

Evaluation Quality of Consumer Protection by Financial Markets Services

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Abstract

It is known that the concept of consumer protection is complex, that is, it consists of various component elements (indicators), which have a qualitative nature. All this complicates the process of assessing the quality of consumer protection and prevents the definition of it because it is very difficult to collect the necessary statistical information. The problem of managing financial consumer protection has become particularly relevant just after the 2008-2009 crisis. The purpose of the article is to analyze the main directions of normative provision namely financial consumer protection in the world by the example of implementation of various kinds of official documents and decisions, both at the level of the individual state and internationally. Based on the key principles of the World Bank and open source information from the Financial Access 2010 database, an article has developed an algorithm for evaluating the quality of consumer protection by financial markets services on an example of different countries of the world.

Keywords: financial markets, evaluation quality, consumer protection.

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Introduction

Consumer protection in general includes increased transparency and awareness of goods and services, foster competition in the market, fraud prevention, consumer education and the elimination of unfair practices.

The framework for protecting consumers in the field of financial services is developing as products become more complex, and more people rely on financial services. An effective consumer protection system includes three complementary aspects. First, it includes laws and regulations governing relationships between service providers and users and ensuring equity, transparency. Secondly, it requires effective mechanism of including dispute resolution. Thirdly, it includes promoting financial literacy and the ability to help financial service users acquire the knowledge and skills they need to manage them.

The recent crisis has highlighted the shortcomings of the existing framework for protecting the rights of high-income countries and prompted a series of large-scale reforms. The lack of effective disclosure and availability of misleading advertising on the supplier side and the lack of understanding of financial products on the user side contributed to the collapse of the subprime mortgage market in the United States capital. In emerging markets, this problem is even more urgent.

The development of the direction of protecting the rights of customers is precisely the financial sector that became especially relevant after the global economic crisis of 2007-2008. The global nature of the problem of protecting clients' rights in the financial market (banking, investment, insurance and non-banking sectors) has been reflected in the regulatory documents of different countries of the world. Thus, in particular, in the banking sector, within the framework of the activities of international organizations, a number of documents have been developed: Guiding Principles for Regulatory Quality and Performance (2005), Best Practices for the Formal Exchange of Information Between Competition Authorities in Hard Core Cartel Investigations (2005), Best Practices for the Formal Exchange of Information Between Competition Authorities in Hard Core Cartel Investigations (2005) - Organisation for Economic Cooperation and Development **Methods and Results (OECD)**; Basel Committee on Banking Supervision, Core Principles for Effective Banking Supervision (2002) - Bank for International Settlements (BIS); General Principles for International Remittance Services (2007) - World Bank; Directive concerning Unfair Business-to-Consumer Commercial Practices in

the Internal Market, 2005/29/EC; Markets in Financial Instruments Directive/ Markets in Financial Instruments Regulation (MiFID I, MiFID II/ MiFIR – 2007, 2011) – European Union (EU). In addition, in each country, clients' rights in the banking sector are regulated by their internal regulations. Most current scholars around the world are researching key indicators of the security of banking customers based on the ten core principles developed by the Task Force on Financial Consumer Protection of the OECD Committee on Financial Markets (CMF), in close co-operation with the Financial Stability Board (FSB) and its Consultative Group, other international organizations and standard setters and consumer and industry associations, commissioned by the ministries of finance and central banks of the G20 countries in 2011. After these clarifications and adjustments, the principles have become similar (Table 1) .

Table 1. Key principles based on the protection of client rights in the financial sector

Title of the principle	Entity of the principle
Legal, Regulatory and Supervisory Framework	Financial consumer protection should become an integral part of the legal, regulatory and supervisory control adjustment state of the national peculiarities of organization of financial institutions (the variability of financial products and services, the variety and trends in the development of the client base of financial institutions, etc.).
Role of Oversight Bodies	In order to provide quality financial protection of clients' rights in the country it is necessary to operate one or more supervisors that meet the following criteria: clear responsibility and exercised appropriate management were operational independence, disposed of sufficient resources and opportunities would be a clear and transparent mechanism consistent regulatory processes. In addition, compliance with this principle also provides for cooperation between the competent organizations (both internally national and international) to improve conditions protecting the rights of clients.
Equitable and Fair Treatment of Consumers	The relationship between clients and financial service providers must be fair, equitable and transparent, taking into account the specific needs.
Disclosure and Transparency	At all stages of cooperation between the client and provider of financial services (the formation of promotional products to the conclusion of the agreement) the client must receive accurate, fair, understandable information; have the opportunity to get acquainted with the standardized form of the contract and compare all the advantages and disadvantages of the products and services offered by the organization. Recommendations for the client must be objective and meet his financial objectives.
Financial Education and Awareness	Taking into account the national circumstances of the country's financial sector development, it is necessary to encourage people to engage in financial education within the framework of the strategy of further financial protection of clients. Financial education will be available through all available channels and methods from an early age. Moreover, it is the responsibility of the post-monitoring of the national map of the financial and literacy of the population.
Responsible Business Conduct of Financial Services Providers and Authorised Agents	Moreover, it is the responsibility of the post-monitoring of the national map of the financial and literacy of the population, for the sake of what I have to say about the nature of the world. In the event that there is still a conflict of interest, provide qualified assistance to minimize the negative risks that may appear. Employees in turn should be optimally motivated in order to provide customers with high quality products and services.
Protection of Consumer Assets against Fraud and Misuse	The established mechanism of protection of deposits and other financial assets must be carried out against fraud, misappropriation and other violations.
Protection of Consumer Data and Privacy	All data transmitted by clients to financial service providers must be protected not by one level of protection. All customers should be aware of any actions with their personal data, have constant free access to them.
Complaints Handling and Redress	The relevant jurisdictions should guarantee all customers the opportunity to file complaints and develop a mechanism to handle them and reimburse the losses incurred in a timely manner. All information regarding complaints filed, as well as the resolutions passed must be public.
Competition	All customers should be able to choose financial products and services on a competitive basis.

The adjusted principles create a comprehensive picture of what the financial environment should be, in order for customers to feel as protected as possible. Each of the principles explained by a wide range of quantitative and qualitative indicators. The system of indicators can be the basis for calculating the integral index as protecting the interests of customers of the financial sector. Each of the principles explained by a wide range of quantitative and qualitative indicators. The system of indicators can be the basis for calculating the integral index as protecting the interests of customers of the financial sector. Certainly, the experts from the World Bank has been working on the protection of human customers of financial sehmentu. In 2005 within the framework of The Financial Sector Reform and Strengthening Initiative (FIRST) was proposed program to

protect customers and ensure financial literacy. This program was aimed at four main areas of activity of the World Bank and other reputable international financial institutions:

- ◆ ensure the provision of financial information in an easy, understandable and comparable manner, enabling customers to obtain the best financial products and services;
- ◆ to establish a new business practice for the preparation and regulation of qualified financial service providers;
- ◆ to enable consumers to easily reimburse their losses from the mistakes made by financial service providers;
- ◆ to help clients confidently use financial services.

This program is a simplified plan of what steps should be taken to establish an effective process for protecting the rights of clients in the financial sector, but does not detail them. The Good Practices for Financial Consumer Protection project represents 8 main practices, consisting of 39 detailed paragraphs, which determine the establishment of a safe mode of using financial services. All practices are almost the same name in the context of individual segments of the financial market, but the details within each practice is different. Consider the main points of practice in the banking sector (Table 2).

Table 2. Practice of the World Bank that protect banking customers

Title of the practice	Directions implementation
Consumer Protection Institutions	Consumer Protection Regime
	Code of Conduct for Banks
	Appropriate Allocation between Prudential Supervision and Consumer Protection
	Other Institutional Arrangements
Disclosure and Sales Practices	Licensing
	Information on Customers
	Affordability
	Cooling-off Period
	Bundling and Tying Clauses
	Preservation of Rights
	Regulatory Status Disclosure
	Terms and Conditions
	Key Facts Statement
	Advertising and Sales Materials
	Third-Party Guarantees
Customer Account Handling and Maintenance	Professional Competence
	Statements
	Notification of Changes in Interest Rates and Non-interest Charges
	Customer Records
	Paper and Electronic Checks
	Credit Cards
	Internet Banking and Mobile Phone Banking
	Electronic Fund Transfers and Remittances
	Electronic Fund Transfers and Remittances
	Foreclosure of mortgaged or charged property
Bankruptcy of Individuals	
Bankruptcy of Individuals	Confidentiality and Security of Customers' Information
	Sharing Customer Information
	Permitted Disclosures
Dispute Resolution Mechanisms	Credit Reporting
	Internal Complaints Procedure
	Formal Dispute Settlement Mechanisms
Guarantee Schemes and Insolvency	Publication of Information on Consumer Complaints
	Depositor Protection
Consumer Empowerment & Financial Literacy	Insolvency
	Broadly based Financial Literacy Program
	Using a Range of Initiatives and Channels, including the Mass Media
	Unbiased Information for Consumers
	Consulting Consumers and the Financial Services Industry
Competition and Consumer Protection	Measuring the Impact of Financial Literacy Initiatives
	Regulatory Policy and Competition Policy
	Review of Competition
	Impact of Competition Policy on Consumer Protection

The proposed practices have become a visual guide for the four continents on the issue of multilateral protection of the rights of financial market clients, in general and the banking sector in particular.

Methods and Results

This sector describes the interagency data provided by consumer protection laws and the rule collected for the Financial Access 2010 data base with the help of CGAP and the World Bank. The study cover the following key aspects of consumer protection: the scope of the existing legal framework; supervisory and executive power; regress mechanisms. Information from this database was used to assess the quality of consumer protection financial market services. The methodology underlying this assessment is proposed by Sundararajan, Das, and Yossifov (2003) during inter-regional analysis of the level of transparency of the financial system of different countries. After this method is actively used by different researchers in solving various problems in the branches of the national economy. The essence of this methodology is to calculating the country's quality management index for a financial or any other market as a weighted average of the full estimates of the country's compliance with key international standards, rules and principles in the market. It provides a comprehensive framework for assessing aspects of transparency, accountability and integrity in addition to transparency directly. The Regulatory Quality Management Index (RGI) for an individual country is as follows:

$$RGI = \frac{1}{n} (\sum_{j=1}^n SCORE_j)$$

where n - the number of standards, what is used to obtain the index;

j – a specific set of standards;

SCORE – assessment of compliance with each standard, using a weighing scheme.

$$SCORE_j = [0 \cdot nc_j + 0.33 \cdot pc_j + 0.66 \cdot bc_j + fc_j] \cdot 100$$

where, for each standard, the degree of compliance with its country is determined as follows:

1 = nc (noncompliance) – the number of non-compliance provisions;

2 = pc (partial compliance) - the number of partial compliance provisions;

3 = bc (broad compliance) - the number of broad-based provisions;

4 = fc (full compliance) - the number of full compliance provisions;

9 = not applicable / not answered - no data.

According to the research, only weighty assessments are taken into account (for example, points for which the country has no data, are not included in the list used in the assessment).

Total quality assessment of consumer protection financial market services carried out 10 indicators, each of which consisted of relevant standards (Tables 3-4 see in Appendix)

The assessment of the quality of consumer rights protection services in the financial market was based on the calculating of the SCORE indicators for each country, which is a complex indicators. The results of the calculating of this indicators are presented in the following Figure (Figure 1).

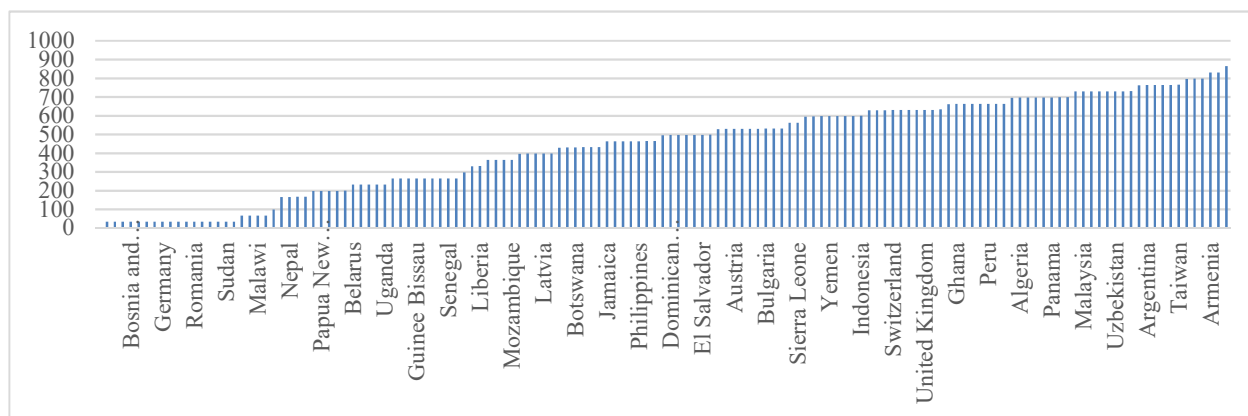


Figure 1. The results of the evaluation of the quality of consumer protection financial market services

Conclusions

As a result of the assessment of quality of consumer protection by financial markets services, for example, Italy (864), Venezuela (831) and Armenia (831) were among the top three countries with the highest levels of financial consumer protection in the more than 100 countries of the world. As these countries differ considerably in terms of economic development, it is impossible to speak about the full adequacy of these calculations. Therefore, in future studies, it is necessary to add variables to the quality of consumer protection by financial markets services, which would also reflect the level of financial literacy of the population and financial inclusion.

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Appendix

Table 3. The main indicators of the assessment of the quality of consumer rights protection services in the financial market

Title of the indicator	Title of the standard
Monitoring	Mystery/ incognito shopping
	Interviews, focus groups and consumer research
	Require FIs to report statistics on number of complaints
	Operates call center to receive complaints
	Monitors providers' advertisements, websites, etc.
	On-site inspection and investigation of FIs
Enforcing	Issue warnings to financial institutions
	Require providers to refund excess charges
	Require providers to withdraw misleading advertisements
	Impose fines and penalties
	Issue public notice of violations
	Withdraw the offending provider's license to operate
Fair treatment	Deceptive advertising
	Unfair or high-pressure selling practices
	Abusive collection practices
	Unauthorized use of client data or breach of client confidentiality
	No fair treatment provisions
Recourses	Yes, with financial ombudsman
	Yes, with general ombudsman
	Yes, mediation service
Standards for complaints resolution	Procedures and processes
	Timeliness of response
	Accessibility
Disclouser upon opening deposit	Annual percentage yield and interest rate
	Method of compounding
	Minimum balance requirement
	Fees and penalties
	Early withdrawal penalties
Disclouser upon opening credit	Annual percentage rate using a standard formula
	Fees
	Computation method (avg. balance, interest)
	Required insurance
Disclouser upon opening genera	Plain language requirement
	Local language requirement
	Prescribed, standardized disclosure format
	Recourse rights and processes
Periodic disclouser upon opening deposit	Annual percentage yield calculation
	Amount of interest earned
	Fees imposed
	Account balance
Periodic disclouser upon opening credit	All account transactions during current period
	Annual percentage rate
	Interest charged for the period
	Fees charged for the period
	Minimum amount due
	Date due
	Outstanding balance

Table 4. The degree of observance for each indicator is defined in the following way

	Monitoring
pc	1 – 2
bc	3 – 5
fc	6
Enforcing	
pc	1 – 2
bc	3 – 5
fc	6
Fair treatment	
pc	1 – 2
bc	3 – 4
fc	5
Recourses	
pc	1
bc	2
fc	3
Standards for complaints resolution	
pc	1
bc	2
fc	3
Disclouser upon opening deposit	
pc	1 – 2
bc	3 – 4
fc	5
Disclouser upon opening credit	
pc	1
bc	2 – 3
fc	4
Disclouser upon opening genera	
pc	1
bc	2 – 3
fc	4
Periodic disclouser upon opening deposit	
pc	1
bc	2 – 3
fc	4
Periodic disclouser upon opening credit	
pc	1 – 2
bc	3 – 6
fc	7