

Consumer Protection on agenda of the NBG

2010 November



Outline of the presentation

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Responsible Finance – NBG perspective

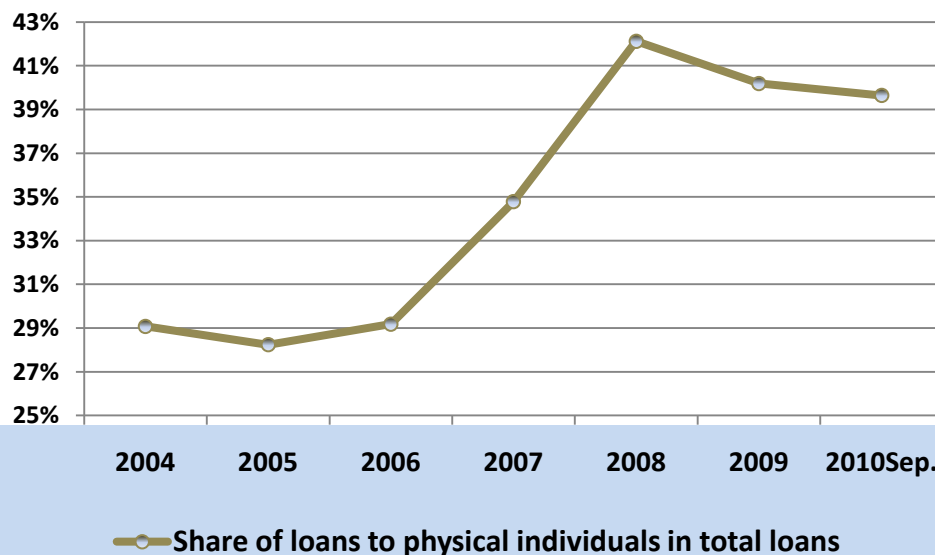
- Information disclosure and financial literacy of the population is essential to ensure efficient allocation of risk and capital. One of the important role of prudent supervision is to facilitate reduction of information costs on the financial market by facilitating the cross product and cross bank comparability of the financial products.
- It is essential to find the right balance between not hindering financial innovation and making financial products and associated risks transparent to the consumers.
- Encourage good business practices when financial institutions know their customers and sell rather than miss-sell financial products.
- Effective dispute resolution mechanisms is needed to ensure fair settlement of misconducts.



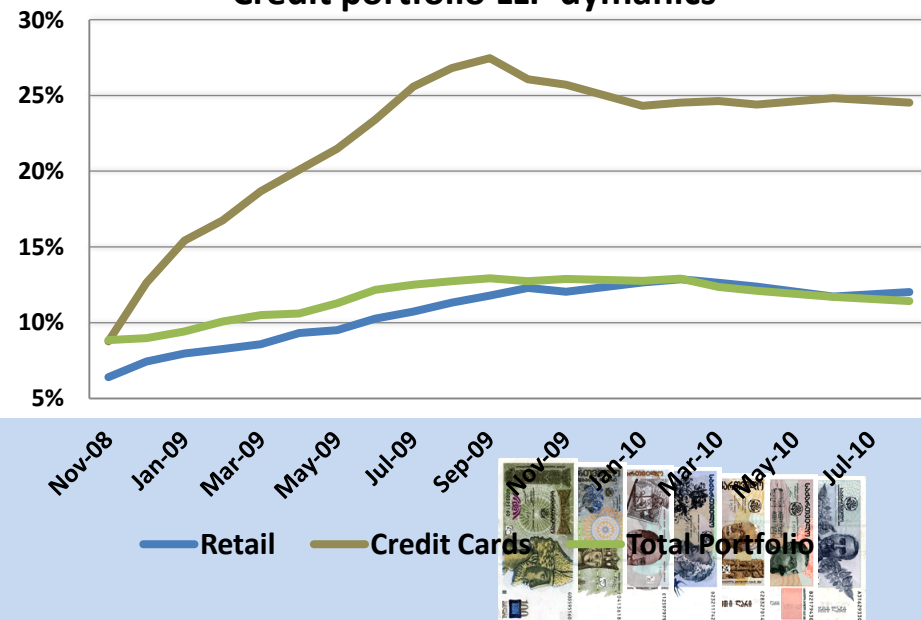
Existing Environment on Georgian market

- Growing share of retail portfolio makes consumer protection issues in financial services increasingly important. There is a mixed evidence that absence of the consumer protection facilitates pro-cyclicality of the financial system;
- On the one hand, it can be argued that the underestimation of financial risks led to dramatic increase and overshooting of the loan demand from individuals.
- The growth of provisions was greater for the products where informational uncertainties were higher.
- On the other hand, it can be argued that following financial distress the customers are too cautious and “mistrust” terms attached to financial products.

Share of loans to individuals in total loans



Credit portfolio LLP dynamics



Existing Environment on the Georgian market

The most important consumer protection issues on the Georgian financial market were related to retail credit products:

- Misleading advertisements.
- Hidden costs.
- Low awareness of debt service capacity.
- Low awareness of currency induced credit risk.
- Implicit tied sales.
- Limited timing to get familiar with a contract.
- Incomparable presentation of a product.
- Influence on a consumer to make an uninformed choice.
- Inadequate use of consumer information.



Existing Regulatory Framework

- Currently, some components of good business practices are required by the legislation.
- However, there is no specific law on consumer protection and there is no institutional unit directly in charge of consumer protection.
- The NBG has recently set up a hot line, responding to inquires and giving recommendations to consumers.
- Currently, legal amendments and institutional arrangements for consumer protection are under discussion.



Action Plan - Institutional Framework

- The NBG has outlined an action plan with short term objectives to address the most painful problems prevailing currently on the market and medium term goals to create a proactive well balanced framework between consumers and financial institutions that requires careful and gradual development.
- Consumer protection unit should be established inside the NBG. Prudential supervision and consumer supervision are tightly linked and both market conduct regulators and prudential supervisor can gain from information related synergies:
 - On the one hand, poor market conduct practices and misrepresented products threaten consumer interests and represent a prudential risk.
 - On the other hand, strong prudential regulation facilitates protection of consumer financial interests.



Short Run

Addressing the most important existing problems

- Information disclosure
 - Banks will be obliged to disclose annual percentage rate (APR) on loans and deposits, total finance charges and complaints procedures in key facts statement document and contracts.
 - Banks should include provisions on privacy and data protection conditions in contracts (particularly, terms of providing information on a consumer to credit bureaus and other third parties).
 - Standardized contract features - consumers will better be able to easily read them even in a constrained period of time and understand them easily
- Dispute solving mechanism

Banks will be obliged to introduce complaint mechanisms and report them to NBG together with their resolution results.
- Financial literacy

FAQs and definitions of APR, will be published on NBG web.



Medium Run

Good Business Practices Component

- “Know your customer”

Banks should suggest customers only the most appropriate and affordable products.

- Codes of conduct

Banks should work out codes of conducts approved by a regulator.

- Aggressive business practices

Misleading advertisements, tied sales, etc. should be regulated appropriately.

- Special provisions on consumer credit

Introduction of a cooling-off period because the decisions are usually made on-the-spot without thorough analysis of needs and repaying abilities.



Medium Run

Dispute Solving Mechanisms Component

- Consumer protection will be extended from banks to other FIs.
- Dispute solving mechanism will be adopted inside the NBG

Consumers will be able to submit complaints directly to NBG even without prior warning of the FI.

- “Name and shame policy” as an incentive for reacting on complaints for FIs will be adopted

NBG will publish the data on the ratio of justified complaints and ratio of resolved justified complaints.



Medium Run

Financial Literacy Enhancement Component

- NBG will design and coordinate with other stakeholders the medium run plan of improving financial education among population.
 - stimulate public, non-governmental, educational organizations and mass media to get involved in promotion of enhancing financial education.
 - A plan on how to raise financial literacy at schools, in different target groups and attract necessary resources.



Challenges

- It will be difficult to communicate all the rights to low-income population.
- Increase of awareness of currency induced credit risk.
- Material and human resources have to be found for achieving a medium-run goal of financial literacy of the population.
- There might be a disagreement on calculation methodology of APR, finance charges and other indicators.
- The regulation should not leave a room for regulatory arbitrage and unfair regulation of the same financial products of different financial institutions.
- To balance between financial innovation, financial stability and consumer protection.



Thank you!

