

CONSUMER PROTECTION

Consumer protection and financial literacy can contribute to improved efficiency, transparency, competition, and access in retail financial markets by reducing information asymmetries and power imbalances between providers and users of financial services.¹ When customers are better informed about the terms and conditions of financial services, they can shop around, thereby stimulating competition. Informed clients can choose products that best fit their needs and therefore incentivize competing financial service providers to design better products. Knowing that their rights are protected may bring in new customers, especially in markets where financial systems are not trusted for historical reasons.

The recent financial crisis highlighted the importance of effective consumer protection and adequate levels of financial literacy for the sustainability of the entire financial system, particularly in an environment of increasingly complex financial products and services. Lack of effective disclosure and deceptive advertising on the part of providers and failure to understand financial products on the part of consumers contributed to the collapse of the subprime mortgage market in the United States. But the problem is not limited to developed markets with highly complex products. Bosnia and Herzegovina, India, and Morocco saw indebtedness rise to unsustainable levels at times among microfinance borrowers in 2009.² Policy makers around the world have responded by introducing financial literacy programs and strengthening financial consumer protection.

The need for consumer protection in the financial industry is not a new concept. Until recently, though, the focus has been on credit transactions, with the basic objective of limiting “harmful” borrowing.³ Throughout history debt forgiveness, interest rate caps, and outright bans on usury were used to prevent abuse by lenders. This paternalistic approach proved to be unsustainable and difficult to enforce, with consistent evidence of violations of the rules over time.⁴ Fundamental changes in thinking in the early 20th century

shifted the debate toward the need to empower financial service users, to inform them, and to give them tools to protect their rights. Present-day financial consumer protection frameworks in most economies reflect this approach and rely on fairness and transparency as their core principles.

To inform the ongoing debate on the state of financial consumer protection, the *Financial Access 2010* survey asked financial regulators around the world about the status of financial consumer protection in their jurisdictions. Empirical analysis of the relationship between financial consumer protection, access to financial services, and stability is limited, in large part because of a lack of consistent data on outcomes as well as policies. Statistical analysis conducted for this report indicates a strong correlation between comprehensiveness of consumer protection regulations and the overall level of economic development.⁵ Once regressions control for income per capita, no stable statistically significant correlations between various aspects of consumer protection regulation and access outcomes are found. Data limitations and endogeneity issues are inherent in a cross-country regression framework and make it impossible to draw conclusions at this stage. Further research at the micro level is essential to understanding the impact of various consumer protection policies. At the cross-country level, consistent data collection on outcomes and policies over time, including on effective regulation rather than just legislation on the books, should shed light on the long-term relationship among consumer protection, access, and stability.

Financial Access 2010 presents a first-ever overview of a range of consumer protection policies in more than 140 economies and builds a basis for future research. It is a first step to understanding the existing landscape in consumer protection by answering some of the following questions: Do economies have financial consumer protection legislation in place? What are the powers of agencies that are responsible for consumer protection to enforce regulations? And what forms of recourse exist?⁶

LEGAL FRAMEWORK

MOST ECONOMIES HAVE CONSUMER PROTECTION LEGISLATION IN PLACE, AND REFORMS ARE WIDESPREAD

More than 80 percent of economies (118) responding to the *Financial Access 2010* survey have laws and regulations addressing at least some aspects of financial consumer protection. This topic is at the intersection of consumer protection and financial services regulation. Not surprisingly, relevant legal provisions are most often found in broad consumer protection legislation and in financial sector regulations (figure 3.1). Sixty-seven economies are a step further and report having issued consumer protection legislation with specific references to financial services.

Financial consumer protection provisions are diffused in multiple laws. Of the 118 economies that have some type of consumer protection legislation, 48 percent have both consumer protection legislation and regulations under the financial sector legal framework. In addition, other legal acts on payment systems, credit bureaus, insurance, pensions, and securities may include financial consumer protection provisions. These laws often contain conflicting provisions and create complex oversight and regulatory structures, posing challenges to implementation.⁷

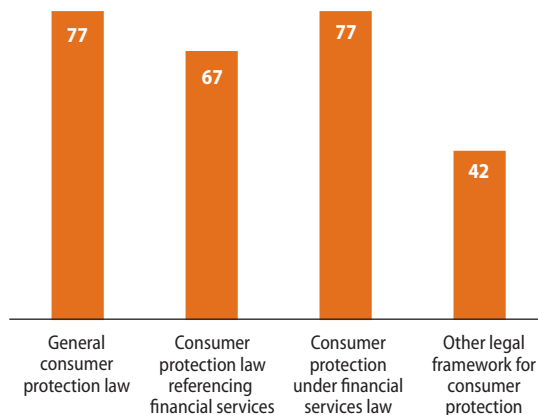
Most of the financial consumer protection legislation were passed in the previous two decades. Rapid expansion of retail financial services and increasing complexity of products mean that financial consumer protection legislation is constantly evolving.

As discussed in the previous section, consumer protection was a popular area of reform in 2009. A number of economies introduced or are about to introduce consumer protection legislation for the first time. At the time of writing, Madagascar's parliament was about to adopt a consumer protection law. In Georgia, a number of projects are under consideration, including disclosure rules, development of a deposit insur-

FIGURE 3.1

Most economies have laws and regulations addressing financial consumer protection

Number of economies



Source: *Financial Access* database.

ance scheme, and credit bureau regulation. Moldova has plans to amend its Law on Consumer Protection to include specific provisions on financial services.

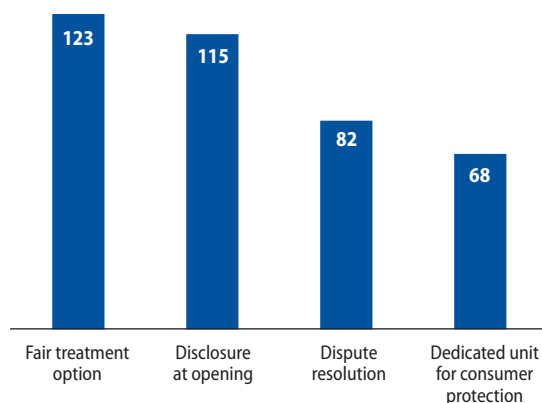
Other economies enhanced existing frameworks and mechanisms. Economies such as Portugal and Bangladesh introduced restrictions on rates and fees. France passed an ordinance establishing a new single regulator for the financial services and insurance industries. The United States and United Kingdom are both moving to create a consolidated financial consumer protection agency.

An effective financial consumer protection framework covers three broad dimensions. First, it protects consumers against unfair or deceptive practices by financial service providers, including in advertising and collections. Second, it improves transparency through a requirement to disclose full, plain, adequate, and comparable information about prices, terms, and conditions of financial products and services. Third, it establishes a recourse mechanism to address complaints and resolve disputes quickly and inexpensively. What consumer protection legal provisions are in place in economies around the world?

FIGURE 3.2

Laws protect consumers in most economies, but enforcement mechanisms are lacking in many

Number of economies



Source: Financial Access database.

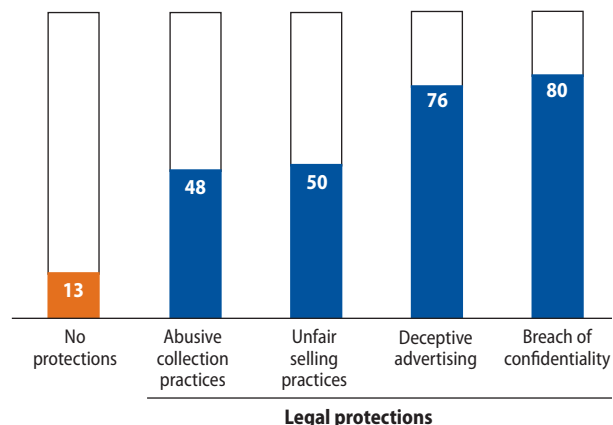
BASIC CONSUMER PROTECTION REQUIREMENTS ARE ON THE BOOKS IN MOST ECONOMIES, BUT ENFORCEMENT MECHANISMS ARE LACKING

Most economies have basic legal and regulatory frameworks for financial consumer protection. In 123 economies (87 percent), at least some fair treatment provisions are covered by the existing legal and regulatory framework, including restrictions on deceptive advertisement, abusive collections, unfair or high-pressure selling practices, and breach of client confidentiality. At least some form of disclosure requirement regarding financial products and services is on the books in 115 economies (81 percent). A much smaller number of economies—only 82 economies or about 60 percent—have a third-party dispute resolution mechanism, such as an ombudsman or a mediation center. And most important, only two-thirds of the 99 financial regulators who said that they are responsible for at least some aspect of financial consumer protection have a designated unit or team to work on these issues (figure 3.2).

FIGURE 3.3

Few economies have legal protections against unfair practices specific to financial services

% of economies



Source: Financial Access database.

BROAD FAIR TREATMENT PROVISIONS ARE IN PLACE, BUT THEY MAY NOT ADDRESS SPECIFIC ISSUES IN THE FINANCIAL SERVICE INDUSTRY

Among the elements of fair treatment regulations that economies have, the most common are provisions restricting deceptive advertising (76 percent) and breach of client confidentiality (80 percent) (figure 3.3). These provisions are often part of broader legislation. For example, client confidentiality is protected by bank secrecy provisions in most civil law countries and is implied in contractual law in common law countries. Restrictions on deceptive advertisement are often part of general commercial law and basic consumer protection legislation.

But only about half of the economies reporting have provisions restricting unfair and high-pressure selling practices and abusive collection practices. These are important issues, especially given the potential reinforcing link between the two. Customers enticed into borrowing beyond their means are more likely to be the subjects of a collections process.

Regulations in high- and upper-middle-income countries are more likely to include restrictions on all four unfair practices surveyed in *Financial Access 2010*,

with an average of 3.4 out of 4 areas included. Low-income countries on average cover only two of the unfair practices surveyed.

The legal framework should provide sufficient protection to ensure fair treatment of financial service customers. Yet 13 percent of economies reported that their legislation does not include any specific fair treatment provisions. And in at least half of the countries, the legislation does not go beyond restricting deceptive advertising and protecting confidentiality. As many economies review their consumer protection legislation and consider revisions, fair treatment provisions relating to collections and high-pressure selling practices deserve consideration.

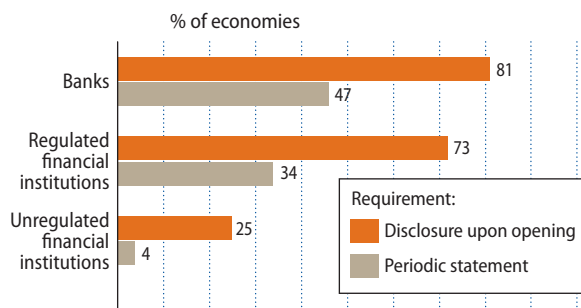
BANKS ARE MORE LIKELY TO BE SUBJECT TO DISCLOSURE REQUIREMENTS THAN OTHER FINANCIAL INSTITUTIONS, AND MOST DISCLOSURE REQUIREMENTS APPLY AT THE ACCOUNT OPENING STAGE

Disclosure is the cornerstone of the modern approach to consumer protection, focusing on empowering customers. At least in theory, informed consumers should be able to compare offers, make sound financial decisions, and demand recourse when wronged. Thus far, though, empirical evidence suggests that disclosure requirements improve transparency in credit markets more than the financial decisions of borrowers.⁸ At the same time, there are indications that disclosure is most effective when financial literacy is high and consumers can understand what is being disclosed—for example, how the interest rates are calculated.⁹ Though research on the most effective forms of disclosure is ongoing, there is no question as to whether consumers have the right to know the terms and conditions of the products and services offered.

The *Financial Access 2010* survey covers two broad types of disclosure. The first, known as disclosure upon opening, refers to the requirement to notify consumers in writing of pricing, terms, and conditions of a financial product prior to signing an agreement. The second, periodic disclosure, refers to the require-

FIGURE 3.4

Most disclosure requirements focus on opening an account, and seldom apply to nonbanks



Source: *Financial Access* database.

ment to disclose information periodically through an account statement. This second type of disclosure is especially important for products for which the cost of the product depends on the use—for example, credit cards and overdrafts. The survey also asked whether the rules apply to banks, other regulated financial institutions, and unregulated financial institutions.

Two striking results emerge from the survey (figure 3.4). First, most of the disclosure requirements apply only to account opening. Eighty-one percent of economies require commercial banks to disclose information upon account opening, while only about half of them require periodic disclosure. The trend is even more pronounced for other types of financial institutions. In more than half of the countries, clients are not entitled to be updated about the state of their financial accounts. The decision on what and how to disclose to a customer once a product is sold is left up to the financial service provider.

Second, commercial banks are more likely to be subject to disclosure requirements than are other financial institutions, and unregulated financial service providers are rarely subject to disclosure requirements. The survey, however, asked regulators to identify whether disclosure requirements exist at all, not whether it is the central banks or financial regulators' responsibility to implement them. It is possible that respondents were not aware of regulations affecting unregulated

institutions. A comprehensive assessment of overall financial consumer protection is needed to evaluate the degree to which disclosure requirements apply to unregulated financial institutions. This finding does confirm the fact that even in economies where financial regulators are involved in financial consumer protection matters, they rarely are tasked to focus on unregulated financial institutions.

GUIDELINES FOR DISCLOSURE REQUIREMENTS AT ACCOUNT OPENING ARE FOCUSED ON RATES AND FEES

What information must be disclosed upon account opening? According to the *Financial Access 2010* survey, disclosure requirements in most economies are focused on quantitative information, such as rates and fees, and not on explaining to customers how these rates and fees are calculated (figure 3.5). On the deposit side, 65 percent of economies require disclosure of annual percentage yield and interest on deposit products, while 42 percent require an explanation of how it is compounded. On the credit side, 66

percent of economies require disclosure of rates and fees, and 53 percent require an explanation of how the rate is computed.

Disclosing rates and fees alone may not be sufficient to enable customers to make informed decisions.¹⁰ To facilitate comparison of financial product terms across institutions, some economies have introduced a standardized disclosure format for general financial products, such as a one-page “Key Facts” document summarizing terms and conditions in a clear and transparent manner. Forty-one percent of economies reporting to *Financial Access 2010* have such a requirement.

And most important, only 35 percent of economies have a requirement to provide information on dispute resolution, raising a question as to the effectiveness of such disclosure.

PERIODIC DISCLOSURE GUIDELINES RARELY REQUIRE INFORMATION ON DISPUTING CONTENT OF THE STATEMENTS

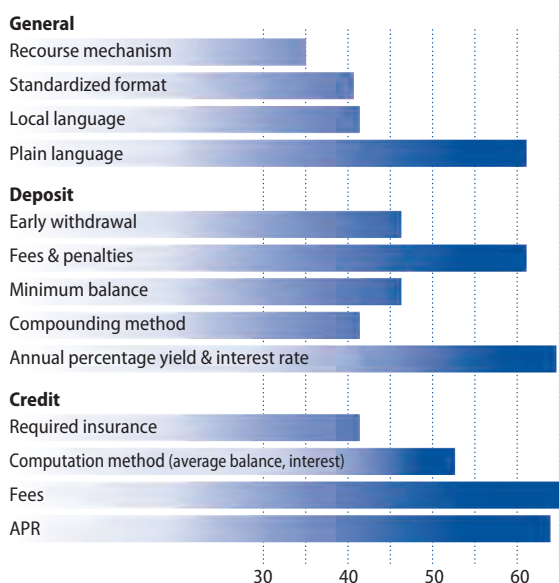
What information is required to be disclosed in periodic statements? According to the *Financial Access 2010* survey, fewer economies have detailed guidelines on the content of periodic statements than disclosure requirements upon opening. The four most common requirements are focused on purely numerical information: annual percentage rate (applied during the period of the statement); interest charged for the period; fees charged for the period; and outstanding balance of credit. One-third of economies require financial institutions to provide information on how to dispute the accuracy of transactions (figure 3.6).

The frequency of periodic disclosure differs across economies. Almost half of the economies reporting require some sort of periodic disclosure. Of those economies, 64 percent require that statements be issued monthly. In 20 percent of economies there is a requirement to issue a statement at least once a year, though the financial service provider may choose to disclose information more frequently.

FIGURE 3.5

Most disclosure requirements for opening an account focus mainly on rates and fees

% of economies with disclosure requirements for opening an account

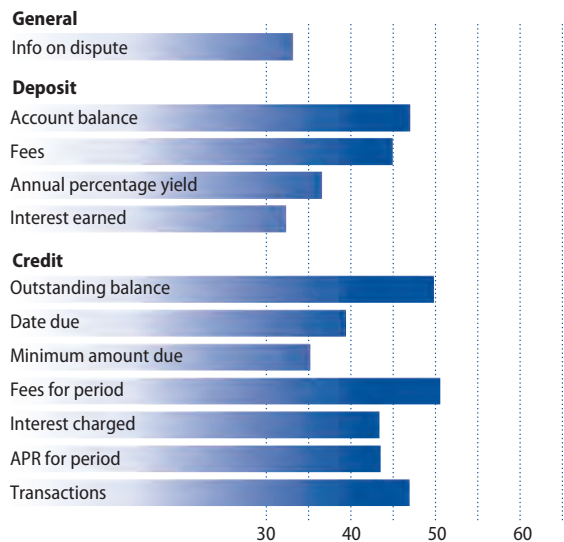


Source: *Financial Access* database.

FIGURE 3.6

Requirements for periodic statements focus mainly on rates and fees

% of economies with disclosure requirements for periodic statement



Source: *Financial Access* database.

Different types of products may need different frequencies of disclosure. For example, in Malaysia, loan statements have to be provided to customers at least once a year, whereas for deposit accounts, a statement has to be provided at least once a quarter. In Greece, monthly statements must be provided to credit card holders only. In Norway, the law specifies that statements must be provided annually, but the institution is required to provide the customer with a statement more frequently if the account has been in use (credited or debited). As a result, the periodic statement is usually provided monthly.

With modern technology, it is possible to disclose statements via the Internet, which helps to reduce the cost of compliance with disclosure requirements. It is important, though, to ensure that customers have a choice regarding how they receive their statements, whether on paper or electronically.

In addition to requiring disclosure by financial institutions, regulators themselves increasingly take steps to improve transparency in the markets. A number

of economies regularly post fees and rates for deposit and credit products on the regulators' Web sites. For example, Bank of Uganda publishes bank charges.

There is no one-size-fits-all solution to the design of a legal framework for financial consumer protection. It should reflect the structure of the financial system and the nature of each economy's overall legal framework. But, in all cases, the process of designing an effective financial consumer protection framework requires a comprehensive approach and consultation among various stakeholders to ensure consistency within laws and regulations. Close coordination is also essential to develop effective oversight and regulatory structures.

INSTITUTIONAL STRUCTURE

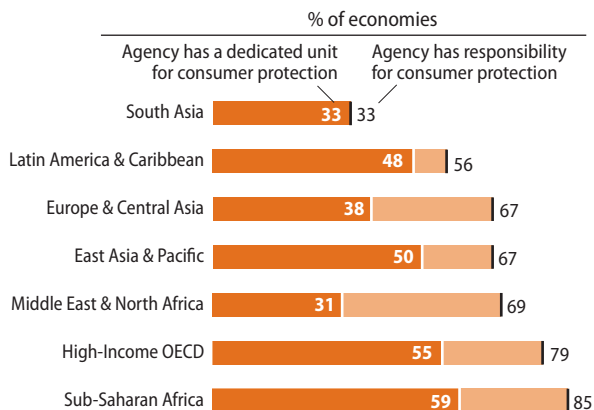
MULTIPLE REGULATORS ARE INVOLVED IN CONSUMER PROTECTION, AND FINANCIAL SUPERVISORS ARE ENGAGED IN A MAJORITY OF ECONOMIES

Reflecting the variation in legal frameworks on consumer protection, supervisory and enforcement structures differ among economies. In most cases multiple government agencies are involved in the regulation, supervision, and enforcement of laws related to financial consumer protection. On the one hand, consumer protection agencies, competition authorities, ministries of justice, or ministries of economy may be responsible for implementing broad consumer protection legislation. On the other hand, central banks, bank supervisory authorities, securities commissions, and other financial service regulators are involved in implementing financial consumer protection regulations that apply to the institutions they oversee. Central banks or bank supervisors are responsible for at least some aspect of financial consumer protection in 99 economies (70 percent) reporting to the *Financial Access 2010* survey.

Consumer protection regulators are more likely to take a functional approach with a focus on products and services, regardless of which institutions provide these services. A functional approach applies consumer protection to all financial service providers irrespective

FIGURE 3.7

Agencies responsible for consumer protection often lack a dedicated unit or team



Source: *Financial Access* database.

of their institutional type (i.e., bank or nonbank), ensuring a level playing field. But consumer protection agencies often face a challenge taking on financial consumer protection responsibility because they lack both knowledge of the financial sector and capacity.

Financial regulators, on the other hand, have a solid understanding of the financial sector but are empowered to implement consumer protection provisions only as they relate to the financial institutions they regulate, not to a broad range of financial service providers. This approach fragments responsibilities among many regulators and, more important, excludes unregulated institutions, creating distortions in the market.¹¹ To address this challenge, some economies have created a single agency responsible for consumer protection issues for retail financial services, such as the Financial Consumer Agency of Canada or the National Credit Regulator in South Africa, which is solely responsible for retail credit. The United States and United Kingdom are also moving in this direction following the recent crisis.

Whichever institutional structure is chosen, effective implementation of the law requires that the responsibilities of the respective agencies are clearly defined and a single entity is assigned to receive and direct customer complaints and inquiries.¹²

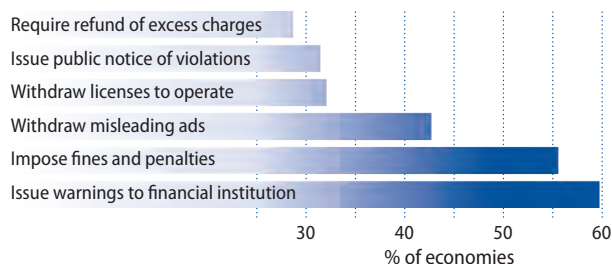
Effective implementation also requires assigned staff and resources in the agency responsible. Yet *Financial Access 2010* finds that this is not always the case. Out of 99 economies where financial regulators are responsible for at least some aspect of consumer protection, 68 economies (69 percent) had assigned this work to a specific department or unit (figure 3.7). Most of these consumer protection departments and units are relatively new. Of the 60 economies that provided their units' date of establishment, 65 percent were created after 1999, and 45 percent after 2005.

A number of countries—31—reported that consumer protection work is assigned to a financial institution supervision department. In Austria, Botswana, Kenya, the former Yugoslav Republic of Macedonia, and Sri Lanka, consumer protection is part of routine supervisory work, with no organizational separation of consumer protection tasks from general supervision. In the Philippines, Spain, Brazil, Israel, and Zimbabwe, consumer protection is handled by an allocated team or unit within the banking supervision department. An alternative approach taken by 13 economies is to create a special department. In the Czech Republic, the Consumer Protection Department reports directly to the board of the Czech National Bank; in Ecuador the department reports directly to the bank superintendent; and in the United States the Federal Reserve Board has a Division of Consumer and Community Affairs, with a staff of 120.

AGENCIES' POWERS TO ENFORCE CONSUMER PROTECTION REGULATIONS AND MONITOR COMPLIANCE ARE LIMITED

What actions can regulators take if financial institutions do not comply with regulations? And how do regulators monitor compliance? *Financial Access 2010* finds that regulatory powers are often limited. Regulators in a little more than half of the economies have powers to issue warnings to financial institutions or impose fines and penalties for violation of consumer protection regulations, and only about a third are empowered to issue a public notice of violation, require providers to refund excess charges, or withdraw a li-

FIGURE 3.8

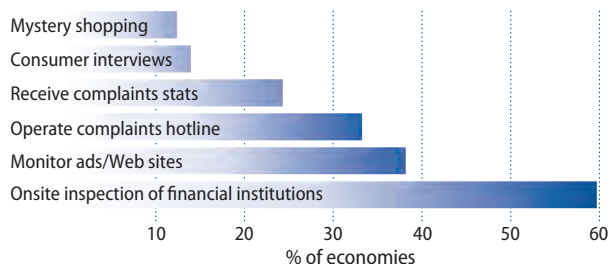
What enforcement actions can regulators take?

Source: *Financial Access* database.

cense to operate (figure 3.8). A number of respondents commented that even though their agency had the responsibility to monitor compliance with consumer protection regulations, they were authorized to take action only if the violation of consumer protection provisions posed a risk to financial stability, significantly limiting the regulator's ability to step in.

Credible deterrence is a critical element of successful enforcement. A recent evaluation of consumer credit interventions in the United Kingdom suggests that greater publicity for the actions taken and the regulator publicly identifying the offending institutions can increase the deterrent effect.¹³ So how often do regulators exercise their powers? Surprisingly few economies were able to provide statistics on the number of times actions were taken against institutions. Twenty-one economies reported the number of times they issued warnings, out of 85 economies with the authority to do so. Of these 21, only half issued more than five warnings. Statistics on fines were provided by 22 economies out of 79 authorized to impose fines and penalties. Of these, three economies did not apply any actions in 2009 and a little more than half of the economies applied fines to seven or fewer institutions. Among 21 economies, mostly high-income OECD, that had an authority and provided statistics on more than one action, the most common actions were requirements to withdraw advertisements. Only the United Kingdom, Italy, Japan, Lithuania, Nicaragua, and Sierra Leone report more than one case of issuing a public notice of violation—potentially a very effective tool.

FIGURE 3.9

What monitoring actions are available to regulators?

Source: *Financial Access* database.

The low number of actions taken indicates that there are either no violations or no effective monitoring and enforcement mechanisms. The statistics on the number of complaints in economies with effective monitoring systems, such as the United Kingdom, where the financial regulator records 3 million complaints per year,¹⁴ suggest that violations are likely. But without consistent data on the number of complaints received and the resolution steps taken, it is impossible to assess either the scale of the problem or the effectiveness of the reaction. So how do regulators monitor compliance with consumer protection provisions?

To identify risks to the economy resulting from inadequate consumer protection, regulators need to complement onsite inspections with routine monitoring of complaint statistics and advertisements, mystery shopping, and focus groups with consumers and industry. However, *Financial Access 2010* survey results indicate that most financial regulators tasked with monitoring compliance with consumer protection regulations rely mainly on onsite inspections as part of a routine financial institution examination and rarely use other methods (figure 3.9).

Monitoring customer complaints and tracking enforcement actions is an important step in improving the effectiveness of regulations. Analyzing the trends in enforcement actions can help regulators adjust existing frameworks and improve oversight, as well as identify market-wide risks. *Financial Access 2010* suggests that thus far only a few economies have put the necessary monitoring mechanisms in place.

DISPUTE RESOLUTION MECHANISMS

The power imbalance between providers and users of financial services is acute in retail financial transactions, especially when they involve low-income individuals. A consumer of financial services is unlikely to have the resources to go through the court process to resolve a dispute with a financial institution. Effective complaint-handling mechanisms by financial service providers and extrajudicial third-party dispute resolution mechanisms are essential parts of a consumer protection system. Yet these mechanisms are often not in place, limiting the effectiveness of the legislation.

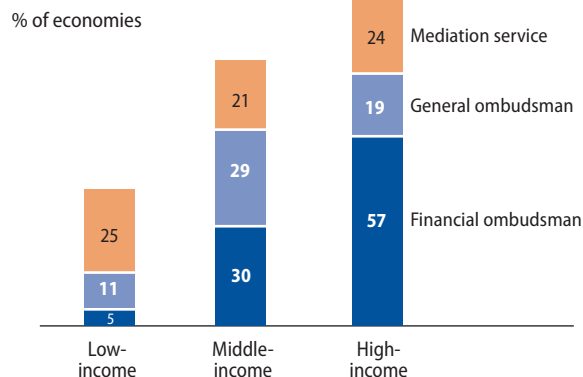
Financial institutions are the first line of defense when it comes to resolving disputes. Not only is complaints resolution required by fairness provisions in most countries' legislation, but research shows that addressing customer complaints is beneficial to business sustainability.¹⁵ The *Financial Access 2010* survey asked if an economy's laws or regulations set standards for complaints resolution by financial institutions. Only about a third of the economies require financial institutions to implement procedures for resolving customer complaints, set limits for timeliness of response, and ensure accessibility. Even though many economies report that institutions have put in place voluntary codes of conduct, it is not clear how effective these voluntary arrangements are due to a lack of monitoring.

If a customer's complaint is not resolved under the financial institution's internal procedures, do economies have an effective third-party dispute resolution mechanism such as an ombudsman¹⁶ or a mediation center?

Financial Access 2010 survey results show that 58 percent of economies have some type of ombudsman or mediation service. Thirty percent have a specialized financial ombudsman, whereas in 21 percent of countries, a general ombudsman handles financial cases along with other consumer protection issues. Mediation services are more common in Asia, where about half of the economies report having established one

FIGURE 3.10

How are disputes resolved?



Source: *Financial Access* database.

compared with a quarter of the economies or fewer in other regions.

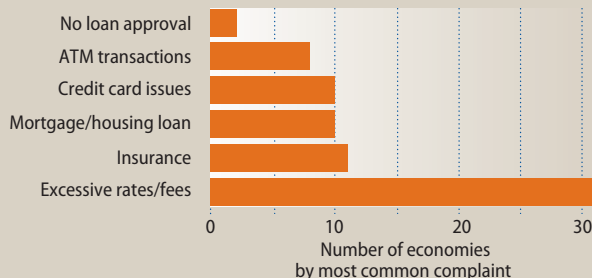
These institutions are not mutually exclusive, and some economies have more than one third-party mechanism to address customer complaints. El Salvador, Pakistan, Poland, South Africa, Taiwan (China) and Korea all have a financial ombudsman, a general ombudsman, and a mediation service for resolving financial disputes. The Czech Republic, Greece, Italy, Mexico, and Peru have a financial ombudsman and a mediation service.

Financial ombudsmen are more common in high-income countries. Fifty-seven percent of high-income countries reporting have a financial ombudsman in place, compared with 5 percent of low-income countries (figure 3.10).

Institutional arrangements and funding for third-party dispute resolution mechanisms vary across countries. In a majority of economies that provided data on funding (41 of 63 economies), the ombudsman or equivalent institution is fully funded by the government, mostly through the annual budget of the relevant government agency, and is sometimes part of the financial regulator's budget, as is the case in Israel, Nepal, and Uruguay. In eight more economies, the ombudsman is cofunded by the government and the private sec-

FIGURE 3.11

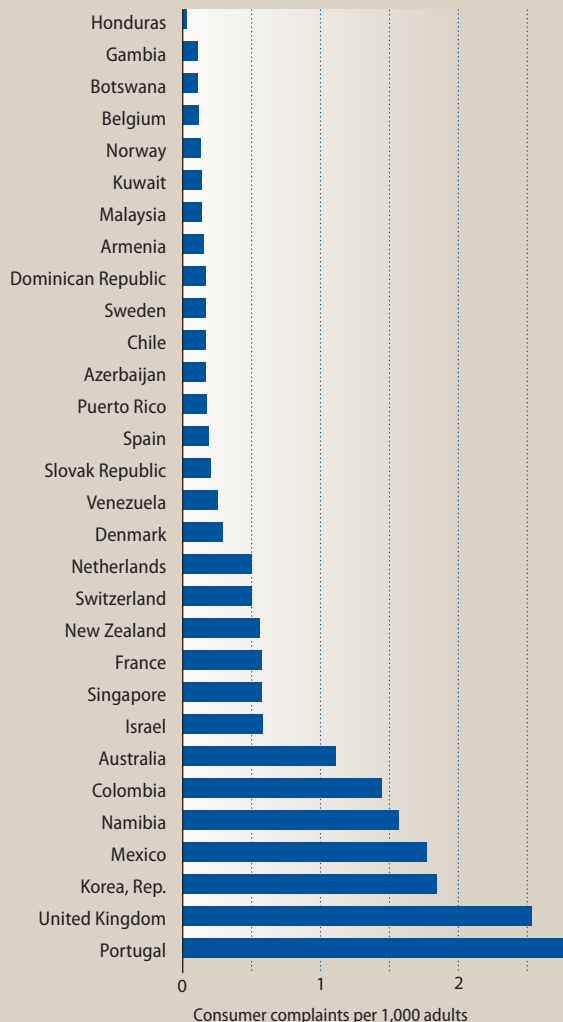
Excessive rates/fees is the most common cause for complaint



Source: *Financial Access* database.

FIGURE 3.12

The number of complaints received by ombudsmen varies greatly across countries



Source: *Financial Access* database.

tor. And in 30 out of 63 economies, dispute resolution mechanisms are funded by members (mostly service providers) or industry associations. Privately funded dispute resolution schemes can be voluntary, as is the case in Chile, or mandatory, as in Armenia.

What are the most frequent causes for complaints across countries? Excessive interest rates and fees is by far the most common cause for complaint. Out of 70 economies providing data, 31 ranked excessive interest or fees as the most frequent cause for complaint, and 48 named it among the top three (figure 3.11). Product-specific complaints related to credit cards, mortgages, and ATMs all rank at about the same level. Only two economies listed not getting approved for a loan as the most frequent cause for complaint.

A number of economies reported additional causes for complaints. In the Czech Republic, the most frequent complaint concerns domestic payment transactions. In Finland it is the functioning of the deposit guarantee scheme; in Mozambique it is insurance complaints and the register of declined checks. A number of economies cited complaints related to bank staff as the most common. In Namibia, Norway, and Hungary, complaints relate to poor financial advice provided to the customer; in Syria and Uganda, they relate to mistreatment of customers by bank staff.

HOW OFTEN ARE COMPLAINTS REFERRED TO THE THIRD-PARTY DISPUTE RESOLUTION ENTITIES, AND HOW OFTEN ARE THEY UPHELD?

Fifty-three of the 82 economies where such a mechanism exists provided statistics on the number of complaints received by the third-party dispute resolution mechanism. These ombudsmen or equivalent institutions vary substantially in the scope of operations and the types of disputes they are set up to address. The Financial Ombudsman Service in the United Kingdom and Condusef in Mexico, both of which handle a wide array of consumer complaints on a range of financial services, received about 130,000 complaints each in the past year—2.52 and 1.76 per 1,000 adults, respec-

tively (figure 3.12). On the other hand, the Federal Reserve Consumer Help Center in the United States—one of a number of dispute resolution mechanisms—received about 5,000 complaints. In economies where ombudsmen or equivalent institutions were created recently, customers may not know how to file complaints or may be skeptical about the effectiveness of the scheme. Poland and Bulgaria reported nine and five complaints received, respectively—less than one per million adults. In a functioning system, the number of complaints is likely to increase in the early years of operation as public awareness and confidence in effective resolution improve. In the United Kingdom, for example, the number of complaints referred to the Financial Ombudsman Service increased fivefold between 2000 and 2009.

Respondents were also asked to provide the total number of cases processed and closed, and out of these cases, the number of cases that were resolved in favor of the customer. Thirty economies provided data on both figures. In 67 percent of these economies, less than half of all complaints were resolved in favor of the customer. Variation between the economies is substantial, though. In Singapore only 2 percent of customer complaints were resolved in the customer's favor. But in Venezuela, resolution was in the favor of the customer 97 percent of the time. International comparisons of this sort are not very informative, as they mostly reflect structural differences in the existing systems. But at the country level, consistent tracking of the number of complaints and the number of complaints upheld by the ombudsman can be an important policy tool. In the United Kingdom, Malaysia, Sweden, Spain, Singapore, Pakistan, and Canada, information on complaints resolution by product is publicly available and is shared with regulators to inform policy. For example, spikes in the number of complaints or a share of upheld cases for a certain product may indicate a systemic problem and may warrant regulatory action. In a number of countries, the regulator's role is broader, as in Pakistan and Ecuador, where regulators can receive appeals if the customer is not satisfied with the ombudsman.

Effective third-party dispute resolution mechanisms are an essential part of consumer protection frameworks, especially in economies with weak judiciary systems. Yet 34 economies reporting do not have an ombudsman or an equivalent scheme, relying solely on the court system to resolve disputes. And few economies where these mechanisms exist are able to provide statistics on the number of complaints received and resolved. In a number of economies the dispute resolution schemes are new and may not be known to consumers and thus are rarely used. Across the board, further work to clarify legal and regulatory frameworks for the role of third-party mechanisms and to improve monitoring and consumer awareness can go a long way in enhancing overall effectiveness of the consumer protection system.

REGIONAL TRENDS IN CONSUMER PROTECTION

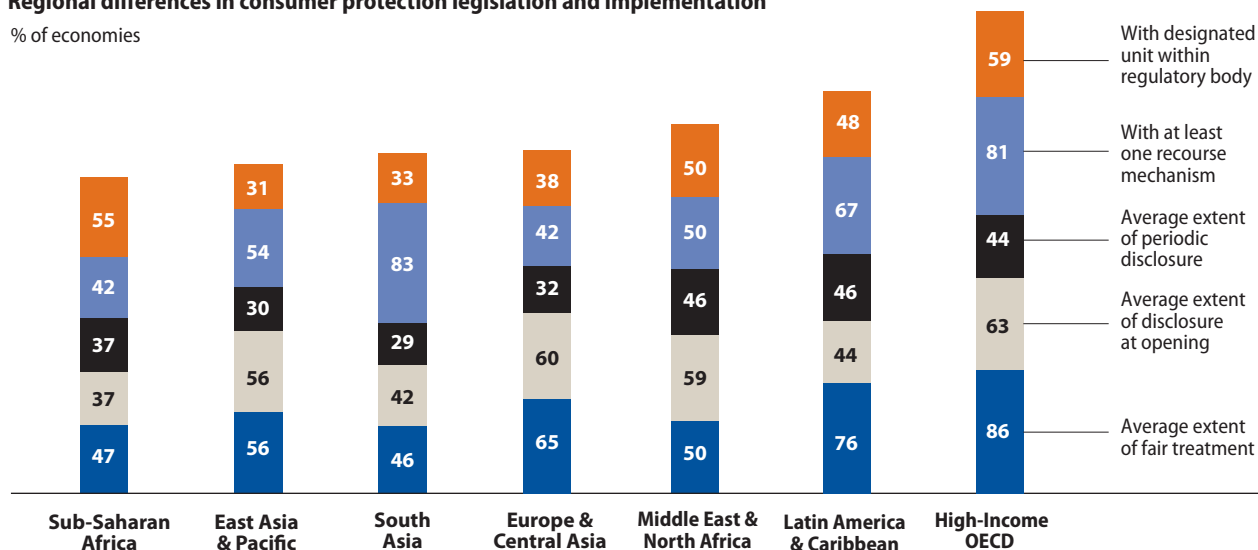
How do consumer protection frameworks vary from region to region? As mentioned earlier, almost all economies have consumer protection legislation on the books, whether an explicit financial consumer protection law or a general consumer protection law. However, the trends on enforcement and implementation mechanisms tell a different story.

Figure 3.13 displays the regional means for five areas measured by the *Financial Access 2010* survey. The first area measures the average number of the four legislative requirements on fair treatment practices implemented by each region. For example, South Asian economies on average require 46 percent (or 1.8 out of 4) of the fair treatment practices measured by the survey. The second area measures the average number of the 13 disclosure requirements upon opening implemented by each region. For example, Sub-Saharan African economies on average require 37 percent (or 4.8 out of 13) of the disclosure requirements upon opening measured by the survey. The third area measures the average number of the 13 periodic disclosure requirements implemented by each region. The fourth

FIGURE 3.13

Regional differences in consumer protection legislation and implementation

% of economies

Source: *Financial Access* database.

area measures the percentage of economies in each region that have at least one recourse mechanism. And the fifth area measures the percentage of economies in each region that have an allocated unit for financial consumer protection.

Overall, high-income countries have on average the most comprehensive consumer protection framework. Latin American economies follow close behind, particularly on fair treatment requirements and recourse mechanisms. This can be partly attributed to the fact that consumer protection frameworks in high-income countries have existed longer, and thus are better established and have had a chance to improve over time. Economies in Sub-Saharan Africa and South Asia have the least comprehensive legal frameworks in terms of the coverage of fair treatment and disclosure requirements. And across all groups, less than 60 percent of economies have an allocated team working on consumer protection issues.

NOTES

1. For an overview, see Rutledge (2010) and Brix and McKee (2010).
2. See Gokhale (2009), Reuters (2009), and Reille (2009).
3. Peterson (2003).
4. Ibid.
5. See Ardic, Ibrahim, and Mylenko (forthcoming) on consumer protection for further details of statistical analysis.
6. The focus of the *Financial Access 2010* survey was consumer protection for loan and deposit services, rather than for pensions, investments, and insurance.
7. Rutledge (2010).
8. Godfrey et al. (2008).
9. Lusardi and Tufano (2009).
10. U.S. GAO (2005).
11. Rutledge (2010); Brix and McKee (2010).
12. Ibid.
13. Office of Fair Trading (2009).
14. Financial Services Authority (2010).
15. Ibid.
16. An ombudsman is an entity or a person designated to investigate complaints and mediate fair settlements. In some cases, the ombudsman is completely independent of any government agency (including being housed by an industry association), and in other cases, it can be housed under the relevant regulatory authority.