

# POSITION PAPER



**Draft G20 high-level Principles on financial  
consumer protection**

**OECD Public consultation**

**WSBI views and proposals**

August 2011



## ***Draft G20 high-level Principles on financial consumer protection WSBI views and proposals***

### **General comments**

WSBI believes that a strong commitment towards fair treatment of customers is a very important tool for establishing long-term banking relationships. It is especially true in the aftermath of the global financial crisis, when in many countries the trust and confidence of the general public in the banking sector is low. Consumer protection is also an important public policy objective, contributing to public confidence and keeping inflation under check. WSBI therefore welcomes the G20 initiative to develop high-level principles on financial consumer protection, and thanks the OECD for the opportunity to contribute to the drafting phase.

WSBI is convinced that an efficient consumer policy should be based on two main pillars: financial education and transparent information on one side, and competition on the other. These aspects are central to foster the confidence of customers and help them make informed financial decisions and select the products best suited to their needs. Reaching this objective requires a responsible attitude from both parties, financial services providers who will assist consumers in making good financial decisions, and consumers themselves, who will provide accurate and comprehensive information on their personal situation. Competition is the other important dimension of consumer policy, with a positive impact on prices, quality of service, and choice of products. However, end consumers will fully benefit from competition provided that all financial players can operate in an open and fair competitive environment. Besides, fostering competition should be a driver for market innovation and improvement of service, and should not come at a disproportionate or undue cost for financial service providers.

A comprehensive consumer policy combined with an overall responsible approach to doing business is part of the tradition of the “stakeholder” model of WSBI members. The principle of fair and clear relations with customers is an integral part of the WSBI Charter on Responsible Business<sup>1</sup>. It reflects the commitments of WSBI members to build long-standing relationships with clients and to secure customer confidence and satisfaction.

Consumer trust and protection has always been a main issue of concern and of interest for the whole financial industry and policymakers. The debate became particularly acute over the last years with recent market developments. In times of globalization, new opportunities in terms of new financial products, new instruments and new technologies became available posing new challenges for the consumers such as understanding the risks associated with complex products. This is the main lesson learnt as the crisis in the banking sector has led people to question the stability and reliability of the banking sector.

Consumer protection measures are also of high importance and should be given specific attention in countries where banking with formal institutions is still emerging. The targeted client groups, by definition, come from the most vulnerable and low income segments of the population and the impact of any misbehaviour or abuse by a financial provider has to be particularly taken into account. This is a major challenge for the credibility and the sustainability of the whole financial sector. If not properly addressed, any problem could lead to a long-term mistrust in formal financial institutions and loss of confidence in the banking system altogether.

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<sup>1</sup> [http://www.savings-banks.com/template/event.aspx?id=2246&section=Charter for Responsible Business](http://www.savings-banks.com/template/event.aspx?id=2246&section=Charter%20for%20Responsible%20Business)

## DRAFT FRAMEWORK

WSBI supports the proposed OECD approach and particularly welcomes the specific attention given to low-income and less experienced consumers, as well as the explicit recognition that consumers have rights but also responsibilities.

WSBI suggests turning some of the Principles headings into more explicit and assertive statements, to strengthen the message:

1. ***Financial consumer protection*** legal and regulatory framework
4. Disclosure and transparency ***of information***
9. ***Access to*** complaints handling ***and redress mechanisms***
10. ***Promotion of*** competition ***on financial services markets***

## DRAFT PRINCIPLES

### 1. ***Financial consumer protection*** legal and regulatory framework

In order to clarify the text of the 2<sup>nd</sup> paragraph and to align it with the footnote 2, the end of the sentence should read "... and be responsive to new products, technologies and ***delivery*** mechanisms."

In the 3<sup>rd</sup> paragraph, the distinction is made between "financial services providers", "their authorized agents" and "advisors". Given the wide disparity of wording used to refer to these different categories of financial intermediaries, and in particular "authorized agents", it would be useful to give a brief description of the status, role and responsibilities of each of them in order to provide clarity and legal security at national level. It would also be valuable to highlight the specificities of "authorized tied agents", which are referred to in Principle 6.

WSBI would like to call the attention on the particular case of non bank agents, or correspondent agents as they are known in Latin America, who are retailers (petrol stations, pharmacies, newspaper shops, grocery stores, lottery kiosks etc) appointed by financial institutions to distribute their products. These alternative distribution channels are promising routes to provide competitive and adapted services to clients and enlarge the outreach to the unbanked and underserved segments, especially in developing countries. Therefore, undue restrictions to the ongoing development of these networks should be avoided. WSBI supports the principle that all market participants who are involved in enabling, delivering or supporting financial services are submitted to some sort of oversight. However, clarification will be needed as to which entities should be regulated, which ones should be licensed or registered, and which ones should be supervised or monitored. It is important that a proportionate approach is taken to support financial inclusion.

The issue of regulatory and supervisory resources will also need to be assessed, especially in low capacity countries to make sure that the selected approach will be efficient.

The 3<sup>rd</sup> paragraph could therefore be adjusted: *Financial service providers, their authorized agents\* (with a footnote with the relevant definition, for example "an authorized agent is an organization/an individual that has been designated by a regulated, licensed and supervised financial institution to provide products and services on its behalf) and advisors that deal directly with consumers should be appropriately regulated and/or submitted to the appropriate oversight, with account taken of relevant service and sector specific approaches."*

### 3. Equitable and fair treatment of consumers

This should be the first principle. WSBI fully agrees with the need to introduce consumer policy as part of the corporate culture of financial service providers. As an example, WSBI would like to mention its Charter for Responsible Business<sup>2</sup> -developed jointly with ESBG, the European Savings Banks Group- which includes the principle of fair and clear relations with customers:

*“In order to build and maintain a long-term relationship of confidence with customers, WSBI/ESBG member savings and retail banks:*

- *Provide clear and honest information on products and services and other terms and conditions of use*
- *Advertise responsibly and ensure the visibility of information on products and services both in the branches and on Internet sites*
- *Provide advice that meets the needs of customers and promote products and services that are appropriate to their personal circumstances and risk profile*
- *Consider all cases of financial difficulty sympathetically*
- *Inform and communicate with customers and deal with customer complaints quickly and efficiently.”*

On this basis, WSBI/ESBG have developed an internal Guidance for their member banks, which outlines the importance of a customer policy that is transposed over all areas of the business and communicated actively internally and externally by a financial institution. It draws inspiration from the experience and best practice in a number of the members of WSBI/ESBG. The Guidance is non-binding and can be implemented in various ways depending on the organisation of the financial institutions and the culture and working methods in any particular country.

Besides, WSBI is actively involved in the Microfinance Consumer Protection initiative, the Smart Campaign, and promotes its core Principles (Avoidance of over-indebtedness, Transparent and responsible pricing, Appropriate collections practices, Ethical staff behaviour, Mechanisms for redress of grievances, Privacy of client data) with its members involved in microfinance activities<sup>3</sup>.

WSBI would like to suggest strengthening that all consumers must benefit from an identical level of security and of protection, whatever the institution they operate with, whether it is a bank, a non bank financial provider, a microfinance institution, a financial cooperative etc, in order to foster broad public confidence, and a level playing for service providers. Whereas prudential requirements can differ according to the institutional status of the financial service provider, identical consumer protection standards should be applicable to all providers of a given financial service. The 3<sup>rd</sup> sentence should therefore be amended as “Consumers should benefit from **identical** levels of financial consumer protection for similar products and services and for similar level of consumers sophistication.”

### 4. Disclosure and transparency of information

WSBI supports the need to provide consumers with clear, sufficient, concise, reliable, comparable, easily accessible, understandable and timely information. Indeed transparent communications enable consumers to make customized choices between different products, based on the information acquired beforehand. Thus, it is important for the banking industry that consumers are conscious of their own financial needs and abilities and take decisions based upon this.

WSBI would like to make clear that better informing customers should not be understood as a call for increasing the quantity of information provided. It is rather the quality of the information provided which has to improve, and be limited to what the consumers actually read and need in

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<sup>2</sup> <http://www.savings-banks.com/template/event.aspx?id=2246&section=Charter for Responsible Business>

<sup>3</sup> <http://www.smartcampaign.org/>

order to understand the product proposed. In this respect it is important to remember that customers' choice is also influenced by behaviours, independently from information and education.

WSBI cannot agree with the reference to “conflicts associated with the authorised agent” in the list of key information which have to be provided to the consumer/investor. In case of any conflict of interest, or suspicion of such conflict, the authorised agent should mention it to the (potential) client at the earliest stage possible of their dialogue and this should stop the development of the envisaged banking relationship. “**Conflicts**” should therefore be deleted from Principle 4.

Clarification of the wording is needed as the concept of the “**material aspects of the financial product/investment**” on which information should be provided is not clear.

WSBI agrees that advice is another important factor in the relationship between consumers and banks but it has to be clearly distinguished from information. While financial institutions should neutrally, fully and appropriately inform consumers, the final decision to opt for a specific financial product should be made by that consumer, based on his or her own needs and circumstances. It should also be made very clear that providing professional advice is a separate service, which the consumer should decide or not to solicit, and to pay for. An obligation to advise imposed on all financial services providers would be detrimental to those customers who would have to pay for a service they do not need and/or did not request.

Principle 4 should therefore be clarified to remove any possible ambiguity:

- mention that “the provision of advice should **follow an explicit request from the customer**”;
- add that “the provision of independent or generic advice services should be promoted, especially for vulnerable groups **as part of financial inclusion support programmes**”. This is a key element which would reflect the need for additional support of disadvantaged groups. Financial advice should come as part of the assistance provided to build up customers' confidence in the formal financial sector and develop their financial capabilities. It should be provided by trusted partners, disconnected from the financial sector but involved in the process of social and financial integration of these categories of people eg. (financial) education structures, community support centres, (micro) business mentoring networks etc.

## 5. Financial education and awareness

WSBI agrees that financial education is a powerful tool, which can contribute to consumers' empowerment. It is true in developed markets, where consumers need to have the skills and confidence to manage and use their money wisely and adequately, particularly since products and services are becoming increasingly sophisticated and complex to assess for the average consumer. In developing countries, the challenge is connected to “bancarisation” and the need to support newly banked clients to efficiently and proactively use their scarce and irregular financial resources. It is also important to enable them to protect themselves from abusive financial practices and prevent them from being overburdened by debt.

WSBI would like to underline that successful financial education efforts require the adoption of a multi-stakeholder approach: all interested parties have to be involved, including representatives of Ministries of Finance, but also of Education, and if relevant of Social affairs/cohesion and of Development, central banks and financial services supervisory authorities, consumers and civil society, through NGOs, especially women groups, churches, community groups, who can act as demultipliers with the targeted groups of people, schools and work through a collaborative process. The financial industry at large should also take part, ie. financial services providers as well

as financial intermediaries, such as money transmitters or banking agents as the first points of contact with the public. They should give assurances that their involvement is done in a fair, transparent and unbiased way;

## **6. Responsible business conduct of financial services providers and their authorised agents**

WSBI shares the view that an efficient financial consumer protection policy requires commitment on the one hand from responsible financial services providers, putting clients at the centre of the banking business and handling customer relationships fairly and respectfully, and on the other hand from responsible consumers who disclose relevant, complete and accurate information on their situation, enabling the financial institution to provide them with the most suitable product or service.

With reference to the comment made on Principle 1, the definition of “authorised agent” and of “authorised tied agent” would be needed to better assess the scope and impact of this recommendation.

WSBI agrees that agents must be placed under the full responsibility of the financial institution they represent. Moreover, and in relation to non bank agents (as described in the comments under Principle 1), their status vis-à-vis the bank has to be unambiguously disclosed to the clients, as well as the scope of the activities undertaken on behalf of the bank.

## **7. Protection of consumers’ rights**

WSBI agrees that the protection of consumers’ rights and assets is an important aspect to develop a banking relationship based on trust. However, it should also be underlined that customers are responsible for the integrity of their financial assets when these can be accessed through security devices and/or confidential codes which are in possession of or operated by the same customers. Such devices and codes must be used according to the indications given by the respective service providers, and e.g. confidential codes not shared with any third person.

## **9. Access to complaints handling and redress mechanisms**

Consumer dispute resolution is a key issue for savings and retail banks, who have a long-standing tradition of providing consumers with “in-house” complaints departments and ombudsmen. These internal, voluntary mechanisms provide consumers with the opportunity to obtain a quick solution to their complaints directly with the bank and free of charge. In addition, they are an important tool to foster consumers’ trust in the banking sector.

WSBI members’ experience, in particular in Europe, shows that it is to the advantage of both consumers and businesses to first attempt to resolve their disputes directly before seeking recourse through judicial proceedings. Therefore, a number of members have invested and continue to invest into such schemes, in order to ease the settlement of disputes arising between them and their customers and to foster the relationship they have with their clients.

## **10. Promotion of competition on financial services markets**

WSBI supports the promotion of competition on banking markets, provided that all service providers operate in a level playing field.

WSBI agrees in principle with the need to reduce bank switching costs. However, it has to be noted that in the majority of cases, competition on retail banking markets is already fierce, with low prices and a high quality of service. This of course is reflected in the limited customer mobility in relation to bank accounts, and in the long term customer loyalty to their banks. Facilitating mobility and improving transparency on costs should indeed be encouraged, through proportionate solutions which would not have cost implications for the clients.



## About WSBI (World Savings Banks Institute)

WSBI (World Savings Banks Institute) is one of the largest international banking associations and the only global representative of savings and retail banking. Founded in 1924, it represents savings and retail banks and associations thereof in 90 countries of the world (Asia-Pacific, the Americas, Africa and Europe - via ESBG, the European Savings Banks Group). WSBI works closely with international financial institutions and donor agencies and facilitates the provision of access to financial sectors worldwide – be it in developing or developed regions. At the start of 2009, assets of member banks amounted to almost € 9,000 billion, non-bank loans to € 4,300 billion and non-bank deposits to 4,600 billion. Together the member banks conducted operations through 160,000 outlets.

WSBI members are typically savings and *retail* banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their *region*. WSBI member banks have reinvested *responsibly* in their region for many decades and are a distinct benchmark for corporate social responsibility activities throughout the world.



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