basic information on the key elements of financial consumer protection system. This brief summarizes the key results of the survey and accompanies the release of the data collected to provide timely feedback on the results. A full report drawing on further analysis and consultation will be released at a later date.

9 Ardic, Ibrahim, and Mylenko, 2011, *Consumer Protection Laws and Regulations in Deposit and Loan Services: A Cross-Country Analysis*, World Bank Policy research Working Paper 5536, Washington, DC. CGAP and World Bank, 2010, “Financial Access 2010,” Washington, DC.

10 World Bank Good Practices on Financial Consumer Protection cover a broad range of practices including securities, insurance and non-bank credit providers.

2 LEGAL FRAMEWORK

G20 HIGH LEVEL PRINCIPLES ON FINANCIAL CONSUMER PROTECTION. PRINCIPLE 1:

Financial consumer protection should be an integral part of the legal, regulatory and supervisory framework and should reflect the diversity of national circumstances and global market and regulatory developments within the financial sector.

WORLD BANK GOOD PRACTICES FOR FINANCIAL CONSUMER PROTECTION:

The law provides clear consumer protection rules regarding financial products and services.

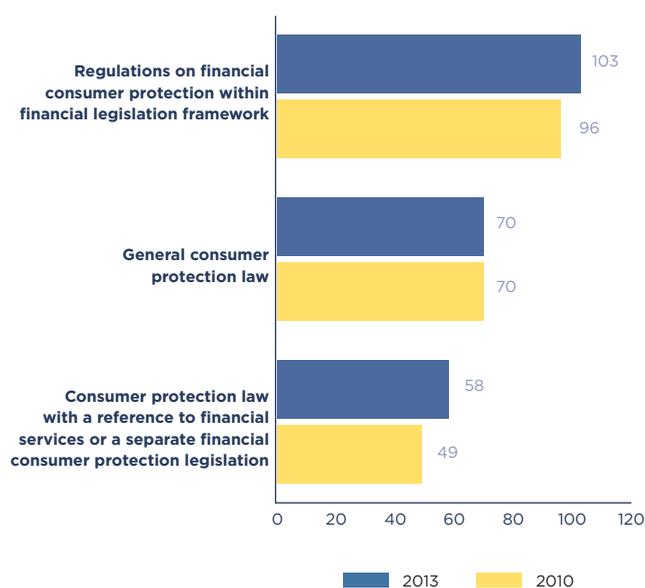
WORLD BANK GLOBAL SURVEY FINDING

In 112 out of 114 economies, a legal framework for financial consumer protection is in place. Legal frameworks are diffused through various laws and statutes often resulting in gaps and overlaps. The reform to rationalize and streamline legislation is ongoing in many jurisdictions.

Two broad sets of legislation govern financial consumer protection. On the one hand, various financial sector laws and regulations contain provisions on consumer protection covering the operations of financial service providers and the relationships between financial service providers and their clients. On the other hand, consumer protection and fair competition legislation defines the rights of consumers of various goods and services often including financial products and services. More recently, a number of countries added new legal acts dealing specifically with the consumer protection within financial services in a comprehensive manner.

The survey asked the respondents to indicate which of the following elements of legal framework were present within their economy: (1) general consumer protection law without explicit reference to financial services and covering a broad range of products and services; (2) general consumer protection law with an explicit reference to financial services, offering specific provisions for consumers of financial products and services; (3) separate financial consumer protection law; and (4) consumer protection regulations within the framework of financial sector legislation. In 112 out of 114 countries, there

FIGURE 1. MOST ECONOMIES HAVE A LEGAL FRAMEWORK IN PLACE, AND A NUMBER WERE REFORMED BETWEEN 2010 AND 2013



Note: Data on 109 countries responding to 2010 and 2013 surveys.

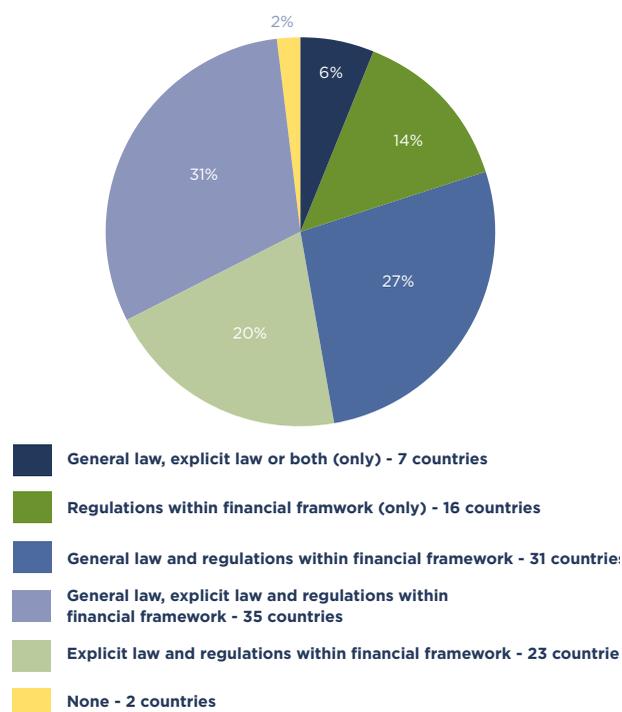
is some form of legal framework in place for consumer protection. The number of countries with laws and regulations increased between 2010 and 2013 (Figure 1).

Regulations under financial legislation are the most common form of legal framework for financial consumer protection; they were used in 103 economies (94%), up from 96 (88%) in 2010. The actual number of countries reforming legislation is higher because many countries that had regulations in 2010 revised and enhanced them over the past three years. General consumer protection laws that cover the rights of the consumers in relation to a broad range of goods and services are present in 70 economies (64%). These laws put in place a broad foundation for the protection of consumer rights but do not include any specific provisions for financial services and products. To address the specific issues relating to the consumption of financial products and services, countries generally follow two broad approaches. The first is to include specific provisions covering financial products and services into the general consumer protection law. The second is to issue a dedicated law to address financial consumer protection issues.¹¹ As countries focus on enhancing legal frameworks for financial consumer protection, more countries issued laws explicitly dealing with the financial products and services in the past two years.

In most countries, provisions governing financial consumer protection are diffused throughout multiple laws (Figure 2). A third of countries had all three types of laws, a general consumer protection law, a consumer protection law covering financial services and regulations within financial consumer protection framework. And about a half had regulations within financial legal framework and either general or explicit consumer protection legislation. Complex legal structures with multiple laws and regulations can result in conflicting provisions and gaps and overlaps.

Reforms to rationalize and streamline financial consumer protection are ongoing in a number of countries. There is some degree of consensus reflected in the laws across the world on a broad set of consumer rights, such as rights to be informed about the products offered, to obtain advice about the suitability of products on offer for the consumer's needs and objectives and for financial institutions to engage in responsible lending practices, to seek recourse in case of

FIGURE 2. FIGURE 2. LEGAL FRAMEWORK IS DIFFUSED—IN MORE THAN A THIRD OF COUNTRIES, FINANCIAL CONSUMER PROTECTION PROVISIONS ARE FOUND IN CONSUMER PROTECTION, FINANCIAL AND OTHER LAWS



Note: Based on responses from 114 economies in 2013.

wrong doing by the provider of financial services, and restrictions on unfair and misleading practices by providers of financial services. At the same time, there is a need for further analyses of the implementation arrangements for financial consumer protection, such as institutional setup of agencies responsible, coordination mechanisms among various agencies involved and enhancement of compliance monitoring tools and enforcement actions.

¹¹ For the purposes of the figures 1 and 2 these two types of laws are combined in one group.

3 INSTITUTIONAL ARRANGEMENTS

G20 HIGH LEVEL PRINCIPLES ON FINANCIAL CONSUMER PROTECTION. PRINCIPLE 2:

There should be oversight bodies (dedicated or not) explicitly responsible for financial consumer protection, with the necessary authority to fulfill their mandates. They require clear and objectively defined responsibilities and appropriate governance; operational independence; accountability for their activities; adequate powers; resources and capabilities; defined and transparent enforcement framework; and clear and consistent regulatory processes.

WORLD BANK GOOD PRACTICES FOR FINANCIAL CONSUMER PROTECTION:

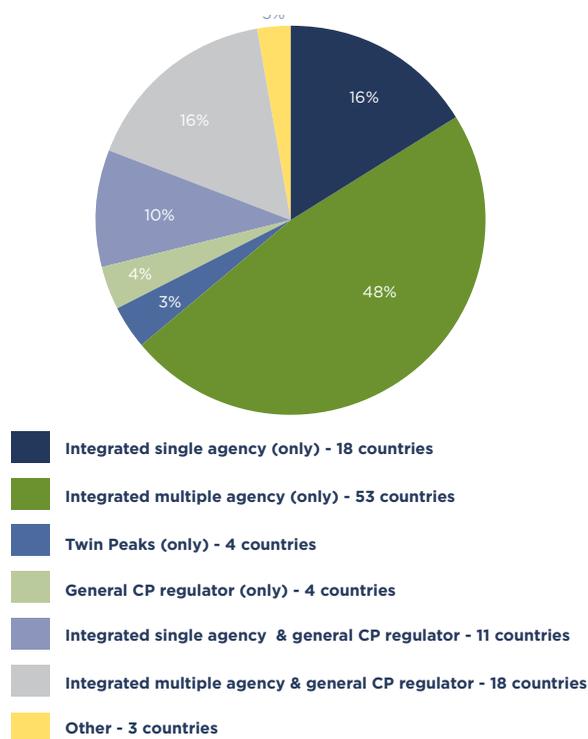
The necessary institutional arrangements are in place to ensure thorough, objective, timely and fair implementation (and enforcement) of the rules. Prudential supervision and consumer protection supervision may be placed in separate agencies or lodged in a single institution. However, regardless of the institutional structure, the allocation of resources between prudential supervision and consumer protection is adequate to enable the effective implementation of consumer protection rules.

WORLD BANK GLOBAL SURVEY FINDING

In 74 percent of jurisdictions, multiple regulators are involved in financial consumer protection, and in 26 percent of economies the responsibilities are shared between financial and general consumer protection authorities. The number of financial regulators dedicating resources to financial consumer protection increased between 2010 and 2013 from 68 percent to 89 percent. In more than half of economies, some financial consumer protection function is established in a unit separate from prudential

supervision. The supervisors employed a broader range of compliance monitoring tools and regulatory powers were expanded to enforce financial consumer protection norms. A number of jurisdictions reformed institutional arrangements to enhance and streamline supervision of financial consumer protection.

FIGURE 3. SUPERVISORY STRUCTURE DIFFERS ACROSS COUNTRIES REFLECTING EXISTING INSTITUTIONAL ARRANGEMENTS FOR CONSUMER PROTECTION AND FINANCIAL SECTOR SUPERVISION



Note: Data for 111 countries that provided information on financial consumer protection institutional arrangements.

Mirroring the variety of legal frameworks is the variety of supervisory structures (Figure 3). The survey asked respondents to classify institutional arrangements in their jurisdiction into one of the five categories (Box 2).

Survey results show that institutional structures for financial consumer protection in most countries are complex and often do not fit neatly into one of these stylized models. In a large number of countries institutional arrangement is a mix among integrated single or multiple models and a general consumer protection model.

Financial supervisors are solely responsible for financial consumer protection in a majority of countries (Figure 3). The integrated multiple agency model is most common, found in 53 economies (48%) in which multiple regulators are responsible for consumer protection within their respective sectors. Eighteen economies (16%) have a single integrated regulator and four (3%) have a dedicated financial consumer protection or market conduct agency. In about a quarter of the economies (26%) the responsibility for financial consumer protection is shared among financial supervisors and general consumer protection agencies.

It is possible to think of the role of financial consumer protection as spanning two dimensions (Figure 4). On the one side, there is a product dimension in which a consumer uses a range of products and services including financial services. The question is whether financial services are sufficiently different to require a separate structure for consumer protection from that existing for other goods and services. On another side, there is the institutional dimension of the supervision of financial service providers. Here, the question is whether ensuring adequate consumer protection is a distinct function from that of ensuring the soundness of a financial institution through prudential supervision. There is the recognition that consumer protection supervision requires a different set of tools and methods, including active monitoring of consumer financial markets and interaction with consumers, from the methods used in prudential supervision focused on the analysis of financial institution performance. There is also a concern that without a separation of the two functions, consumer protection would not get sufficient attention from supervisors. Another concern is a potential conflict between consumer protection and prudential supervision mandates, though in the review by FSB most regulators viewed these functions as

BOX 2. INSTITUTIONAL ARRANGEMENTS FOR FINANCIAL CONSUMER PROTECTION

Integrated Single Agency Model. Financial consumer protection supervision responsibilities fall under a single agency that is responsible for all aspects of supervision, including prudential, market conduct and financial consumer protection, of all supervised financial service providers operating within the jurisdiction. An example of this model is the Financial Superintendence of Colombia.

Integrated Multiple Agency Model (Sectoral). Financial consumer protection supervision responsibilities fall under multiple agencies that hold responsibility for all aspects of supervision, including prudential, market conduct and financial consumer protection, of financial service providers, most often separating regulatory authority over banking, insurance and capital markets. An example of this model is present in Albania where Bank of Albania is in charge of banking and non-bank financial institutions supervision, and the Financial Supervisory Authority is in charge of insurance companies, pension funds and issuance of securities.

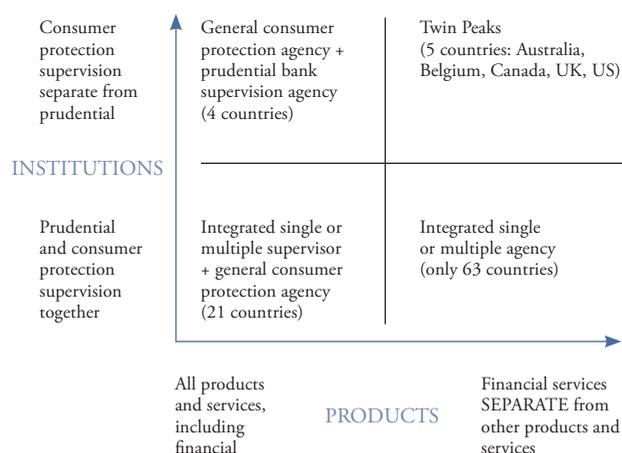
Dedicated Market Conduct Agency Model (Twin Peaks). Financial consumer protection supervision responsibilities fall under a single agency dedicated to broad financial market conduct supervision, separated from prudential supervision.

An example of this model is the Australian Securities and Investments Commission.

Specialized Financial Consumer Protection Agency Model. Financial consumer protection supervision responsibilities fall under a single specialized financial consumer protection agency that does not have broader financial sector market conduct supervisory responsibilities. A country in which institutional structure approaches this model is Mexico where National Commission for the Protection of Users of Financial Services (CONDUSEF) has a responsibility for financial consumer protection and financial education across all supervised financial institutions. At the same time Bank of Mexico also has a responsibility for the supervision of the payments system and as a result some aspect of consumer protection in relation to credit cards.

General Consumer Protection Agency Model. Financial consumer protection responsibilities fall under an agency or agencies responsible for broader consumer protection supervisions within the jurisdiction, including other non-financial areas of activities. An example of this model is Russia where the Federal Consumer Protection Agency (*Rospotrebnadzor*) is responsible for consumer protection in financial services as well as for broad range of products and services.

FIGURE 4. INSTITUTIONAL ARRANGEMENTS FOR FINANCIAL CONSUMER PROTECTION REFLECT CHOICES ON REGULATION OF PRODUCTS AND SERVICES VERSUS INSTITUTIONS



complimentary.¹² At the same time, financial consumer protection has implications for financial stability as the recent crisis has clearly demonstrated.

Using this two-dimensional approach, there are broadly four choices for organizing financial consumer protection supervision. The first is integrating financial consumer protection with prudential supervision within a single agency or within multiple sectoral financial supervisory authorities existing in a country (the integrated single agency model and integrated multiple agency model, sectoral). The second choice is creating a specialized dedicated agency, separate from prudential supervision, to oversee financial consumer protection and business conduct (the dedicated market conduct agency model [Twin Peaks] and specialized financial consumer protection agency model). In both of these cases, a general consumer protection agency exists only if it has a remit over non-financial products and services. The third choice is to place financial consumer protection functions within a general consumer protection agency and focus financial supervisors only on prudential supervision. And the fourth option is to have integrated prudential and financial consumer protection agencies working in close coordination with general consumer protection agencies. The choices countries make depend on the existing structure of the financial supervision and consumer protection and the nature of financial markets.

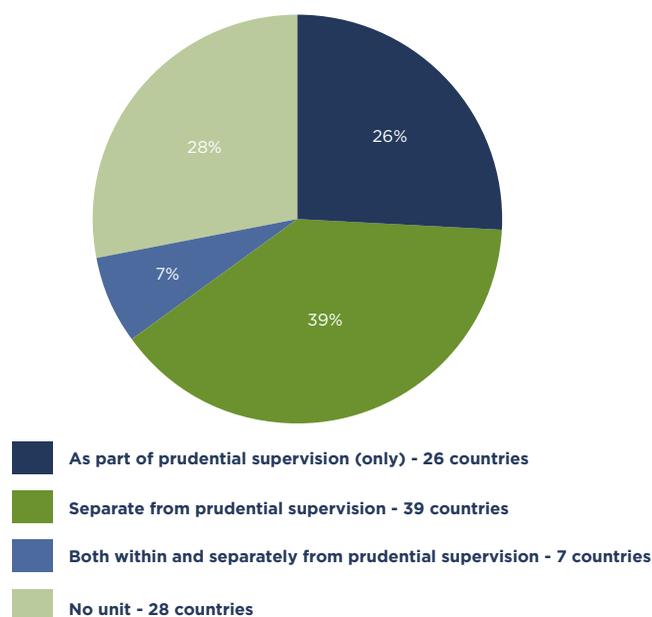
¹² FSB, 2011, “Consumer Finance Protection with Particular Focus on Credit,” http://www.financialstabilityboard.org/publications/r_111026a.pdf.

There is no one-size-fits-all model. But there are common considerations that need to be taken into account in the design of the institutional structure for financial consumer protection supervision. General consumer protection agencies are more likely to have systems, processes and infrastructure for handling complaints used for a broad range of products and services. But these agencies also generally do not have expertise in financial sector issues. Financial regulators, in turn, have expertise in financial sectors but often lack systems and processes for adequately overseeing financial consumer protection. Some countries, such as Russia, made a decision to place financial consumer protection within a general consumer protection agency and develop capacity within this entity to oversee financial consumer protection. Others have followed the route of enhancing financial consumer protection function within financial regulators while coordinating with the general consumer protection regulators. For example, in Peru, the *Superintendencia de Banca, Seguros y AFP* (SBS) and the consumer protection and competition agency, INDECOPI, signed a memorandum of understanding covering cooperation between the two institutions in relation to the exercise of their respective powers and functions, including comprehensive provisions about information-sharing and a monthly liaison meeting. And in a small but growing number of high-income countries, a dedicated agency for financial consumer protection and market conduct has been put in place to centralize the responsibility for financial consumer protection across all financial services within one entity. This is the case in the United States with the creation of the Bureau of Consumer Financial Protection mentioned in the previous section.

The survey asked whether financial supervisors in countries in which they have a responsibility for financial consumer protection have a dedicated team or unit in place and if this team or unit is part of prudential supervision function or a separate function. Among the agencies that have established a dedicated team or unit, such unit is more likely to be separate from prudential supervision (Figure 5). Out of 72 economies with dedicated teams or units for financial consumer protection, 39 (54%) are separate from prudential supervision, 26 (36%) are part of prudential supervision, and in 7 (10%) economies such teams were created in both prudential and non-prudential supervision sections. At the same time, most agencies that do not have a dedicated team or unit noted that consumer protection function is performed as part of the regular bank supervision activities.

More countries moved to enhance supervision of financial consumer protection and dedicated resources to this task over the past three years (Figure 6). The number of agencies that

FIGURE 5. MORE THAN HALF OF THE ECONOMIES WITH A DEDICATED TEAM FOR FINANCIAL CONSUMER PROTECTION HAVE IT SEPARATELY FROM PRUDENTIAL SUPERVISION



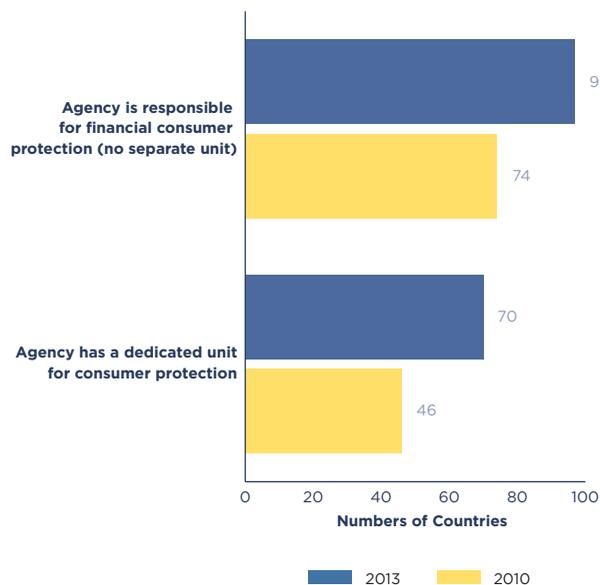
Note: Data for 100 countries that have a responsibility for some aspect of financial consumer protection in 2013.

responded that they have a responsibility for financial consumer protection increased from 74 in 2010 to 97 in 2013.¹³ The number of economies that have agencies with dedicated resources and staff in this area of work also increased from 46 in 2010 to 70 in 2013. As a result, in 2013 72 percent of agencies with the responsibility for financial consumer protection had a dedicated team or unit in place to perform this function compared to 62 percent of economies in 2010.

Monitoring of compliance with financial consumer protection regulations requires a different set of tools and approaches from that used in prudential supervision. Prudential supervision relies on detailed assessment of performance of individual financial institutions through off-site monitoring and on-site inspections. Monitoring compliance with consumer protection rules requires analyses of the feedback from consumers and assessments of performance of financial

¹³ Data for countries with information for 2010 and 2013. Overall 100 economies in 2013 stated that they have a responsibility for financial consumer protection.

FIGURE 6. MORE COUNTRIES ASSIGNED A LEGAL RESPONSIBILITY FOR FINANCIAL CONSUMER PROTECTION TO FINANCIAL SUPERVISORS AND CREATED DEDICATED TEAMS OR UNITS BETWEEN 2010 AND 2013

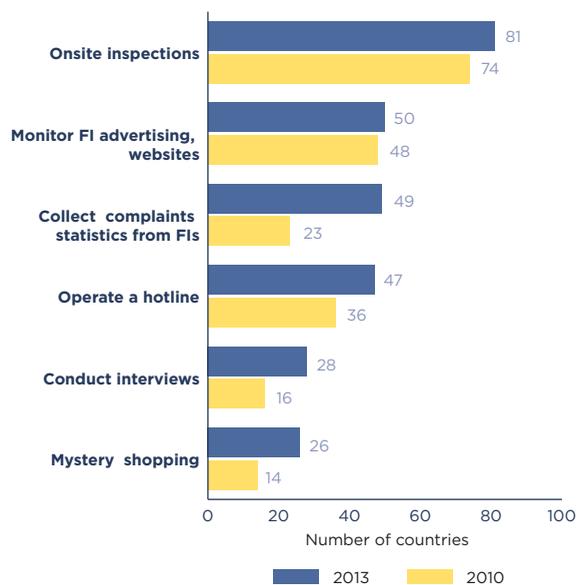


Note: Data for 109 countries with data for 2010 and 2013.

institutions' conduct including disclosure and complaints handling. Between 2010 and 2013, more countries started using a broader range of supervisory tools such as monitoring financial institutions websites (50 compared to 48), collecting and monitoring complaints (49 compared to 23), operating hotlines (47 compared to 36), conducting focus groups (28 compared to 16) and mystery shopping in 26 economies in 2013 compared to 14 in 2010 (Figure 7).

Not surprisingly, agencies with a dedicated team for financial consumer protection and hence more resources were more likely to use a broad range of compliance monitoring tools (Figure 8). For example, 64 percent of agencies with a financial consumer protection team collected statistics on complaints compared to only 11 percent among those without a clear financial consumer protection function. Among agencies with a dedicated unit, 61 percent operated hotlines for complaints and inquiries compared to 11 percent of those without dedicated consumer protection function. Another useful tool for improving transparency and monitoring compliance is price comparison websites publishing rates and fees reported by financial service providers. Among the agencies with dedicated teams or units, 43 percent operated such websites compared to 21 percent among those without a dedicated financial consumer protection function. Such websites provide consumers

FIGURE 7. RESPONSIBLE AGENCIES BROADENED THE RANGE OF COMPLIANCE MONITORING TOOLS BETWEEN 2010 AND 2013, ESPECIALLY IN TERMS OF COLLECTING STATISTICS ON THE NUMBER OF COMPLAINTS



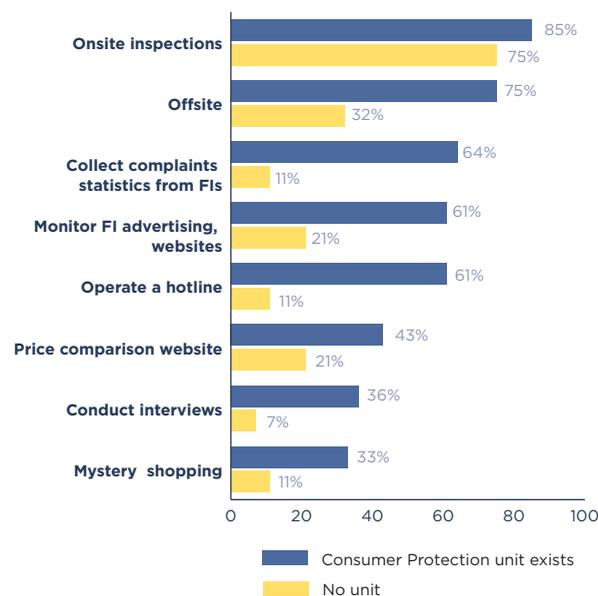
Note: For 97 agencies with responsibility for financial consumer protection and data in 2010 and 2013.

with the means to compare the costs (or returns) and terms of similar financial products. In addition, they also have a positive impact on financial services providers ability to compete by offering better products and services rather than by taking advantage of poorly informed consumers.

To make supervision effective, dedicated resources are necessary regardless of the institutional model chosen by the country. There is also a need for more identification of the most effective approaches and models for compliance monitoring in financial consumer protection as well as the effective coordination mechanisms between prudential supervision staff and those responsible for financial consumer protection.

Survey responses also suggest that regulatory powers and the range of enforcement actions regulatory agencies can take have expanded in the past three years (Figure 9). Issuing warnings and imposing fines and penalties are the most common forms of action, though often derived from the authorities existing under prudential regulations. Public notices of violation are found to be an effective deterrent, but despite a marked increase, relatively few countries practice this ap-

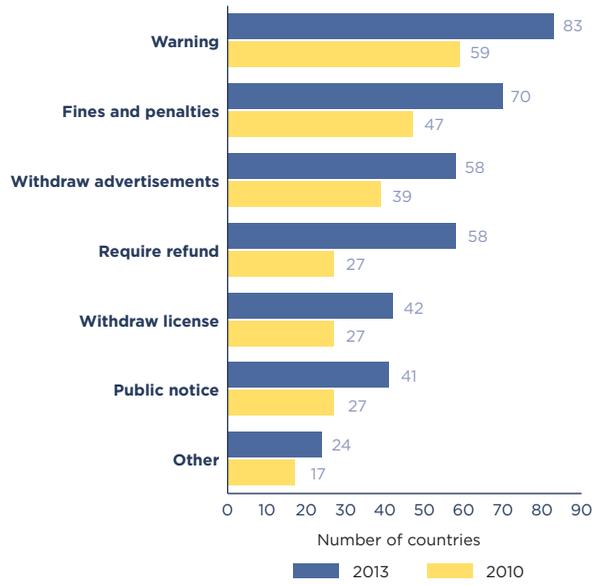
FIGURE 8. AGENCIES WITH DEDICATED UNITS OR TEAMS USE A BROADER RANGE COMPLIANCE TOOLS BEYOND ONSITE INSPECTIONS



Note: For 100 agencies with responsibility for financial consumer protection in 2013.

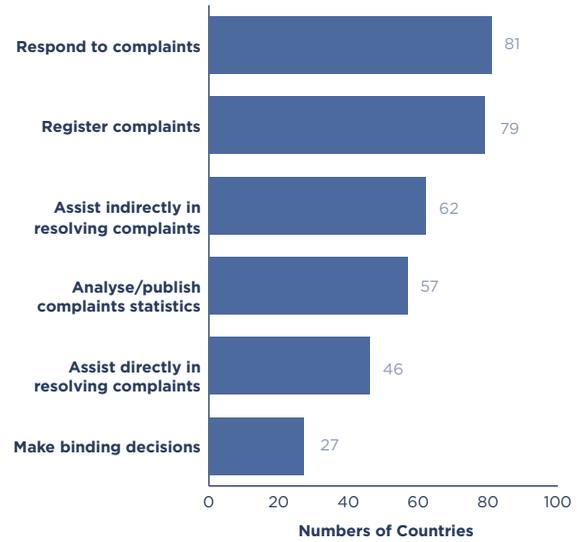
proach, 41 according to 2013 data. The majority of supervisory agencies collect complaints and have a responsibility to respond to complaints (81) and register complaints (79). At the same time, a much smaller number of agencies have the authority for assisting directly in resolving complaints or making binding decisions in case of disputes (Figure 10).

FIGURE 9. ENFORCEMENT POWERS WERE EXPANDED IN A NUMBER OF COUNTRIES



Note: Based on 97 economies with a responsibility for financial consumer protection and data in 2010 and 2013.

FIGURE 10. MOST SUPERVISORS COLLECT AND MONITOR COMPLAINTS THOUGH FEW HAVE AN AUTHORITY FOR DIRECTLY RESOLVING COMPLAINTS OR MAKING BINDING DECISIONS



Note: For 100 agencies with responsibility for financial consumer protection in 2013.

4 FAIR TREATMENT

G20 HIGH LEVEL PRINCIPLES ON FINANCIAL CONSUMER PROTECTION. PRINCIPLE 3:

All financial consumers should be treated equitably, honestly and fairly at all stages of their relationship with financial service providers.

WORLD BANK GOOD PRACTICES FOR FINANCIAL CONSUMER PROTECTION:

The law specifically prohibits the use of fraudulent sales practices such as misleading advertising in the marketing of financial products and services.

Financial institutions are prohibited from employing abusive collection or debt recovery practices against their customers.

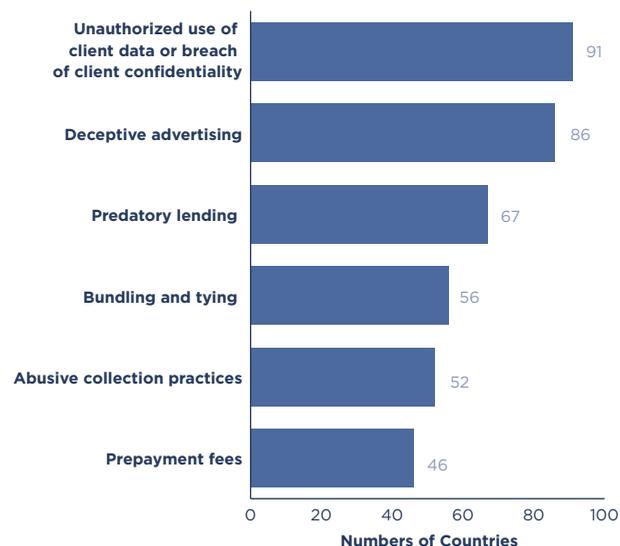
Financial institutions are required to protect the confidentiality and technical security of customer data.

WORLD BANK GLOBAL SURVEY FINDING

The legal framework in most countries provides broad provisions on fair treatment, but less than half of economies have financial industry specific provisions.

The World Bank Global Survey asked respondents to identify whether there are provisions in the legal framework that address fair treatment (Figure 11). Protection of the confidentiality of client data and restrictions on deceptive advertising are present in most countries. Confidentiality provisions are often covered by bank secrecy provisions in financial legislation or by data protection legislation where it exists. Deceptive advertising rules are also part of the broader legislation of consumer protection and fair competition applying to all products and services. A smaller number of countries have financial services related fair treatment provisions. Only 46

FIGURE 11. PROVISIONS ENSURING DATA CONFIDENTIALITY AND RESTRICTING DECEPTIVE ADVERTISING ARE MORE COMMON THAN FINANCIAL INDUSTRY SPECIFIC PROVISIONS SUCH AS COLLECTION PRACTICES OR BUNDLING OF PRODUCTS



Note: Based on responses from 114 economies in 2013.

economies (40%) had rules on prepayment fees, 52 (45%) on restricting abusive protection practices and 56 (49%) on bundling of financial products, mostly loans and insurance.

5 DISCLOSURE

G20 HIGH LEVEL PRINCIPLES ON FINANCIAL CONSUMER PROTECTION. PRINCIPLE 4:

Financial services providers and authorized agents should provide consumers with key information that informs the consumer of the fundamental benefits, risks and terms of the product . . . Appropriate information should be provided at all stages of the relationship with the customer . . . Standardized pre-contractual disclosure practices (e.g., forms) should be adopted where applicable and possible to allow comparisons between products and services of the same nature.

WORLD BANK GOOD PRACTICES FOR FINANCIAL CONSUMER PROTECTION:

For all financial products or services, consumers receive a short one- or two-page summary statement (or electronic equivalent), presented in a legible font and written in plain language, describing the key terms and conditions, including recourse mechanisms, applicable to the financial product or service.

Before a consumer purchases a financial product or service, the financial institution provides a written copy of the institution's general terms and conditions, as well as the specific terms and conditions that apply to the product or service.

Financial institutions prepare regular statements for each customer account regarding key details of customer financial transactions as well as written (or electronic) confirmations of the terms of each transaction.

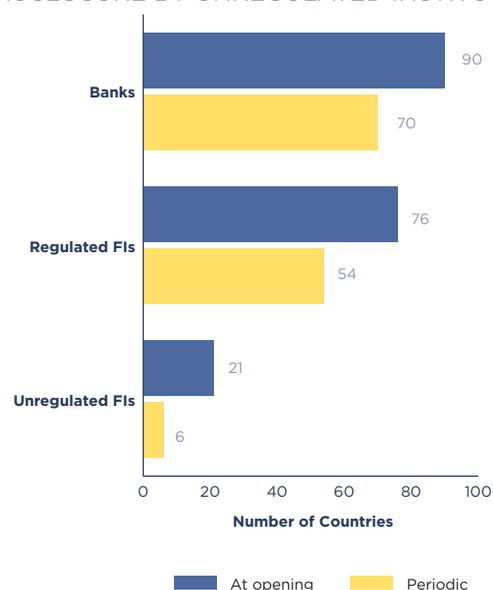
As early as possible, customers are individually notified in writing (or by electronic means) of changes in interest rates, fees, and charges or other key terms and conditions of their financial products or services.

WORLD BANK GLOBAL SURVEY FINDING

Disclosure requirements at opening are more common than periodic disclosure. Few countries have requirements for disclosure by unregulated institutions.

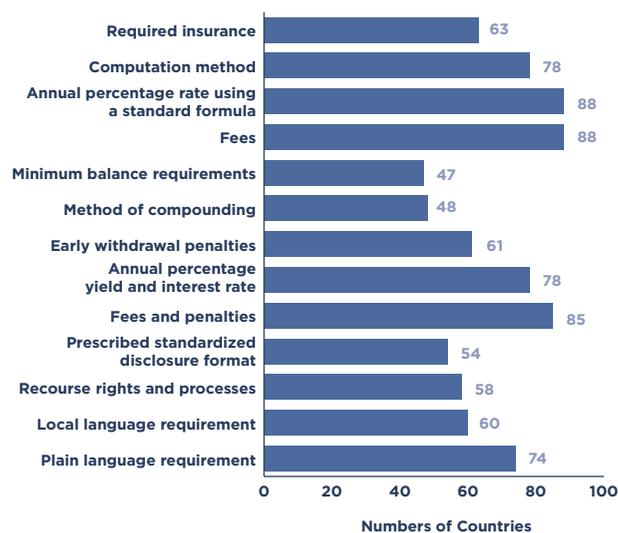
The World Bank Global Survey asked a set of questions on the contents of mandatory disclosure on deposit and credit services at opening and on a periodic basis. The results show that the requirements for mandatory disclosure at account opening are present in the majority of jurisdictions (Figure 12). Banks are required to disclose terms and conditions at account opening in 90 economies (79%) and regulated financial institutions in 76 (67%). Only in a handful of economies are

FIGURE 12. DISCLOSURE REQUIREMENTS AT OPENING ARE MORE COMMON THAN PERIODIC DISCLOSURE. FEW COUNTRIES HAVE REQUIREMENTS FOR DISCLOSURE BY UNREGULATED INSTITUTIONS



Note: Based on responses from 114 economies in 2013.

FIGURE 13. DISCLOSURE AT OPENING



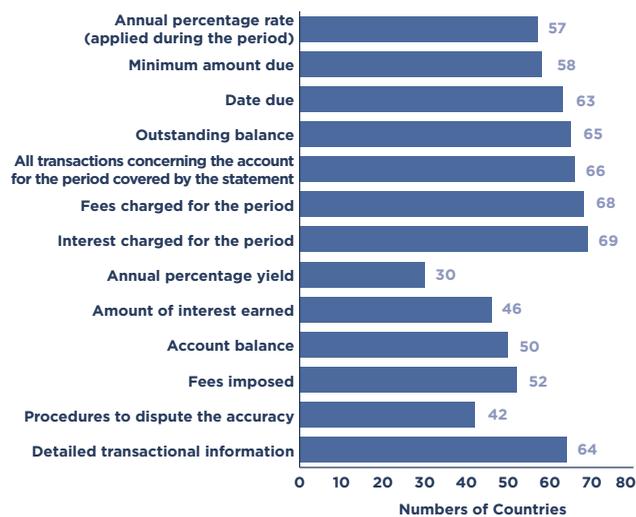
Note: Based on responses from 114 economies in 2013.

there requirements for disclosure by unregulated financial institutions. A number of countries, including Italy, Oman, and Saudi Arabia, clarified that all financial service providers are regulated and hence this question does not apply.

The structure of financial supervision in most jurisdictions implies that financial regulators do not have a mandate to issue requirements for the institutions they do not supervise. In cases in which a general consumer protection framework exists, the disclosure by unregulated providers may be governed by those laws. The variations in disclosure standards for different types of providers of credit services may distort the market and confuse the consumers. The efforts to harmonize disclosure standards across various groups of regulated and unregulated providers of similar financial services are an important part of reform agendas in many countries. The focus on a product rather than the institution providing it is one approach. Consumer credit legislation implemented in a number of European countries aims to level the playing field and put in place a common standard of disclosure across different groups of providers of financial services. This approach also allows for more specific guidance, because disclosure terms need to be tailored for different groups of financial products and are proportional to the risks involved.

The survey results show that disclosure of terms and conditions at opening is far more common than the requirements for periodic disclosure (Figures 13 and 14). Periodic disclosure is especially important for certain products such as credit cards and debit-card-linked accounts where the cost depends

FIGURE 14. PERIODIC DISCLOSURE



Note: Based on responses from 114 economies in 2013.

on the usage. Periodic disclosure not only serves to inform the consumer, but is also an important tool in detecting fraud or mistakes. As technology improves and more customers rely on Internet banking, the requirement for paper statements may be relaxed. But the contents of the periodic disclosure and the rights of access need to be clearly defined.

Most economies have requirements to disclose rates and fees for deposit and credit services. More economies put specific disclosure requirements at opening for credit products, especially in relation to credit cards, than for deposit products. Periodic disclosures on credit products, mostly credit cards, are more common than on deposit products. About half of the economies 54 (47%) stated that there is a prescribed standardized disclosure format in place. The debate and research on the effectiveness of alternative forms of disclosure is ongoing.

The Truth in Lending Act of 1968 introduced the annual percentage rate (APR) disclosure in the United States for the first time and the efforts to improve disclosure continued since then. The decades of research and results of extensive consumer testing summarized in a recent article by Federal Reserve indicate that some forms of disclosure are more effective than others.¹⁴ The study found that minor differences in language and design features of the disclosure form can have

¹⁴ Jeanne M. Hogarth and Ellen A. Merry, 2011, "Designing Disclosures to Inform Consumer Financial Decision-making: Lessons Learned from Consumer Testing," *Federal Reserve Bulletin* August 2011 Vol. 97, No. 3.

effects on consumer's understanding of disclosure. Repeated studies show that many consumers find it difficult to understand annual percentage rates (APR), which shows in a single rate the applicable interest rate and mandatory fees and enables comparison across providers compared to other forms of disclosure. While it is important to ensure that the total cost of the financial product is disclosed to enable comparability, there are mixed results on the effectiveness of alternative forms of disclosure such as annual percentage rate and further refinements are needed based on consumer testing.¹⁵

There is an indication that presentation of terms matter and graphics, titles and boxes all could influence the understanding of the terms presented. The use of standard templates referred to as a key-facts statement such as the "Schumer Box" used for disclosure in credit card solicitations in the United States indicates that familiarity with the format may make it easier for consumers to understand and compare terms across providers. The Consumer Credit Directive in Europe also introduced a Standard European Consumer Credit Information form enabling comparison of terms across all providers in

member countries. While there is a discussion on the need to enable a degree of flexibility to reflect specific features of certain products, the need for broader minimum standards for disclosure is not in doubt. When Peru embarked on improving financial disclosure, the survey of providers showed that there were over 4,000 different terms in use to describe various financial terms. A standard dictionary reduced the number of terms to 50 and brought in consistency in disclosure.

Effective monitoring of compliance with disclosure standards is required to ensure that providers follow the rules. Price comparison websites mentioned earlier are also an important element of improving transparency and disclosure in the financial markets. Financial education efforts are necessary to improve the basic understanding of financial concepts by consumers. Even with these measures however, disclosure has its limits and the question is whether additional and more proactive measures of consumer protection are in order.

15 Various assessments by FSA in the UK be found at www.fsa.gov.uk/pages/Library/research/Consumer/index.shtml. In Canada *Les Études de Marché Créatec*, 2008, *Qualitative Testing of Proposed MasterCard Plain Language Application Form* (Ottawa: FCAC, May), www.fcac-acfc.gc.ca/eng/resources/PDFs/2008PlainLanguage-eng.pdf. Aging Agendas Social Policy Consultants, 2004, *Superannuation Fees Disclosure Consumer Testing Report*, prepared for the Association of Superannuation Funds of Australia (January), www.superannuation.asn.au/ArticleDocuments/116/AgeingAgendas&ASFA_SuperFeesDisclosure.pdf.

6 RESPONSIBLE LENDING

G20 HIGH LEVEL PRINCIPLES ON FINANCIAL CONSUMER PROTECTION. PRINCIPLE 6:

Financial services providers and authorized agents should have as an objective to work in the best interest of their customers and be responsible for upholding financial consumer protection . . . Depending on the nature of the transaction and based on information primarily provided by customers, financial services providers should assess the related financial capabilities, situation and needs of their customers before agreeing to provide them with a product, advice or service.

WORLD BANK GOOD PRACTICES FOR FINANCIAL CONSUMER PROTECTION:

Before a financial institution makes a recommendation to a consumer regarding a specific financial product or service, it gathers sufficient information from the customer to ensure that the product or service is likely to meet the needs and capacity of that consumer.

WORLD BANK GLOBAL SURVEY FINDING:

In 77 percent of economies, borrowers are required to assess borrower ability to repay and 35 percent of economies have explicit limits restricting the amount of loans or debt service in relation to income for certain products such as credit cards and mortgages. The limited empirical research however does not provide clear guidance on the effectiveness of such limits.

The issues of over-indebtedness, affordability and responsible lending became a subject of much debate in the aftermath of the recent subprime crisis in the United States. High levels of indebtedness by households arguably borrowing beyond their means raised questions on the effectiveness of the existing

consumer protection framework as well as incentives systems among financial service providers.

In theory, rational informed individuals were not expected to borrow beyond their means. Lenders were not expected to grant a loan if they had doubts about repayment. But practices appeared to be different. Recent research from behavioral economics provides some insights on consumer decisions.¹⁶ A review of practices among financial service providers also shows that misaligned incentives for financial service providers play a role. Compensation for loan officers based on loan volumes when an originating institution does not eventually carry the credit risk means there is less concern for repayment ability. Revenue generation from late fees and penalties can be an important source of income and a lender may prefer a borrower who pays late. Lenders may also overestimate the capacity to repay if there is no adequate credit information system to check information on the borrower's existing debts or reliable means to verify income.

One element of the responsible business conduct that the global survey covered is a policy on affordability or limiting of over-indebtedness. The survey asked whether there were explicit limits set by regulations such as loan-to-income ratio and whether regulations require lending institutions to assess borrower ability to repay the loan, but no specific limits are set. The majority of economies—88 of 114 (77 %)—stated that either one or both of these measures are present. Among those with requirements, slightly more than half, 48 economies (54%) had requirements for lenders to assess the ability to repay but no explicit limits, and 40 economies had explicit limits in place. The increase in the number of countries with explicit limits from 20 in 2009 to 40 in 2013

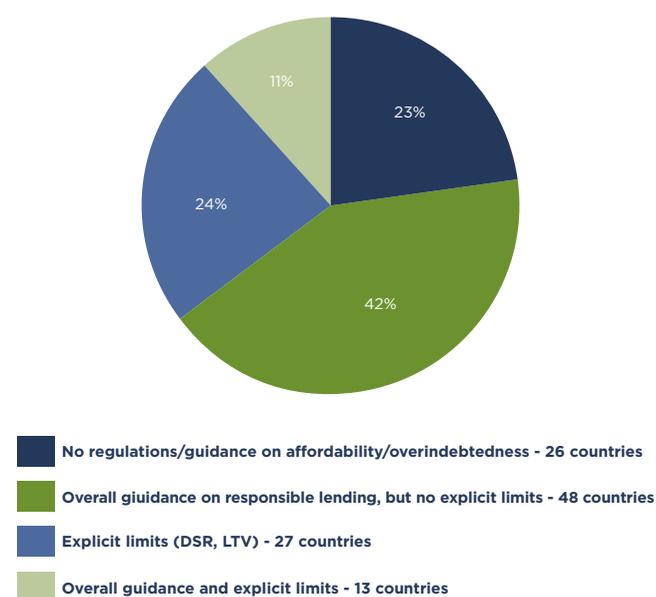
16 See World Bank, 2013, *Global Financial Development Report 2014: Financial Inclusion*, World Bank, Washington DC; Ardic, Ibrahim, and Mylenko, 2011, *Consumer Protection Laws and Regulations in Deposit and Loan Services: A Cross-Country Analysis*, World Bank Policy Research Working Paper 5536.

is striking and reflects a sea change in the outlook to financial consumer protection and financial sector regulation in general in the aftermath of the financial crisis.

In most countries, the requirement to assess a borrower's ability to repay, without setting explicit limits in relation to income or value of the financed asset is part of prudential regulations and guidance on risk management to financial institutions. These regulations set the requirement in broad terms and do not necessarily provide detailed instructions or methodology on assessing affordability. As part of the implementation of the Consumer Credit Directive, a number of EU countries expanded guidance on assessing affordability and suitability of financial products. One of the elements of such regulations, for example in Bulgaria, Czech Republic, and Greece, is a requirement to consult relevant databases such as credit information registries to obtain information on existing commitments of the loan applicant. In Ireland, for variable interest rate loans, lenders are required to conduct a stress test on the consumer ability to repay due to a change in interest rate.

Reviewing the regulations that set explicit limits shows that usually the limits are applied selectively for specific loan categories such as mortgages, consumer loans, credit cards

FIGURE 15. MOST COUNTRIES DO NOT SET EXPLICIT LIMITS AS PART OF AFFORDABILITY OR REDUCING OVER-INDEBTEDNESS GUIDANCE



Note: Based on responses from 114 economies in 2013.

or microfinance loans. These explicit limits are also mostly defined as part of prudential regulations often in relation to loan risk classification and provisioning requirements and address consumer protection and risk management concerns. For example, Bolivia requires higher general provisions and establishes a debt-service-to-income ratio of 15 percent for salaried employees. In Japan, the Money Lending Business Act provides that no new loans may be made when the existing amount outstanding exceeds one-third of the borrower's annual income. In Malawi, non-deposit taking microfinance institutions are required to restrict loan repayments of salaried employees to 50 percent of take-home pay. In Pakistan, monthly amortization payments of consumer loans should not exceed 50 percent of the net disposable income of the prospective borrower. In Saudi Arabia, the debt-service-to-income ratio cannot exceed 33 percent for working persons and 25 percent for pensioners.

A number of countries set limits for mortgage lending. In Hong Kong, specific limits relate to mortgage loans and include loan-to-value ratios of 20 to 40 percent depending on the source of income and whether this is a first mortgage. The rules also set a debt service ratio in relation to income depending on the size of the mortgage, residential or commercial purpose and source of income. In Eastern Europe, where foreign currency exposures constitute an important risk, Hungary put in place loan-to-value limits for mortgages and vehicle financing in the range of 50 to 80 percent depending on loan currency. Romania requires stress tests for exchange rate and interest rate changes on borrower's ability to repay and sets a loan-to-value limit of 60 to 85 percent depending on the currency of financing.

In line with rapid growth of credit card users, a number of countries placed explicit limits relating to credit card lending. In Indonesia, no more than two credit cards are allowed for clients with income below a certain threshold. In Panama, the maximum borrowing limit for credit cards is set to 3 times monthly income. In Thailand, the approved credit line for each credit card holder and each personal loan by a regulated institution shall not exceed 5 times the average income per month. And in Taiwan, the sum of approved lines of credit plus the total balance of the credit card applicant's unsecured debts with all financial institutions cannot exceed 22 times the average monthly income of the applicant within the most recent year.

The variation of definition of the limits and thresholds reflect in part domestic-economy contexts and the nature of the concern, be it currency risk in mortgage finance, anticipation of a property bubble, rapid expansion of credit card lending

or raising over-indebtedness. There is very little empirical research on whether these quantitative limits work or justification for setting the value of the limits. A comprehensive assessment conducted by the UK's Financial Service Authority as part of mortgage market reform is one study that presents an empirical analysis of the correlations between debt service ratio and probability of impairment.¹⁷ The study found that debt-service ratio was not a strong predictor of loan impairment based on the mortgage data they had available, resulting in a recommendation not to set any explicit limits. There are a number of challenges and data constraints in estimating loan affordability. Further analytical work is needed to better understand the empirical relationship among debt-service ratios, loan-to-value ratios and loan performance. The results are likely to differ across countries and by asset class. Without better understanding of these measures, the concern remains that the imposition of strict debt-service and loan-to-value ratios could restrict access to finance, and push lower income borrowers into informal sector.

17 U.K. Financial Services Authority, "Mortgage Market review: proposed package of reforms," Consultation Paper CP11/31 http://www.fsa.gov.uk/pages/Library/Policy/CP/2011/11_31.shtml

7 DISPUTE RESOLUTION AND RECOURSE

G20 HIGH LEVEL PRINCIPLES ON FINANCIAL CONSUMER PROTECTION. PRINCIPLE 9:

Jurisdictions should ensure that consumers have access to adequate complaints handling and redress mechanisms that are accessible, affordable, independent, fair, accountable, timely and efficient. There are a number of mechanisms for handling complaints and resolving disputes within modern financial system.

WORLD BANK GOOD PRACTICES FOR FINANCIAL CONSUMER PROTECTION:

Every financial institution has a designated contact point with clear procedures for handling customer complaints, including complaints submitted verbally.

Consumers have access to an affordable, efficient, respected, professionally qualified and adequately resourced mechanism for dispute resolution, such as an independent financial ombudsman or equivalent institution with effective enforcement capacity.

Statistics of customer complaints, including those related to breaches of codes of conduct, are periodically compiled and published by the ombudsman or financial supervisory authority.

WORLD BANK GLOBAL SURVEY FINDING

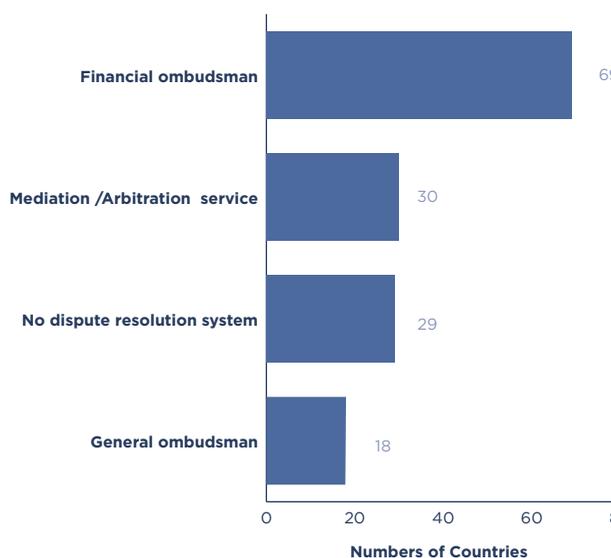
Financial service providers in 73 percent of economies are required to implement procedures and processes for resolving customer complaints. Alternative dispute resolution mechanisms such as financial ombudsmen or similar institutions exist in 75 percent of economies. In about one-third of jurisdictions, the function is performed by a supervisory agency.

The first line of defense in resolving disputes between financial service users and providers are the complaint-handling mechanisms within financial service providers. Financial institutions should have mechanisms to receive and handle complaints from their customers. According to the 2013 survey results, the majority of jurisdictions—83 out of 114 (73%)—have a requirement in place for financial institutions to implement procedures and processes for resolving customer complaints. The number of countries with such requirements increased dramatically between 2010 and 2013 from 55 to 80 for the countries for which survey data for both years is available. To monitor the functioning of complaints handling by financial institutions, supervisors can collect the statistics on complaints received and addressed by financial service providers. As discussed in section 3, a relatively small but increasing number of supervisors report collecting complaints statistics (49 in 2013 compared to 23 in 2010, Figure 7). Complaints statistics monitoring can be an important indicator of the emerging problems in the financial sector and can help identify issues relating to specific institutions or products.

If a financial institution and a consumer cannot resolve a dispute, they can turn to courts for resolution. Dispute resolution through courts, however, is costly and time-consuming. Alternative dispute resolution systems such as financial ombudsmen or mediation services seek to assist the parties in resolving a dispute out of court. The key principles of operation for such mechanisms include independence, transparency, fairness and effectiveness. In addition to helping resolve disputes, financial ombudsmen can deal with consumer enquiries and share the lessons from their work to help governments, regulators, financial businesses and consumers improve the financial consumer protection framework.¹⁸

¹⁸ Thomas, David, and Francis Frizon, 2012, “Resolving disputes between consumers and financial businesses: Fundamentals for a financial ombudsman,” World Bank.

FIGURE 16. MOST COUNTRIES HAVE A THIRD PARTY DISPUTE RESOLUTION MECHANISM IN PLACE

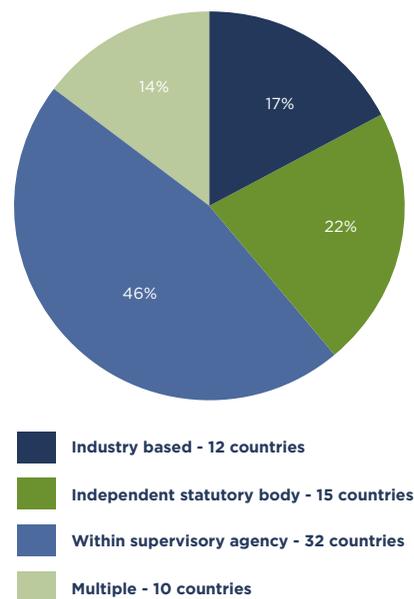


Note: Based on responses from 114 economies in 2013.

The survey asked respondents to indicate whether there was a system that allowed a customer of a financial institution to seek affordable and efficient recourse with a third party such as a supervisory agency, a financial ombudsman or equivalent institution in the event that the customer’s complaint was not resolved to the customer’s satisfaction under the internal procedures of the relevant financial institution. The majority of economies—85 (75%)—operate some form of an alternative dispute resolution mechanism and often parallel mechanisms exist (Figure 16).

The countries that reported having a financial ombudsman or similar entity were asked to classify the existing mechanisms into one of three broad categories: (i) independent statutory body, (ii) industry-based, or (iii) an entity or function within a supervisory agency. An independent statutory body is established by legislation and usually funded by its members or a combination of member contributions and allocation from a central government or a responsible regulatory agency budget. An industry-based, dispute-resolution mechanism is formed by an industry association or its members and is financed by association or member contributions. Independent statutory bodies and industry-based ombudsmen are mostly found in European countries and high-income OECD countries. For most economies (41 out of 69) that had a financial ombudsman or a similar entity, it was hosted by a regulatory agency (Figure 17). In this case, an agency responsible for financial consumer protection also has a function to collect and

FIGURE 17. IN A THIRD OF ECONOMIES, FINANCIAL SUPERVISORS OPERATE OMBUDSMAN-LIKE ENTITY



Note: For 69 economies with financial ombudsman or similar institutions.

respond to complaints and assist in the resolution of disputes. The activities of such an entity are most often funded from the budget of the regulatory agency.

The analyses of the functions performed by different types of ombudsmen show that these are largely similar across countries with the primary focus on receiving and responding to complaints and directly assisting in resolving disputes. Not surprisingly, supervisor-operated, dispute-resolution mechanisms are more likely to assist dispute resolution indirectly by involving regulatory agencies compared to independent or industry-based ombudsmen. Overall, about half of respondents stated that the dispute resolution mechanism can make binding decisions on a case. There is a slight variation across the types, with industry-based ombudsmen being less likely to have powers for binding decisions (41%) and independent ombudsmen more likely to have such powers (63%), reflecting the nature of legal framework. Further review shows that the structure and authority of an ombudsman or equivalent institution varies greatly among countries, making any generalizations difficult. As an example, an independent ombudsman in Italy, *Arbitro Bancario Finanziario* (ABF), makes decisions that have the effect of recommendations and are not binding on either party. However, if the institution does not comply with an ABF decision its breach is published on the website of ABF and at the expense of the institution in two



national newspapers. The decisions of the UK ombudsman are binding on both parties but only once the consumer has agreed to the suggested award.

Continued international efforts focus on identifying the key principles of operation and promoting best practices in operation of dispute resolution mechanisms. As the survey shows, regardless of the form, there is a fair amount of homogeneity of the functions performed by these institutions. The specific choice of locating the service within a supervisory agency, having a statutory entity, having an industry based organization, whether having a single ombudsman for all services or industry specific entities, all depends on the specific situation within a country and is somewhat secondary, as long as the key principles are incorporated.

8 FINANCIAL EDUCATION

G20 HIGH LEVEL PRINCIPLES ON FINANCIAL CONSUMER PROTECTION. PRINCIPLE 5:

Financial education and awareness should be promoted by all relevant stakeholders and clear information on consumer protection, rights and responsibilities should be easily accessible by consumers. Appropriate mechanisms should be developed to help existing and future consumers develop the knowledge, skills and confidence to appropriately understand risks, including financial risks and opportunities, make informed choices, know where to go for assistance and take effective action to improve their own financial well-being.

WORLD BANK GOOD PRACTICES FOR FINANCIAL CONSUMER PROTECTION:

A broad-based program of financial education and information is developed to increase the financial literacy of the population.

The financial literacy of consumers and the impact of consumer empowerment measures are measured through broad-based household surveys that are repeated from time to time to see if the current policies are having the desired impact on the financial marketplace.

WORLD BANK GLOBAL SURVEY FINDING

Financial supervisors in 71 percent of economies were involved in financial education activities. The activities mostly involved improving public awareness as well as developing training materials and providing training on a broad range of financial topics.

Effective consumer protection frameworks and institutional structures are necessary but not sufficient conditions for effective

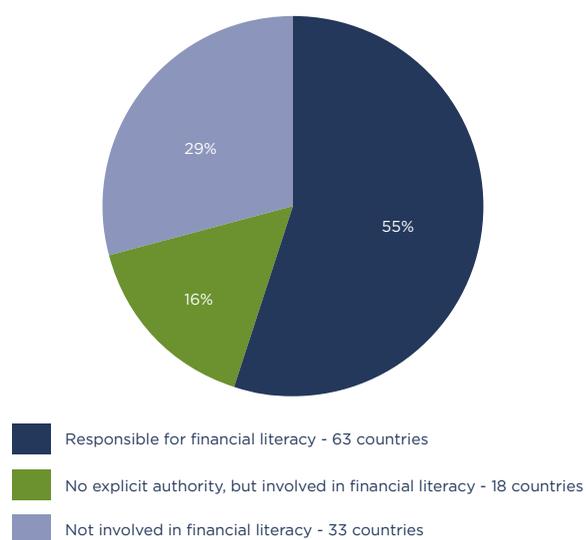
protection of the interests of the consumer of the financial services. Only informed and educated users of financial services can be fully empowered by the opportunities modern financial system provides. Increasing awareness of the importance of financial literacy and capability and the crucial role public policy must play in this area have resulted in a number of international initiatives and extensive reforms at a national level.

In addition to the High-Level Principles on Financial Consumer Protection and the High-level Principles on National Strategies for Financial Education, the G20 state that “[a]ll potentially relevant public stakeholders should be involved, to the extent possible, including ministries (and in particular the Ministries of Finance and Education), the Central Bank, the financial regulator(s) and supervisor(s), as well as other public national, regional and local authorities.”

The survey asked a number of questions on the role financial regulators play in promoting financial education in their countries (Figure 18). The majority of regulators, in 63 economies (55%), responded positively to the question, “Does your agency have the responsibility to implement and/or oversee any aspect of financial education/literacy?” In 18 more economies (16%), financial supervisory agencies do not have an explicit mandate for financial education and literacy but introduced some elements of financial education within their broader mandate for financial stability or financial development.

The activities undertaken by regulators fall in two broad categories: improving public awareness on financial sector topics and working directly with financial service providers and users to deliver financial education. The activities to improve awareness include publication and posting on agency websites various educational materials on the role of the financial system and its various institutions and guidance to consumers on various financial consumer products. The vast majority of respondents indicated that this was part of their duties and

FIGURE 18. MOST FINANCIAL AUTHORITIES PROVIDE FINANCIAL LITERACY MATERIAL, OFTEN WITHIN A BROADER MANDATE FOR FINANCIAL STABILITY AND DEVELOPMENT



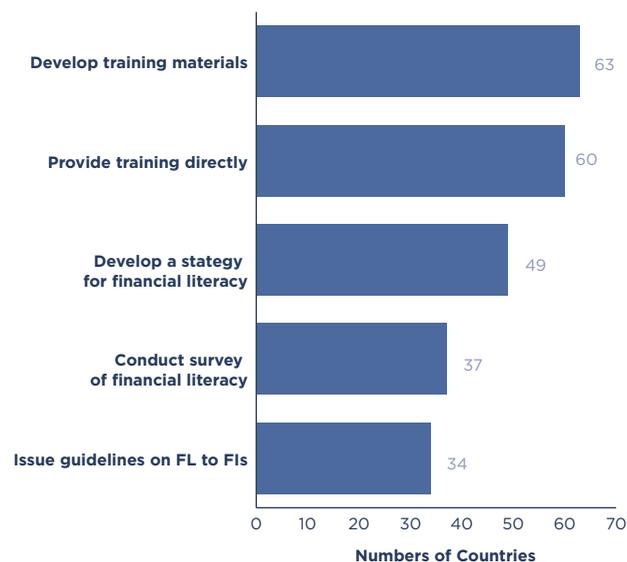
Note: Based on responses from 114 economies in 2013.

was managed by communications department or as part of the activities of a financial education unit within a financial regulator.

The survey asked a question concerning more targeted financial education efforts of supervisors (Figure 19). Among the supervisors indicating that they were involved in financial education activities, most were focused on designing training materials (63 economies or 78%) and providing training directly (60 economies or 74%). Supervisors in 49 economies (60%) indicated that they developed and monitored implementation of strategies for financial literacy, education or capability. Slightly less than half (46% or 37 economies) indicated that they conduct a survey of financial capability/literacy and publish regular reports. Only 34 regulators (42%) stated that they issued guidelines to the providers of financial services on financial education/literacy.

Delivery of financial education requires the coordination of a number of government agencies including not only financial regulators but education ministries and often social protection and welfare ministries to address the needs of disadvantage groups. A national strategy for financial education can be an effective platform to coordinate the efforts of various government agencies, ensure efficient allocation of budget resources and put in place a systematic approach for delivering financial education in a country through variety of channels.

FIGURE 19. PROVIDING TRAINING, AWARENESS AND DEVELOPING TRAINING MATERIALS ARE THE MOST COMMON



Note: Based on responses from 114 economies in 2013.

The High-level Principles on National Strategies for Financial Education define a national strategy for financial education as “a nationally coordinated approach to financial education that consists of an adapted framework or program that (1) recognizes the importance of financial education, including possibly through legislation, and defines its meaning and scope at the national level in relation to identified national needs and gaps; (2) involves the cooperation of different stakeholders and the identification of a national leader or coordinating body/council; (3) establishes a roadmap to achieve specific and predetermined objectives within a set period of time; and (4) provides guidance to be applied by individual programs to efficiently and appropriately contribute to the NS.” Such strategy can be a part of a broader financial inclusion strategy.

A review conducted by OECD in 2012 identified 15 countries that have designed and implemented a national strategy and 21 countries are considering or designing a national strategy.¹⁹ In this year, the World Bank Global Survey summarized here and covering financial regulators in 114 countries, 49 responded that their responsibilities included “developing

19 Grifoni, Andrea, and Flore-Anne Messy, 2012, “Current Status of National Strategies for Financial Education: A Comparative Analysis and Relevant Practices,” OECD Working Papers on Finance, Insurance and Private Pensions No. 16. The paper focused on a review of relevant information for 47 countries.

and monitoring implementation of a strategy for financial literacy/education/capability.”²⁰

There is no one-size-fits-all solution and the approaches differ greatly among countries. Other coordination mechanisms such as memorandums of understanding signed between relevant agencies or working committees to coordinate the work of various agencies are present in a number of countries. The work on financial education is led by financial regulators in some countries, including Bank Negara in Malaysia and ASIC in Australia, by ministries of finance in others, such as South Africa and Netherlands, or ministries of education, as in Latvia and Lithuania.

The research on the effectiveness of various financial education approaches is ongoing. Financial education programs vary greatly in terms of content, audience and delivery channels. Classroom training for students in school, explanatory sessions for first-time home buyers on getting a mortgage provided by a lender, computer games teaching to save or invest and television shows highlighting the risks of borrowing beyond one’s means are just some examples of financial education programs countries put in place. Measuring the effects and generalizing the results from these interventions for broader policy formulation is a challenge.

This year, the World Bank Global Financial Development Report provided an overview of the results of impact analysis of financial education programs.²¹ Drawing on over 100 studies, the report finds that financial capability is closely aligned with the level of general education and programs targeting specific groups for example those with lower levels of education have measurable effect. There is evidence that school-based programs can improve knowledge of financial concepts and

influence behavior. Financial education delivered at teachable moments such as when a consumer is in the process of making a financial decision, such as obtaining a mortgage or restructuring debts, appear more effective. Combining financial literacy training with other interventions such as financial counseling and reminders are found more effective. The objective of improved financial education is changed behavior and thus it is not just the knowledge of financial concepts that matters but a change in habits and behavior. In this respect, the use of social and mass media, for example, by portraying characters dealing with various financial challenges in movies and popular television shows, have a potential. Recent work undertaken by the World Bank and funded by the Russian Federation on measuring financial capability and the effectiveness of financial education included large-scale evaluations of various financial education initiatives and resulted in the development of a toolkit for the evaluation of financial capability programs.²²

Financial regulators can play an important role in facilitating financial education. From a supervisory perspective, there is a need for identifying best practices for the approaches that financial regulatory agencies can take to enhance overall financial education efforts by leveraging their role as supervisors of financial institutions. Some of the debated issues now include whether providers of financial education should be regulated, what form can guidance on providing financial advice take and how to ensure that guidance provided by financial institutions is adequate.

20 The survey did not ask respondents to provide information on the details of the mentioned strategies, and it is not possible to determine whether these refer to specific financial education strategies, financial inclusion or broader financial sector development strategies which may have elements of financial education.

21 World Bank, 2013, “Global Financial Development Report 2014: Financial Inclusion,” World Bank, Washington DC.

22 Please see <http://www.finlitedu.org/evaluation/wb/>



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