Improving Consumer Protection

11th Annual International Seminar on Policy Challenges for the Financial Sector

3 June 2011
Washington, D.C.

World Bank
Global Program on Consumer Protection & Financial Literacy
Sue Rutledge
Global Coordinator
Consumer rights awareness

Financial institutions (or financial industry associations) could prepare a simple, easy-to-understand brochure about the consumer’s legal rights regarding remittances.

Consumer disclosure

Financial supervisory agency could ensure that comparable information is made available to consumers. For example, collecting from financial institutions their standard pricing for various types of remittances.

Data should be publicly available in newspapers and on the internet.

Global Map of the Financially Included

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Equitable growth is undermined by weak financial consumer protection

Weak financial consumer protection regulation has led to abusive or deceptive practices by some financial providers

- Particular issue for micro-finance (ex. India, Pakistan, Nicaragua, Kazakhstan) but seen throughout formal financial services
- Loss of consumer trust in financial sector reduces household use of formal financial services

Weak financial literacy increases households’ vulnerability to abusive practices

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Part of Global Financial Regulation & Supervision Agenda

- **Banking** - Precondition of effective banking supervision
- **Deposit insurance** - Core principle
- **Insurance** - Core principle
- **Securities** - Core principle
- **Private pensions** - Main objective
- **International remittances** - General principle
- Statutory objective for financial supervisory agencies worldwide:
  - e.g. Canada, Colombia, Ireland, Malaysia, Singapore, South Africa, Sweden, UK, US

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Country Projects Under Preparation

Implementation Programs
Action Plans
- In pipeline
Household Surveys
- In pipeline
Diagnostic Reviews
- In pipeline
Strategy for Country Programs

Baseline Household Survey of Financial Literacy & Consumer Behavior

Action Plan to Implement Recommendations

Implementation Program

Follow-up Household Survey

Diagnostic Review of Legal & Regulatory Framework

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Many Stakeholders are Involved

**GOVERNMENT**
- Ministries (e.g. Finance, Economy, Education)
- Public agencies (e.g. consumer protection, data protection, competition)
- Councils (e.g. consumer protection, education)

**FINANCIAL SUPERVISORS**
- Financial supervisory agencies
- Central Bank
- Financial consumer protection agency
- Compensation schemes

**FINANCIAL INDUSTRY**
- Industry associations
- Training centers
- Financial institutions (incl. distributors)
- Financial infrastructure (e.g. credit bureaus)

**CIVIL SOCIETY**
- Consumer associations
- Debt counseling
- Foundations
- Academia
- Media

**REDRESS MECHANISMS**
- Ombudsman
- Arbitration
- Mediation, conciliation
- Courts

**INTERNATIONAL COMMUNITY**
- Donors
- Regional organizations
- Standard setters
- International associations

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World Bank Contribution to Global Dialogue

- Launched Global Program on Consumer Protection and Financial Literacy *November 2010*
- Member of Financial Stability Board Consultative Group on Financial Consumer Protection
- Member of OECD Task Force on Financial Consumer Protection
- Developed methodology for assessing country financial consumer protection regimes
Good Practices for Financial Consumer Protection

- Used by World Bank as diagnostic tool for assessing a country’s financial consumer protection regime
- Based on best of international practice
- Tested in 12 countries in Europe & Central Asia & Africa
- All country reports published on web
- Initial draft of Good Practices prepared in 2006, finalized in 2010, updated in 2011
- Released as consultative draft, comments due June 30
- Public feedback tool: feedback.consumerprotection.worldbank.org
- Website: www.worldbank.org/consumerprotection
39 Good Practices cover All Financial Services

Plus specific Good Practices for each sector focusing on:
- Consumer disclosure
- Business practices
- Complaints & dispute resolution
- Financial literacy
Consumer Disclosure

- Simple
- Easy to understand
- Accessible
- Comparable

How do you know if it is working?
- Try consumer testing

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Helping Consumers Shop Around Makes a BIG Difference

Credit Card Loans Average Interest Rates in Peru

Source: Superintendence of Banking, Insurance and Private Pension Funds of Peru
Business Practices

- Free choice of financial products
- Prohibition of unfair, abusive, misleading practices
- Retail sales officers trained and qualified

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Consumer Redress

- Financial ombudsman
- Complaints department in every financial institution

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Financial Literacy

- Household Surveys of Financial Literacy & Consumer Behavior
- Financial education targeted on:
  - Risks/rewards
  - Rights/obligations
- Impact Measurement Studies

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Consultation Process for Draft Good Practices


• Public comments and suggestions feedback.consumerprotection.worldbank.org

• Direct comments and feedback to Sue Rutledge at srutledge@worldbank.org

• Comments due by June 30, 2011
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