LITHUANIA

Diagnostic Review of Consumer Protection and Financial Literacy

Volume II
Comparison against Good Practices

November 2009

THE WORLD BANK
Private and Financial Sector Development Department
Europe and Central Asia Region
Washington, DC
This Diagnostic Review is a product of the staff of the International Bank for Reconstruction and Development/ The World Bank. The findings, interpretations, and conclusions expressed herein do not necessarily reflect the views of the Executive Directors of the World Bank or the governments they represent.
Contents

Lithuania: Summary of Financial Sector .............................................................................................. 1
Lithuania: Consumer Protection in the Banking Sector ........................................................................ 5
Good Practices: Banking Sector ........................................................................................................... 10
Lithuania: Consumer Protection in the Securities Sector ...................................................................... 37
Good Practices: Securities Sector ........................................................................................................ 41
Lithuania: Consumer Protection in the Insurance Sector ....................................................................... 53
Good Practices: Insurance Sector ........................................................................................................ 59

Tables

Table 1: Structure of Lithuanian Financial System .................................................................................. 1
Table 2: Efficiency of Systems for Property Registration in European Countries ................................. 2
Table 3: Efficiency of Systems for Enforcing Contracts ........................................................................ 3
Table 4: Top Banks by Assets ............................................................................................................ 5
Table 5: Structure of Household Loans by Currency ............................................................................ 6
Table 6: Mortgage Debt to GDP ........................................................................................................... 6
Table 7: Growth of Financial System Loans to the Private Sector ......................................................... 7
Table 8: Collective Investment Undertakings ............................................................................................ 37
Table 9: Number of Persons Licensed as Financial Brokers ................................................................. 38

Figures

Figure 1: Cross-Country Comparison of Credit Reporting Systems Coverage ........................................ 2
Figure 2: Structure of Banking System Loan Portfolio ........................................................................... 5
Figure 3: Non-performing Loans Ratios in European Countries ............................................................ 7
Figure 4: Number of Persons Investing in Lithuanian CIUs ................................................................. 37
Figure 5: Life and Non-life Insurance Assets ....................................................................................... 53
Figure 6: Insurance Market Premium Income ....................................................................................... 54
Figure 7: Insurance Penetration and Density in EU New Member States ............................................. 54
Figure 8: Structure of Non-Life Insurance Premium Income by Product .......................................... 55
Figure 9: Structure of Life Insurance Premium Income by Product .................................................. 55
Lithuania: Summary of Financial Sector

Overview

The Lithuanian financial system was growing rapidly between 2003 and 2007. Total assets of the financial system had risen at an average rate of 40 percent per annum from 2003 to 2007. As a result, the financial sector rose from 47 percent of GDP in 2003 to 104 percent in 2007. Banks had led the growth with assets increasing from 39 percent of GDP in 2003 to 84 percent in 2007. Leasing companies also doubled their size to reach 11 percent of GDP. Other non-bank financial institutions—insurance companies, capital markets participants and pension funds—together rose to reach 9 percent of GDP. In 2008 the share of total assets of the financial system decreased to 98 percent of GDP, due to the contraction of the banking system and capital markets participants (see Table 1).

Table 1: Structure of Lithuanian Financial System

<table>
<thead>
<tr>
<th></th>
<th>Assets (as percent of GDP)</th>
<th>Number of Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic banks</td>
<td>38.8</td>
<td>46.7</td>
</tr>
<tr>
<td>Foreign bank branches</td>
<td>35.4</td>
<td>42.1</td>
</tr>
<tr>
<td>Credit unions</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Central Credit Union</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Leasing companies</td>
<td>4.7</td>
<td>6.2</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>2.5</td>
<td>2.7</td>
</tr>
<tr>
<td>Life insurance</td>
<td>0.7</td>
<td>1</td>
</tr>
<tr>
<td>Non-life insurance</td>
<td>1.8</td>
<td>1.7</td>
</tr>
<tr>
<td>Capital market participants</td>
<td>0.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Financial brokerage firms</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Management companies</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Open-ended investment companies</td>
<td>0</td>
<td>0.1</td>
</tr>
<tr>
<td>Investment funds</td>
<td>-</td>
<td>0.2</td>
</tr>
<tr>
<td>Foreign collective investment undertakings</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Holding investment companies</td>
<td>n.a.</td>
<td>-</td>
</tr>
<tr>
<td>Pension funds</td>
<td>0</td>
<td>0.2</td>
</tr>
<tr>
<td>Pillar II pension funds</td>
<td>0</td>
<td>0.2</td>
</tr>
<tr>
<td>Pillar III pension funds</td>
<td>-</td>
<td>0</td>
</tr>
<tr>
<td>Financial System</td>
<td>46.6</td>
<td>56.7</td>
</tr>
<tr>
<td>Stock exchange capitalization</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Listed equities</td>
<td>16.9</td>
<td>26.3</td>
</tr>
<tr>
<td>Listed debt securities</td>
<td>5.8</td>
<td>5.2</td>
</tr>
</tbody>
</table>

Market Infrastructure

Lithuania’s credit reporting system is in its early stages of development. The private credit bureau and the public credit registry each cover around 9 and 7 percent of adult population respectively. The extent of the coverage falls significantly below the average of other European countries, including Bulgaria and Romania (see Figure 1). The weak coverage of the credit reporting system will likely increase borrowing costs for households since households may be paying a significant credit risk premium.

Figure 1: Cross-Country Comparison of Credit Reporting Systems Coverage
(\% of adults)

![Figure 1: Cross-Country Comparison of Credit Reporting Systems Coverage](image)


Lithuania’s system for taking a mortgage lien and registering a property title is among the most efficient in the world. The system is fully computerized and transaction charges are minimal. While the initial mortgage registration requires numerous documents, once the documents have been assembled the process is very rapid and reliable.\(^1\) Among countries worldwide, Lithuania is ranked fourth in speed of processing and registering a mortgage (see Table 2).

Table 2: Efficiency of Systems for Property Registration in European Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Ranking (out of 181)</th>
<th>Number of steps</th>
<th>Number of days</th>
<th>Cost as % of property</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Lithuania</strong></td>
<td><strong>4</strong></td>
<td><strong>2</strong></td>
<td><strong>3</strong></td>
<td><strong>0.5</strong></td>
</tr>
<tr>
<td>Estonia</td>
<td>24</td>
<td>3</td>
<td>51</td>
<td>0.4</td>
</tr>
<tr>
<td>Russia</td>
<td>49</td>
<td>6</td>
<td>52</td>
<td>0.2</td>
</tr>
<tr>
<td>Germany</td>
<td>52</td>
<td>4</td>
<td>40</td>
<td>5.2</td>
</tr>
<tr>
<td>Latvia</td>
<td>77</td>
<td>7</td>
<td>50</td>
<td>2.0</td>
</tr>
<tr>
<td>Poland</td>
<td>84</td>
<td>6</td>
<td>197</td>
<td>0.5</td>
</tr>
<tr>
<td>Belgium</td>
<td>168</td>
<td>7</td>
<td>132</td>
<td>12.7</td>
</tr>
</tbody>
</table>

The process for enforcing collateral is short and quick but slightly expensive. Lithuania is ranked fifth in estimated number of days required to enforce contracts and 17th in terms of number of procedures (see Table 3). Speedy enforcement of liens on collateral provides lenders with the reassurance that they are able to fully rely on the collateral they are taking for their loans. In terms of cost, the enforcing process is slightly less expensive in Lithuania than in the average for Central and Eastern European countries.

Table 3: Efficiency of Systems for Enforcing Contracts in Europe

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Procedures</th>
<th>Number of Days</th>
<th>Cost (as % of Claim)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>25</td>
<td>505</td>
<td>16.6</td>
</tr>
<tr>
<td>Latvia</td>
<td>27</td>
<td>309</td>
<td>23.1</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>27</td>
<td>611</td>
<td>33</td>
</tr>
<tr>
<td>New Zealand</td>
<td>30</td>
<td>216</td>
<td>22.4</td>
</tr>
<tr>
<td><strong>Lithuania</strong></td>
<td><strong>30</strong></td>
<td><strong>275</strong></td>
<td><strong>23.6</strong></td>
</tr>
<tr>
<td>Germany</td>
<td>30</td>
<td>394</td>
<td>14.4</td>
</tr>
<tr>
<td>Slovakia</td>
<td>30</td>
<td>565</td>
<td>30</td>
</tr>
<tr>
<td>Romania</td>
<td>31</td>
<td>512</td>
<td>28.9</td>
</tr>
<tr>
<td>Estonia</td>
<td>36</td>
<td>425</td>
<td>26.3</td>
</tr>
<tr>
<td>Russia</td>
<td>37</td>
<td>281</td>
<td>13.4</td>
</tr>
<tr>
<td>Poland</td>
<td>38</td>
<td>830</td>
<td>12</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>39</td>
<td>564</td>
<td>23.8</td>
</tr>
<tr>
<td>Central and Eastern Europe</td>
<td>37.1</td>
<td>450.9</td>
<td>25.6</td>
</tr>
</tbody>
</table>

Lithuania: Consumer Protection in the Banking Sector

The Lithuanian banking sector is highly concentrated, with the leading banks owned by European banks from Baltic countries. Swedish banking groups control over half (56%) of total bank assets in Lithuania with a Norwegian bank controlling another 13 percent. (See Table 4).

Table 4: Top Banks by Assets

<table>
<thead>
<tr>
<th>Bank</th>
<th>Market Share by Assets (%)</th>
<th>Main Shareholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>AB SEB Bankas</td>
<td>31</td>
<td>99.7% SEB AB (Sweden)</td>
</tr>
<tr>
<td>Swedbank</td>
<td>24</td>
<td>99.99% Swedbank AB (Sweden)</td>
</tr>
<tr>
<td>AB DnB NORD Bankas</td>
<td>13</td>
<td>93.68% DnB NOR Bank ASA (Norway)</td>
</tr>
<tr>
<td>AB Bankas Snoras</td>
<td>7</td>
<td>67.28% Vladimir Antonov (Lithuania)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>25.01% Raimondas Baranauskas (Lithuania)</td>
</tr>
<tr>
<td>Nordea Bank</td>
<td>7</td>
<td>100% Nordea Group (Sweden, Finland, Denmark)</td>
</tr>
<tr>
<td>Danske Bankas</td>
<td>7</td>
<td>100% Danske Bank (Denmark)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>89</strong></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Bank of Lithuania and websites of the banks
December 2007

The rapid expansion of bank loans has been driven by lending to the household sector. The total banking loan portfolio experienced an average annual growth rate of around 50 percent from 2003 to 2007. This expansion was driven by loans to households, which saw annual growth rates above 80 percent until mid-2006. Household loans for housing purposes doubled from 14 percent of the banking loan portfolio in 2003 to 28 percent in 2007. Other household loans tripled their share in the loan portfolio, from about 4 percent in 2003 to 12 percent in 2007. By the end of 2007, household lending represented 40 percent of aggregate bank loans. This participation remained unchanged by end-2008.

Figure 2: Structure of Banking System Loan Portfolio

Sources: Bank of Lithuania, Financial Stability Reviews
Foreign currency loans have significantly increased their share in the household loan portfolio over the past two years. Household loans in foreign currency grew 36 percent in 2006, 79 percent in 2007 and 49 percent in 2008. Their participation in the household loan portfolio has increased from 44 percent in 2006 to 62 percent in 2008. The vast majority of these loans have been granted in Euros. However loans in other foreign currencies increased by more than 5 times in 2008.

Table 5: Structure of Household Loans by Currency
(in percentage)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans in Litas</td>
<td>57.2</td>
<td>45.3</td>
<td>56.1</td>
<td>50.2</td>
<td>38.4</td>
</tr>
<tr>
<td>Loans in Euros</td>
<td>40.8</td>
<td>54.1</td>
<td>43.6</td>
<td>49.6</td>
<td>60.7</td>
</tr>
<tr>
<td>Loans in other currencies</td>
<td>2.0</td>
<td>0.7</td>
<td>0.2</td>
<td>0.2</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Source: Bank of Lithuania, Monthly Bulletin December 2008

Mortgage loans (i.e. loans made for housing purposes) have grown very rapidly over the past decade, raising the penetration ratio to a level above the average of EU transition countries. From being nonexistent in 1995, by 2007 mortgage debt represented around 20 percent of GDP. Among EU new member states, Lithuania has one of the highest ratios of mortgage debt relative to GDP, although the Lithuanian level of housing debt remains lower than for Estonia and Latvia (see Table 5).

Table 6: Mortgage Debt to GDP

<table>
<thead>
<tr>
<th></th>
<th>Mortgage Debt / GDP (%)</th>
<th>GDP per Capita (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia</td>
<td>32.7</td>
<td>17,364</td>
</tr>
<tr>
<td>Latvia</td>
<td>28.9</td>
<td>14,232</td>
</tr>
<tr>
<td><strong>Lithuania</strong></td>
<td><strong>19.2</strong></td>
<td><strong>11,665</strong></td>
</tr>
<tr>
<td>Croatia</td>
<td>15.3</td>
<td>12,373</td>
</tr>
<tr>
<td>Hungary</td>
<td>11.4</td>
<td>14,624</td>
</tr>
<tr>
<td>Poland</td>
<td>8.3</td>
<td>11,694</td>
</tr>
<tr>
<td>Ukraine</td>
<td>7.1</td>
<td>3,297</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>7.0</td>
<td>5,946</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>5.3</td>
<td>7,330</td>
</tr>
<tr>
<td>Russia</td>
<td>2.0</td>
<td>10,468</td>
</tr>
</tbody>
</table>

Note: Data as of December 2007, except for Lithuania (October 2008)
Source: Various sources compiled by World Bank

Growth of household lending by the banking sector showed signs of slowdown in 2008. The growth rate of banking loans significantly slowed down in the first quarter of 2008. Loans to households only increased 21 percent, which was also the lowest growth rate of the decade for this segment (see Table 7).
The quality of the banking loan portfolio has remained high for all types of borrowers. In 2007, the share of loans with payments overdue more than 60 days remained stable at around one percent. Although differences in accounting, taxation and prudential regulation make it difficult to compare indicators of non-performing loans across countries, an initial analysis suggests that Lithuania has one of the lowest non-performing loans ratios in Europe (see Figure 3).

![Figure 3: Non-performing Loans Ratios in European Countries](source)

**Legal Framework**

The main legislation covering consumer protection in the banking sector are the following:

- Civil Code
- Law on Banks No. IX-2085 as amended by Law No. X-1038 (18 January 2007)
Lithuania

Banking Sector

- Law on Legal Protection of Personal Data No. IX-1296
- Law on Competition No. VIII-1099
- Law on Mortgage Bonds and Mortgage Lending No IX-1746 (as last amended on 15 April 2004)
- Resolution No. 149 of the Bank of Lithuania on the Organization of Internal Control and Risk Management (25 September 2008)

**Institutional Arrangements**

Established in 2001, the State Consumer Rights Protection Authority (SCRPA) is responsible for ensuring the protection of consumer rights in all fields of the economy, including financial services. However the authority of the SCRPA is uneven. For activities under the Law on Payments, the decisions of the SCRPA are binding. For other disputes that fall under the Law on Consumer Protection (including credit contracts), the SCRPA is responsible for investigating consumers’ complaints and adopting resolutions. These resolutions however are not binding and in practice are recommendations that the financial institution may or may not follow. Although the SCRPA can – and does – publish the names of institutions to fail to follow the SCRPA resolutions.

The Bank of Lithuania is in charge of regulating and supervising the banking sector, but its legal mandate does not explicitly include consumer protection. The Law on the Bank of Lithuania states that the primary objective of the Bank is to maintain price stability. The Bank of Lithuania considers that this mandate is not wide enough to include consumer protection.

The Law on Consumer Protection allows a role for coordination between the SCRPA and the financial supervisory agencies. The Law assigns the SCRPA the role of coordinating the activities of regulatory agencies regarding consumer protection. However coordination is difficult given that the SCRPA falls under the Ministry of Justice and the supervisory agencies are independent and report directly to the Government or the Parliament.

The SCRPA and the Competition Council are responsible for enforcing the laws that prohibit unfair commercial practices against consumers. The Competition Council has enforcement responsibilities only in the cases of misleading and unfair comparative advertising. The SCRPA is responsible for enforcing provisions on other unfair practices.

The State Data Protection Inspectorate enforces the Law on Legal Protection of Personal Data. The Inspectorate administers the Register of Personal Data Controllers and receives complaints on data protection issues.

The Association of Lithuanian Banks covers all Lithuanian banks and two foreign bank branches. It currently has no code of conduct or ethics code.

The State Undertaking on Deposits and Investments Insurance is in charge of administering the deposit insurance fund. The agency enforces the Law on Insurance of Deposits and Liabilities to Investors approved in 2002.
The Lithuania Mortgage Insurance Company provides credit risk insurance to banks for residential mortgage loans. The premium for the loan is paid for by the borrower and varies depending on the loan-to-value ratio of the loan. The scheme currently operates on a 100 percent coverage basis, as long as the loan to value remains above 66 percent. This in theory provides coverage for up to 26 years based on a typical mortgage.²

**Key Recommendations**

Among the key recommendations of the review of consumer protection in the banking sector are the following:

- The law should be amended so that the decisions of the SCRPA in dispute resolutions are always binding.
- The SCRPA should either be given an independent status similar to that of the financial supervisory agencies or be part of an integrated financial supervisory commission.
- A code of conduct should be developed by the Association of Lithuanian Banks and applied to all members of the association, and it should have effective mechanisms of enforcement.
- The government should encourage the development of consumer associations in the field of financial consumer protection.
- The EU Directive on Credit Agreements for Consumers should be transposed into Lithuanian law and incorporate additional provisions on consumer protection, such as the prohibition of compulsory tying of financial products, the prohibition of abusive debt collection practices, and the requirements for disclosure of specific consumer credit.
- The law should establish detailed rules on the use of personal data by government authorities.
- Banks should be required to maintain written internal complaints procedures as well as up-to-date records of all complaints received.
- Using cost-benefit analyses of different options, the government should evaluate the best institutional framework that would deal with the growing number of inquiries, complaints and disputes in the financial sector.
- The law should be modified in order to assign a higher priority to depositors over other unsecured creditors in the liquidation process of a bank.
- There should be national programs of financial education and consumer awareness, which would require the participation of governmental institutions, professional associations, consumer associations and media.
- A baseline survey on financial capability should be conducted, with a follow-up survey three to five years later. The baseline survey would provide information to identify specific needs in different populations and to target initiatives accordingly, whereas the follow-up surveys would help to determine the initiatives that are most effective and the modifications that may be needed.

² Assumes a 40 year mortgage with a 2 year grace period, a constant interest rate, and an initial loan to value ratio of 95%.
## Good Practices: Banking Sector

<table>
<thead>
<tr>
<th>SECTION A</th>
<th>CONSUMER PROTECTION INSTITUTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Good Practice A.1</strong></td>
<td><strong>Consumer Protection Regime</strong></td>
</tr>
<tr>
<td></td>
<td>The law should provide for clear consumer protection rules regarding any regulated financial product or service, and all institutional arrangements should be in place to ensure the thorough, objective, timely and fair implementation and enforcement of all such rules.</td>
</tr>
<tr>
<td></td>
<td>a. Specific statutory provisions need to create an effective regime for the protection of any consumer of a banking product or service.</td>
</tr>
<tr>
<td></td>
<td>b. Either a general consumer agency or a specialized agency should be responsible for implementing, overseeing and enforcing consumer protection, as well as collecting and analyzing data (including complaints, disputes and inquiries).</td>
</tr>
<tr>
<td></td>
<td>c. The law should provide and not prohibit a role for the private sector, including voluntary consumer protection organizations and self-regulatory organizations, regarding consumer protection in general and in financial products and services in particular.</td>
</tr>
</tbody>
</table>

### Description

The **Civil Code** includes basic consumer protection provisions for consumer credit (Chapter XLIII, Section Three, articles 6.886-6.891) and bank deposits (Chapter XLIV, articles 6.892-6.902).

The **Law on Consumer Protection** No. I-657 (as last amended on 12 January 2007 by Law No. X-1014) refers to general consumer protection issues regarding the provision of goods and services. With the exception of a section on consumer protection for contracts concluded using means of communication, i.e. distance marketing, (Chapter 8, articles 36-39), there is no specific reference to financial products. According to article 36, “the Civil Code and other legal acts regulating the supply of financial services shall apply to the relations of the supply of financial services which are not defined by this chapter”.

The **Law on Payments** No. VIII-1370 (as amended on 15 July 2004 by Law No. IX-2404) also includes provisions on consumer protection. Articles 22-24 relate to the settlement of disputes between consumers and credit institutions, and assign the SCRPA a role to investigate consumers’ complaints and adopt resolutions that are binding to the credit institutions (within a one-month appeal period).

The **Law on Insurance of Deposits and Liabilities to Investors** No. IX-975 (as last amended on 21 July 2009 by Law No. XI-376) establishes a deposit insurance program and an agency to administer the program, providing protection to consumers in the event of bank insolvency up to the equivalent of EUR 100,000.

The **Law on Banks** No. IX-2085 (as last amended on 18 January 2007 by Law No. X-1038) and the Law on the Bank of Lithuania assign the task of prudential supervision of licensed banks and credit institutions to the Bank of Lithuania.

According to article 7 of the **Law on the Bank of Lithuania** No. I-678 (as last amended on 25 April 2006 by Law No. X-569), “the primary objective of the Bank of Lithuania shall be to maintain price stability”. To implement this objective, the Bank of Lithuania shall perform several functions, which according to article 8 include issuing and revoking licenses of credit institutions, and supervising their activities. However the law does not include an explicit mandate on consumer protection, and the Bank of...
Lithuania considers that its mandate of maintaining price stability does not include consumer protection.

The Law on Consumer Protection grants responsibility to administer and implement the provisions of the Law to the State Consumer Rights Protection Authority (SCRPA), a state establishment under the Ministry of Justice. According to article 12 of the Law on Consumer Protection, the main role of SCRPA is to "ensure the protection of consumer rights". SCRPA also has the role of coordinating “activities of consumer rights protection institutions, responsible for the regulation of a certain area of consumption”.

However coordination is difficult. The agencies with consumer protection responsibilities for some non-bank financial services, notably the Lithuanian Securities Commission and the Lithuanian Insurance Commission, are independent and report directly to the Government or the Parliament. Therefore, it is difficult for SCRPA to effectively fulfill its role of coordination of the consumer protection work across the financial sector.

There is an inconsistency in the treatment of dispute resolutions made by the SCRPA under provisions of the Law on Consumer Protection and the Law on Payments. For the Law on Payments, the SCRPA’s decisions are binding. However, the decisions of the SCRPA on disputes made under the Law on Consumer Protection are not binding, but are recommendations. If a consumer prevails in such a proceeding, the provider is not bound by the decision of the SCRPA. The only action that is taken in such a case is to publish the outcome on SCRPA’s web site.

Regarding the defense of consumers’ rights out of court, article 22 of the Law on Consumer Protection identifies the institutions that are in charge of settling disputes in different sectors. With regards to financial issues, this article identifies the authority of the Insurance Supervisory Commission to settle consumer disputes in the insurance sector. There is no mention of a specific authority in charge of settling disputes in the banking sector, although according to article 22, the State Consumer Rights Protection Authority (SCRPA) is the relevant authority in any sector that is not specifically mentioned in the Law ("in other spheres of the protection of consumer rights which are not covered in subparagraphs 1-5 of paragraph 1 of this article").

The law allows a role for consumer associations in Lithuania. According to article 9 of the Consumer Protection Law, the protection of consumer rights shall be guaranteed by state and municipal institutions, and consumer associations. Article 13 identifies the role of consumer associations, which include educating consumers, representing consumers in the cases of out-of-court disputes, and presenting proposals on the development of policies regarding the protection of consumer rights. In addition, the Law establishes the requirements to be fulfilled by consumer associations to have the right to protect public interests of consumers, file a claim or petition in representation of consumers, and receive government financial support (article 31). According to article 13 of the Law, consumer associations shall receive state financial support after they meet minimum conditions which include identification of the purpose of the association as representation and protection of consumer rights, membership of at least 20 members and independence.

<table>
<thead>
<tr>
<th><strong>Recommendation</strong></th>
<th>The law should be amended to allow the SCRPA to make binding decisions, enforceable by fines.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consideration</td>
<td>should be given to giving the SCRPA independent status similar to those of its sister financial service consumer protection agencies, the Lithuanian Securities Commission and the Lithuanian Insurance Commission.</td>
</tr>
<tr>
<td>In addition, the SCRPA could participate in the Commission for Co-ordination of Regulation and Supervision of the Activities of Financial Institutions and Insurance Undertakings. This Commission was created by the Law on Financial Institutions No.</td>
<td></td>
</tr>
</tbody>
</table>
Lithuania

Banking Sector

IX-1068 of 10 September 2002 (Chapter XII, articles 48-49) and has the role of coordinating activities and mutual cooperation between all the financial supervisory authorities.

<table>
<thead>
<tr>
<th>Good Practice A.2</th>
<th>Code of Conduct for Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. There should be a principles-based code of conduct for banks that is devised in consultation with the banking industry and if possible with consumer protection associations, and is monitored by a statutory agency or an effective self-regulatory agency.</td>
<td></td>
</tr>
<tr>
<td>b. Every bank, acting alone and together, should publicize and disseminate this statutory code of conduct to the general public through appropriate means.</td>
<td></td>
</tr>
<tr>
<td>c. The statutory code should be augmented by voluntary codes of conduct for banks on such matters as facilitating the easy switching of consumers' current accounts and establishing a common terminology in the banking industry for the description of banks' charges, services and products.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Law on Prohibition of Unfair Business to Consumer Commercial Practices (article 11) states that the SCRPA shall promote the development of codes of conduct and shall cooperate with the firms that have assumed or are planning to assume the obligations stipulated in the codes of conduct.</td>
</tr>
<tr>
<td>Currently, there is no universal code of conduct for the Lithuanian banking industry. However most large credit institutions have such codes, in most cases adopted from their parent institutions. Discussions with banks, professional associations, and regulators indicate that development of an industry-wide code of conduct could be accomplished. Banks and their industry association could obtain and adapt such codes from other countries in similar situations and/or their parent or correspondent banks in other countries.</td>
</tr>
</tbody>
</table>

**Mortgages**

In March 2001, the main European consumer associations and associations of credit institutions offering home loans agreed upon a voluntary Code of Conduct on Pre-contractual Information for Home Loans. This Code has been implemented by banking associations in several European countries, starting in September 2002. The European Commission encourages the application of this Code and maintains a register of compliant institutions, which is available at: [http://ec.europa.eu/internal_market/finservices-retail/home-loans/code_en.htm](http://ec.europa.eu/internal_market/finservices-retail/home-loans/code_en.htm)

Many European banks that have invested in the Lithuanian banking system are included in this Register.

<table>
<thead>
<tr>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>A code of conduct should be developed by the Association of Lithuanian Banks and applied to the members of the association. Since compliance with the code would be voluntary, each institution would decide whether or not to comply. However institutions would generally state that they comply with the code if they are concerned with their reputation. To further encourage adherence to the code, the SCRPA or the Bank of Lithuania could require that all banks issue a statement indicating if they have complied with the code or the reasons for non compliance. In addition, the Bank of Lithuania could verify the compliance with the code at the time of onsite supervision of the banks. Alternatively consumer associations could be authorized (under the code of conduct) to collect complaints from the public about possible abuses of the code.</td>
</tr>
<tr>
<td>The code of conduct should be publicized and made widely available, including the websites of the Association of Lithuanian Banks and the individual banks.</td>
</tr>
</tbody>
</table>
**Good Practice A.3**

**Balance between Prudential Supervision and Consumer Protection**

Where prudential supervision and consumer protection are the responsibility of a single organization, there should be a balance of prudential supervision and consumer protection to ensure that one is not subservient to the other.

**Description**

The Law on the Bank of Lithuania states that the mandate of the Bank of Lithuania is to maintain price stability (article 7). In order to implement this mandate, the Law states that the Bank shall "issue and revoke licenses for credit institutions of the Republic of Lithuania as well as branches of credit institutions of foreign states, and supervise the activities thereof" (article 8). This supervisory responsibility is ratified in the Law on Banks (article 64) and the Law on Credit Unions (article 52).

However the law does not identify a responsibility on consumer protection for the Bank of Lithuania, and the Bank does not consider that the 'stability' mandate includes consumer protection issues.

The Law on Consumer Protection assigns responsibility to protect the rights of consumers in the provision of goods and services to the SCPRA. In the case of dispute settlements between retail customers and credit institutions, the Law on Consumer Protection assigns the responsibility to SCRPA.

However the SCPRA is not at the same institutional level of the Bank of Lithuania. Whereas the Bank of Lithuania is an independent agency, the SCRPA is under the Ministry of Justice.

**Recommendation**

The SCRPA has also been given the role of coordinating activities of the financial supervisory agencies on consumer protection issues. However it is difficult for the SCRPA to fulfill this role effectively, given its institutional status as an agency under the Ministry of Justice, compared with the independent status of the financial supervisory agencies. It may be helpful that the Law on Consumer Protection authorize the SCRPA to establish a coordinating body to bring together all the financial supervisors to discuss consumer protection issues.

Another option would be to use the Commission for Co-ordination of Regulation and Supervision of the Activities of Financial Institutions and Insurance Undertakings, created by the Law on Financial Institutions as a body to enhance mutual cooperation and interconnection of financial supervisors. Consideration could also be given to having the SCRPA report directly to Parliament.

**Good Practice A.4**

**Other Institutional Arrangements**

a. The judicial system should provide credibility to the enforcement of the rules on financial consumer protection.

b. The media and consumer associations should play an active role in promoting financial consumer protection.

**Description**

a. The court system in Lithuania is quicker and has fewer procedures than the average in other countries in Europe, but the cost of litigation is slightly higher, which may discourage their use by consumers. According to the Doing Business indicators, the average cost of enforcement of contracts is 23.6% of the claim (compared with an average of 22.7% for Europe and Central Asia.)

b. The Law on Consumer Protection identifies consumer associations and governmental institutions as the two components of the institutional system of consumer protection.
The law also states the rights of these associations (article 13), which include conducting and publishing surveys of consumer opinions, educating consumers and publishing materials for this matter, representing consumers in out-of-court dispute settlement mechanisms, providing advisory services, presenting proposals on the development of consumer protection policies, and defending public interest of consumers.

There are more than 20 general consumer associations in Lithuania, and most are small, and underfunded. Few have an active participation in the field of financial services. The largest association is the Lithuanian Consumer Institute and acts as Lithuania’s official representative to the European Association of Financial Service Users (FIN-USE). Advocacy actions by these associations usually include extensive contact with the media.

**Recommendation**

The government should encourage the development of consumer associations in the field of financial consumer protection. Authorities should increase their coordination with consumer associations and media, organizing workshops to improve their knowledge and understanding of the financial sector and consumer protection issues, and providing them with information on finance and consumer protection. The government should also provide additional incentives and support to consumer associations in order to strengthen their role as a pillar institution for consumer protection in the financial sector.

### SECTION B

**DISCLOSURE AND SALES PRACTICES**

**Good Practice B.1**

**Know Your Customer**

When making a recommendation, to a consumer, a bank should gather, file and record sufficient information from the consumer in order to ensure that the bank’s recommendation, product or service is appropriate to that consumer. The extent of information the bank gathers should:

- a. **Be appropriate to the nature and complexity of the product or service being proposed to or sought by the consumer;** and
- b. **Enable the bank to provide a professional service.**

**Description**

The Law on the Prevention of Money Laundering and Terrorist Financing establishes the requirements of financial institutions to adequately identify the customer’s and beneficial owner’s identity (Chapter 3), especially for transactions above certain limits. The Law also requires that, in all cases, financial institutions obtain from the customer information about the purpose of the customer’s relationship with the financial institution. The financial institution should also perform ongoing monitoring of this relationship, "including the investigation of the transactions concluded during such relationship, seeking to ensure that the performed transactions correspond to the information possessed by financial institutions or other entities about the customer, his business and the type of risk, as necessary, and information about the source of funds” (article 9). Financial institutions are prohibited to perform transactions when they are not able to fulfill all these requirements.

The Bank of Lithuania’s Resolution No. 149 (September 2008) on the Organization of Internal Control and Risk Management requires banks to collect sufficient quantitative and qualitative information of the customer that allow the assessment of his or her credit risk before granting or denying a credit (articles 23 and 24). The Regulation also states that banks must analyze the borrower’s creditworthiness with all received information. In particular the Regulation states that in the case of individuals, the banks must assess the debtor’s ability to meet the financial obligations, the debtor’s assets, stability and reliability of the borrower (e.g. education, marital status, duration of last employment, external or internal information about debtor’s past-due payments, housing) as well as economic conditions and other factors that may influence the debtor’s payment capacity.
<table>
<thead>
<tr>
<th>Recommendation</th>
<th>No recommendation.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Good Practice B.2</strong></td>
<td><strong>Affordability of Products</strong></td>
</tr>
<tr>
<td><strong>Description</strong></td>
<td>When making a recommendation to a consumer, the bank should ensure that:</td>
</tr>
<tr>
<td></td>
<td>a. Any product or service it offers to that consumer is in line with the need of the consumer;</td>
</tr>
<tr>
<td></td>
<td>b. When offering any products or services, the consumer should be given a range of options to choose from to meet his or her requirement;</td>
</tr>
<tr>
<td></td>
<td>c. In recommending a product or service to that consumer, sufficient information on the product or service should be provided to enable the consumer to select the most suitable product or service.</td>
</tr>
</tbody>
</table>

The Civil Code includes provisions in terms of information required to be provided to the consumer. Article 6.887 specifies the information that a consumer credit agreement should include (e.g. amount or limit of credit; annual credit repayment rate, interest rate, fees and charges; credit repayment term and amount of each installment; price of financed product or service and total amount of credit; debtor’s right to repay credit; conditions and procedure to change annual credit repayment rate), as well as the requirements to notify the debtor on changes of interest rates, to provide a written example of the calculation of the credit provided including the interest rate.

In addition, the Law on Banks (article 56) requires that, prior to concluding a contract on a financial service, banks provide a client with detailed information which may influence the client’s decision to enter into the contract. The Law on Prohibition of Unfair Business-to-Consumer Commercial Practices (Law No. X-1409 of 21 December 2007) also prohibits misleading commercial practices. These practices include misleading omissions, which are defined as omissions of material information that the average consumer needs to take an informed transactional decision, or as provision of material information in an unclear, unintelligible, ambiguous or untimely manner.

In the case of financial services contracted using means of communication, the Law on Consumer Protection prohibits the supply of financial services to a consumer without consent, when this supply includes a request for payment (article 38).

**Mortgages**

In Lithuania the majority of home loans are denominated in Euros with a small percentage in Dollars. The currency has been fixed against the Euro for around 4 years now and there has been only minimal movement in the Euro/Litas exchange rate for the last 7 years. Nevertheless borrowing money in a currency different from that of the income exposes the consumer to a large currency risk which could be compounded by interest rate risk, if the loan has variable interest rate.

Besides mortgage loans issued in Euros, some banks were offering Swiss Franc loans up until recently, too. Other high-risk loan products available on the market and publicized on the websites of banks include: 120% loan-to-value mortgages, equity withdrawal loans to invest into shares, and limited documentation loans. The risk for the consumer also represents a significant credit risk for the bank, which will ultimately bear any losses arising from a consumer’s inability to maintain payments on the loan.

Some countries have established requirements or guidelines for financial entities when granting foreign currency loans, so that they also bear some risks and responsibilities (e.g. the Austrian Financial Markets Regulator sets out a number of requirements for lenders to apply in terms of their monitoring of foreign exchange risk exposures and for the underwriting of loans); Poland introduced differentiated capital requirements for

---

3 For further details, see [http://www.fma.gv.at/cms/site/EN/index.html](http://www.fma.gv.at/cms/site/EN/index.html)
foreign currency loans which adjust the price of the loan upwards reflecting the higher level of risk. In Latvia, loans in Euros represent the largest share in all loans issued in foreign currency (around 98 percent). The Bank of Lithuania notes that, when calculating capital adequacy, additional capital requirements are required to cover foreign exchange rate risk. Moreover, in light of Lithuania’s currency board regime where the national currency is pegged to the euro, the foreign exchange risk for loans in Euros is eliminated as long as the regime keeps operating.

However of concern are housing loans with grace periods. The grace period is largely predicated on the lender being hedged by rising property values and the long maturity of the loans. However if the assumed benign condition on housing price inflation does not hold, then consumers may be exposed to unexpected high-risk situations.

**Recommendation**

The EU Directive on Credit Agreements for Consumers contains detailed provisions regarding the pre-contractual information that the creditor should provide to the consumer. Specifically, article 5 states that the creditor shall consider the terms and conditions of the credit and, if applicable, the preferences expressed and information supplied by the consumer, in order to provide the consumer with the information needed to compare different offers and to take an informed decision on whether to conclude a credit agreement. Implementation of the Directive (required by May 2010) will improve the ability of consumers to understand credit offers and choose those that are the most affordable and suitable for their needs. However the Directive specifically exempts mortgages and housing loans.

**Mortgages**

Given that the EU Consumer Credit Directive does not apply to mortgages, the authorities should issue specific regulations that deal with affordability, in particular, considering consumers’ exposure to riskier products.

Improving affordability and suitability of products requires a dual approach targeting both the consumer in terms of information provision and the lender in terms of underwriting standards and risk management. The consumer should be made aware of the risks involved in taking a foreign currency loan. A number of countries require an explicit sign-off by the consumer that they understand the risks. Although it may be unrealistic to expect the consumer to fully understand the intricacies of currency markets, this notice should serve as an initial warning for the consumer.

A grace period may be attractive to consumers, but it may result in an unexpected high-risk situation for consumers. Conservative underwriting requires that a loan be granted on the ability of the consumer to pay back the loan at the time of disbursement. In addition, grace period loans can encourage over-indebtedness and allow consumers to use leverage to speculate on property values. It is conceivable that a number of borrowers would take out loans with a grace period with the intention of selling the property at the end of two years and retaining any capital gains.

The strictest recommendation is to withdraw grace periods from mortgage products in Lithuania. However if the grace period is to remain, several safeguards should be included:

- Limit the grace period to borrowers who are starting with a high level of equity, e.g. maximum of 60% loan to value or below;
- Do some stress-testing, combining different changes such as slowing or negative house price inflation and rising interest rates;
- This should be presented to the consumer in a simple document allowing them to clearly understand the risks that they are exposing themselves to.

**Good Practice B.3**

**Cooling-off Period**

Unless explicitly waived in advance by a consumer in writing, a bank should provide the consumer a “cooling-off” period of a reasonable number of days
immediately following the signing of any loan agreement between the bank and the consumer during which time the consumer may, on written notice to the bank, treat the agreement as null and void without penalty of any kind to the consumer.

**Description**

In the case of financial services contracted through means of communication (i.e. by distance marketing), the Law on Consumer Protection (article 37) provides the consumer with the right to withdrawal from the contract within a period of 14 days from the date of conclusion of the contract, with the exception of contracts for life assurance and pensions, where the period is of 30 days. The Law also identifies the cases where a consumer may not exercise the right of withdrawal: financial services whose price depends on fluctuations outside the supplier’s control; travel, baggage or similar short-term insurance policies of less than one month of duration; and contracts whose performance has been fully completed at the consumer’s express request before the expiration of the time limit for withdrawal from the contract. In addition, the Law explicitly prohibits restricting or limiting the consumers’ right to withdraw from a contract, by any means including additional obligations or fees.

The law does not include a provision on cooling-off period for financial services not contracted through means of communication.

The transposition of the EU Directive on Credit Agreements for Consumers into Lithuanian law will strengthen the cooling-off period for consumer loans. Article 14 of the Directive contains a right of withdrawal within a period of 14 calendar days, without the need of giving any reason and without being charged any penalty for withdrawal.

**Mortgages**

The EU Directive on Distance Marketing of Financial Services requires a 14-day cooling-off period for most financial products. However there is an opt-out clause in place for secured credit on immovable property (mortgage loans).

Good practice in Europe tends towards giving consumers a 14-day cooling-off period during which they are allowed to pull out of a contract without suffering any penalty. A cooling-off period can be costly for mortgage lenders given that they have to lock funding in place for a loan and there may be costs associated with unwinding a position.

However one of the benefits of a cooling-off period is that it creates an incentive for the lender to ensure that the contract and the terms and conditions of the mortgage product are well understood by the consumer and that the product is suitable for their needs and income level.

**Recommendation**

There should be a cooling-off period of 14 days for mortgage loans in Lithuania. Legal and administrative fees should however be borne by the consumer.

**Good Practice B.4**

*Linked Products and Bundling Clauses*

Whenever a borrower is obliged by a bank to purchase any product, including an insurance policy, as a pre-condition for receiving a loan from the bank, the borrower should be free to choose the provider of the product.

**Description**

At the present time, there appears to be substantial linkage of products and services in Lithuania. For example, there are bundled credit cards with pre-approved credit limits upon mortgage loan approval.

The Civil Code allows for the provision of credit insurance as part of a consumer credit agreement. Article 6.887 states that if the creditor has to provide credit insurance, “the agreement shall also specify the value of the credit insurance as well as the conditions under which the amount of insurance will be transferred to the creditor.”
The EU Directive on Credit Agreements for Consumers does not explicitly prohibit bundling and tying products, but allows Member States to introduce national regulations on this matter. Member States may prohibit the creditor from requiring the consumer, in connection with a credit agreement, to conclude an agreement in respect of any ancillary service, or to pay expenses or fees of any ancillary service. In cases where Member States allow for these combined services, the Directive states that consumers should be informed before the conclusion of the credit agreement about any ancillary services which are compulsory in order for the credit to be obtained. The costs payable in respect of those ancillary services should be included in the total cost of the credit; alternatively, if the amount of such costs cannot be determined in advance, consumers should receive adequate information about the existence of costs at a pre-contractual stage.

**Recommendation**

As a general rule, consumers should be allowed to choose where to purchase financial products that are required as pre-condition for receiving a loan. Banks should clearly provide customers with separate prices of each product in a bundle, as well as any discount available if purchased as a bundle from the same bank (or from a bank’s preferred vendor). Such provisions could be included as part of the law on consumer credit.

**Good Practice B.5**

*Preservation of Rights*

Except where permitted by applicable legislation, in any communication or agreement with a consumer, a bank should not exclude or restrict, or seek to exclude or restrict:

a. Any statutory liability or duty of care of the bank to the consumer;
b. Any duty to act with skill, care and diligence toward the consumer in connection with the provision by the bank of any financial service or product; and
c. Any liability arising from the bank’s failure to exercise the degree of skill, care and diligence that may reasonably be expected of it in the provision of any financial service or product to the consumer.

**Description**

The Law on Prohibition of Unfair B2C Commercial Practices (article 3) provides that “a commercial practice shall be unfair if it is contrary to the requirements of professional diligence” and if it materially distorts (or is likely to materially distort) the economic behavior of an average consumer (or the average member of a group of consumers) with regard to the offered product. The Law defines “professional diligence” as “the standard of special skills and care which a commercial operator may reasonably be expected to possess and exercise towards consumers, commensurate with honest market practices and/or the general principle of good faith in the operator’s field of activity”. In addition, when determining if a commercial practice is aggressive, the Law requires attention to be paid to “any onerous or disproportionate non-contractual barriers that a commercial operator uses or intends to use to limit a consumer’s right to exercise the rights under the contract” (article 8). The Law also establishes that “commercial operators who infringe the requirements of this Law shall be held liable under this Law and other laws.”

The Law on Consumer Protection requires that sellers and service suppliers adhere to fair business practices when offering products or services to consumers (article 6). Chapter 8 of the Law includes more specific provisions regarding financial service contracts concluded under means of communication (i.e., means which are used for the conclusion of a distance sales or service-provision contract not involving the simultaneous physical presence of the service supplier and the consumer). The Law states that “consumers may not waive the rights granted to them in this chapter” and, it also prohibits “to restrict the right of the consumer to withdraw from the contract with additional obligations, fees or to limit it in any other way or to repeal it”, with the exception of the cases mentioned in the chapter. The Law also establishes that “sellers and service suppliers shall be held liable for infringements of the legal acts regulating the protection of consumer rights according to the procedure established by law.”
The Civil Code includes the right of the debtor to waive a credit agreement if it contains misleading information or if it does not contain the specific information required under the Code. In the case of deposits, the Code states that a deposit agreement shall be null and void if it stipulates the depositor's waiver of the right to receive the deposit upon first demand.

**Recommendation**  
No recommendation.

**Good Practice B.6**  
**Regulatory Status Disclosure**  
In all of its advertising, whether by print, television, radio or otherwise, a bank should disclose: (a) that it is regulated and (b) the name and address of the regulator.

**Description**  
In the case of financial services contracted using means of communication (i.e. by telephone or over the internet), the Law on Consumer Protection requires that the financial service provider, prior to the conclusion of a contract, inform the customer of "the authority which has issued the license or authorization, its address, telephone, fax numbers, electronic mail, web site addresses and the date of issuance of the license" (article 36). However this requirement is not applicable for other financial services.

Article 3 of the Law on Banks states that “the word ‘bank’ or other combinations or derivatives thereof may be used in the Republic of Lithuania only by the persons operating in accordance with this Law in their name or for advertising or other purposes, except where the use of this word is evidently unrelated to the provision of licensed financial services.”

In addition, article 56 requires that “at the places where a bank provides financial services to clients, the bank’s name and the financial services which the bank has the right to provide shall be indicated, in an easily accessible place, to every prospective client.”

**Recommendation**  
The provision in the Law on Consumer Protection should be applicable to all financial services, not only those concluded using means of communication. The law should require that all financial institutions that have received a license to operate and are regulated by a governmental agency, disclose in all their advertisements the fact that they are regulated and the name and address of the regulator.

**Good Practice B.7**  
**Terms and Conditions**  
Before a consumer may open a deposit, current or loan account at a bank, the bank should provide the consumer with a written copy of its general terms and conditions, as well as all terms and conditions that apply to the account to be opened. Collectively, these Terms and Conditions should:

- **a.** Disclose details of the bank’s general charges, the bank’s complaints procedures, information about any compensation scheme that the bank is a member of, and an outline of the action and remedies which the bank may take in the event of a default by the consumer;
- **b.** Include information on the methods of computing interest rates paid by or charged to the consumer, any relevant non-interest charges or fees related to the product offered to the consumer, any service charges to be paid by the consumer, restrictions, if any, on account transfers by the consumer and the procedures for closing an account;
- **c.** Set forth clear rules regarding: (i) the reporting of unauthorized transactions, (ii) stolen cards and (iii) liability; and
- **d.** Be written in plain language and in a font size and spacing that facilitates the reading of every word.

**Description**  
The Law on Consumer Protection (article 36) requires the provision of almost all of this information to consumers concluding financial services contracts under means of
communication. However for all other types of financial services, the Civil Code covers only partially these requirements of information (for example, there is no requirement of information on compensation schemes or complaints procedures, and there is no reference to the manner the terms and conditions should be written to facilitate their reading).

The EU Directive on Credit Agreements for Consumers establishes the consumer’s right to be supplied, on request and free of charge, with a copy of the draft credit agreement. The minimum information to be provided in the credit agreement has been expanded in this Directive, too (article 10) and includes most of the information included in this good practice.

| Recommendation | No recommendation. |
| Good Practice B.8 | **Key Facts Document**
A bank should have a single-page Key Facts Document, written in plain language, in respect of each of its accounts, types of loans or other products and, prior to a consumer opening any account at, or signing any loan agreement with, the bank, the consumer should have delivered a signed statement to the bank to the effect that he or she has duly received a copy of the relevant document from the bank. |
| Description | There is no requirement for Lithuanian banks to provide a single-page, easy-to-read and comparable Key Facts Document to consumers. In practice, banks provide most of the information that would help the consumer make a reasonable assessment of a product. However without having uniform standards, it makes comparison difficult across providers and it does not preclude some lenders from providing insufficient information or unclear information. The EU Directive on Credit Agreements for Consumers requires the provision of basic information from the credit agreement through the Standard European Consumer Credit Information form, with the objective of facilitating the comparison of different credit offers. The implementation of the EU Directive would be a first step to apply this good practice. |

**Mortgages**

A good practice followed by European banks is to provide consumers with key product information through the European Standardised Information Sheet (ESIS). This format is included in the voluntary Code of Conduct on Pre-contractual Information for Home Loans, negotiated and adopted by European associations of consumers and the European Credit Sector Associations offering home loans, and agreed upon in March 2001.

Many of the general information requirements set by the ESIS are already provided and are also available on the website of the financial institutions. However some areas may need further improvement. In particular details of all the fees which might be levied onto the consumer, such as valuation fees, administrative fees and any early repayment charge attached to the product. In addition, more specific information varies from lender to lender, which makes comparison difficult.

| Recommendation | Key Facts Documents should be developed for all types of financial products (not only consumer credit) and should include more basic and summarized information that allow more rapid comparisons of different products and offers. These forms can be developed through the Association of Lithuanian Banks. |

---

Considering that the European Commission encourages the application of the Code of Conduct and maintains a register of compliant institutions, the implementation of the Code and the ESIS by the Association of Lithuanian Banks would be the best way to apply this good practice.\(^5\)

### Good Practice B.9 Advertising and Sales Practices

- a. Banks should ensure that the advertising and sales materials and procedures do not mislead customers.
- b. All advertising and sales materials should be easily readable and understandable by the general public.
- c. Banks should be legally responsible for all statements made in advertising and sales materials.

### Description

The Law on Prohibition of Unfair Business-to-Consumer Commercial Practices prohibits misleading commercial practices, which include advertising and marketing. Under article 12, commercial operators who infringe the requirements of this Law shall be held liable under this Law and other laws. The Law on Advertising (Law No. VIII-1871 of 18 July 2000 as amended by Law No. X-1414 of 11 January 2008) ratifies the prohibition of misleading advertising and emphasizes the importance of accuracy and comprehensiveness of advertising. The Competition Council is in charge of enforcing these laws regarding the provisions of misleading and comparative advertising. The SCRPA is in charge of enforcing other provisions of those laws. However financial institutions are not legally responsible for statements made in advertising or marketing materials.

#### Mortgages

As the mortgage market has grown in Lithuania, mortgage brokers have started appearing as intermediaries in the mortgage buying process. Brokers are seen as an extra marketing channel for banks. Brokers receive a commission from the bank when a customer buys a product through them, but they are not involved in the underwriting process.

From the brokers’ point of view they see themselves as providing a service to the consumer, by explaining terms and conditions and having details of all available products to hand. Although there are only a limited number of products, this service may be useful for some consumers\(^6\). The risk of mis-selling is limited because full under-writing remains with the bank.

### Recommendation

The law should include specific provisions that require banks to be legally responsible for all statements made in advertising and sales materials.

### Good Practice B.10 Guarantees

No advertisement by a bank should describe either an actual or future deposit or interest rate payable on a deposit as being guaranteed or partially guaranteed unless:

- a. There is a legally enforceable agreement between the bank and a third party who or which has provided such a guarantee.
- b. The advertisement states:
  - (i) the extent of the guarantee;
  - (ii) the name and address of the party providing the guarantee; and

---

\(^5\) The register of institutions adhering to the European Code of Conduct is available at [http://ec.europa.eu/internal_market/finservices-retail/home-loans/code_en.htm](http://ec.europa.eu/internal_market/finservices-retail/home-loans/code_en.htm)

(iii) in the event that that party is in any way connected to the bank, the precise nature of that connection.

**Description**
The Law on Advertising (article 5) states that, when judging whether an advertising is misleading, particular attention should be paid to the information regarding the conditions of acquisition and use of services, which include the price or the manner in which the price is calculated, the existence of a specific price advantage, terms of payment, delivery, reimbursement, guarantees, terms and need for replacement, repair and service.

**Recommendation**
The industry code of conduct should limit the use of "guarantees" in advertising except in cases where guarantees are legally enforceable and the advertisements describe the nature of the guarantee.

**Good Practice B.11**

<table>
<thead>
<tr>
<th>Professional Competence</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. In order to avoid any misrepresentation of fact to a consumer, any bank staff member who deals directly with consumers, or who prepares bank advertisements (or other external distribution channels) or who markets any service or product of the bank should be familiar with the legislative, regulatory and code of conduct guidance requirements relevant to his or her work, as well as with the details of any product or service of the bank which he or she sells or promotes.</td>
</tr>
<tr>
<td>b. Regulators and industry associations should collaborate to establish and administer minimum competency requirements for any bank staff member who: (a) deals directly with consumers, (b) prepares any Key Fact Document or any advertisement for the bank, or (c) markets the bank’s services and products.</td>
</tr>
</tbody>
</table>

**Description**
There is no provision requiring the application of this good practice.

**Recommendation**
Regulators and professional associations should develop competency standards and training for all sellers of financial services.

**SECTION C**

**CUSTOMER ACCOUNT HANDLING AND MAINTENANCE**

**Good Practice C.1**

<table>
<thead>
<tr>
<th>Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Unless a bank receives a customer’s prior signed authorization to the contrary, the bank should issue, and provide the customer with, a monthly statement regarding every account the bank operates for the customer. Each such statement should:</td>
</tr>
<tr>
<td>(i) set out all transactions concerning the account during the period covered by the statement; and</td>
</tr>
<tr>
<td>(ii) provide details of the interest rate(s) applied to the account during the period covered by the statement.</td>
</tr>
<tr>
<td>b. Each credit card statement should set out the minimum payment required and the total interest cost that will accrue, if the cardholder makes only the required minimum payment.</td>
</tr>
<tr>
<td>c. Each mortgage or other loan account statement should clearly indicate the amount paid during the period covered by the statement, the total outstanding amount still owing, the allocation of payment to the principal and interest and, if applicable, the up-to-date accrual of taxes paid.</td>
</tr>
<tr>
<td>d. A bank should notify a customer of long periods of inactivity of any account of the customer and provide a reasonable final notice in writing to the customer if the funds are to be transferred to the government.</td>
</tr>
</tbody>
</table>
| e. When an investor signs up for paperless statements, such
<table>
<thead>
<tr>
<th>Good Practice C.2</th>
<th>Notification of Changes in Interest Rates and Non-interest Charges</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td>The Civil Code (article 6.887) states that the consumer agreement shall specify “the conditions and procedure of the change of the annual credit repayment rate if such possibility is stipulated in the agreement on condition that no unilateral changes shall be made by the creditor”. This article also requires that the debtor be notified at the time of execution of the contract about the annual interest rate and fees imposed from the moment of execution of the agreement, as well as the provisions under which they may be changed. In addition, this article says that “within the validity term of the agreement, the debtor shall be notified on each change of the annual interest rate or similar expenses at the time of occurrence of such changes”.</td>
</tr>
<tr>
<td><strong>Recommendation</strong></td>
<td>These provisions could be refined by stating the period in advance when the consumer should be notified of changes in non-interest charges, and explicitly mentioning the right of the consumer to exit the contract if the revised terms are not acceptable.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Good Practice C.3</th>
<th>Customer Records</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td>A bank should maintain up-to-date records in respect of each customer of the bank that contain the following:</td>
</tr>
<tr>
<td><strong>Recommendation</strong></td>
<td>A law or regulation should provide the minimum permissible period for</td>
</tr>
<tr>
<td>Description</td>
<td>Banking regulations should specify requirements for retention of customer records.</td>
</tr>
<tr>
<td>-------------</td>
<td>--------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Recommendation</td>
<td>Banking regulations should specify requirements for retention of customer records.</td>
</tr>
</tbody>
</table>

### Good Practice C.4: Checks

The regime regarding the issuance and clearing of checks should be based on clear statutory and regulatory rules that, among other things, set reasonable requirements for banks on the following issues:

- For any bank on which a check is drawn, when the account on which it is drawn has insufficient funds;
- For any bank at which a customer of that bank seeks to cash or deposit a check, which is subsequently found to be drawn on an account with insufficient funds;
- Informing the customer of the consequences of issuing a check without sufficient funds, at the time a customer opens a checking account;
- Regarding the crediting of a customer’s account and its timing, when a check deposited by the customer clears; and
- In respect of capping charges on the issuance and clearance of checks;
- There should be clear rules on consumer protection, including procedures for error resolution.

### Description

In Lithuania, checks are not utilized extensively. By end-2007, the number of transactions decreased 8 percent compared with 2006 and reached 280 thousand, representing only 0.1 percent of the total number of transactions with cashless mechanisms in Lithuania.

The legal framework covering checks is the Law on Checks from 1999, which adopted the Geneva Conventions on Checks and Bills of Exchange.

### Good Practice C.5: Electronic Fund Transfers and Remittances

- There should be clear rules on the rights, liabilities and responsibilities of the parties in electronic fund transfers.
- Banks should provide information on prices and service features of electronic fund transfers and remittances in easily accessible and understandable forms. As far as possible, this information should include:
  - the total price (e.g. fees at both ends, foreign exchange rates and other costs);
  - the time it will take the funds to reach the receiver;
  - the locations of the access points for sender and receiver;
  - terms and conditions of the fund transfers services to the customer.
- To ensure full transparency, it should be clear to the sender if the price or other aspects of the service vary according to different circumstances, and the bank should disclose the information without imposing requirements on the consumer.
- There should be legal provision requiring documentation of
<table>
<thead>
<tr>
<th>Description</th>
<th>Lithuania - Banking Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>electronic fund transfers.</strong></td>
<td></td>
</tr>
<tr>
<td>e. There should be clear, publicly available and easily applicable procedures in cases of errors and frauds.</td>
<td></td>
</tr>
<tr>
<td>f. Authorities should encourage efforts to enable end users to better understand the market for electronic fund transfers and remittances, such as providing comparative price information or undertaking educational campaigns.</td>
<td></td>
</tr>
</tbody>
</table>

**Description**

a. The obligations of both providers and customers are covered in the article 7 of the Law on Payments. Article 20 specifically states obligations for “credit institutions” issuing electronic payment instruments and for holders of these instruments. Article 21 sets principles for establishing civil liability of the parties for the failure to comply with contractual obligations. However the Law on Payments applies only to “credit institutions” (which refers to depositary institutions, according to the definition established in the Law on Financial Institutions).

b. The obligations of the credit institution with regard to information provided to consumers are spelled out in article 6, and they comply with Good Practice C-6b, with the exception of numbers iii) and iv).

c. This is covered in the Law on Payments, article 7.

d. Article 20 requires that credit institutions record information regarding electronic transfers using procedures and means that ensure safety and reliability of records. This information shall be kept in compliance with the retention period established for accounting documents.

e. Dispute procedures are covered in articles 22 and 23.

f. No program is in place to help users of remittance services (or other electronic funds transfer) become informed of the costs of such services.

**Recommendation**

With expected changes in the Law on Payments, the practices should be expanded to cover all providers of payments services, including financial institutions that are not included in the definition of credit institutions.

**Good Practice C.6**

**Debt Recovery**

a. No bank, agent of a bank or third party should employ any abusive debt collection practice against any customer of the bank, including the use of any false statement, any unfair practice or the giving of false credit information to others.

b. The type of debt that can be collected on behalf of a bank, the person who can collect any such debt and the manner in which that debt can be collected should be indicated to the customer of the bank when the credit agreement giving rise to the debt is entered into between the bank and the customer.

c. No debt collector should contact any third party about a bank customer’s debt without informing that party of: (i) the debt collector’s right to do so; and (ii) the type of information that the debt collector is seeking.

**Description**

There are no provisions related to debt recovery practices in either the consumer credit section of the Civil Law or the EU Directive on Credit Agreements for Consumers.

**Mortgages**
The **foreclosure** process is relatively fast and efficient, as noted by an EBRD study comparing the process across different Transition Economies\(^7\). There are no regulations governing the process, but banks take a number of steps to avoid going to foreclosure. The typical process would involve the bank sending a letter within 2 weeks of any payment default. If there is no response, a following phone call is made after 30 days. If there is still no response, a final notice would be sent. Foreclosure process may then begin, which involves a special mortgage judge who deals with the case.

The process for foreclosure is slightly different for loans insured by the Mortgage Insurance Company. If the bank has not normalized payments by the borrower after 30 days, the Lithuanian Mortgage Insurance Company takes over the loan and compensates the lender. The Mortgage Insurance Company then has a set process for resolving payment difficulties through loan restructuring. In practice given how property prices have grown, workouts and loan restructuring are the norm. The Mortgage Insurance Company has made just 70 payments since its creation.

**Recommendation**

Prohibition of abusive collection practices should be included in the legislation being prepared to implement the Directive on Credit Agreements for Consumers.

**Mortgages**

Some improvements could be brought to the system of **foreclosures**. However this would largely be around agreeing on a standard set of steps and procedures to follow to ensure that the consumer is given every chance to resolve his or her financial difficulties before resorting to foreclosure. A decision-tree on the steps to take could be agreed by the industry\(^8\).

A new law is currently under preparation addressing **personal insolvency**. This is an issue which has been widely discussed in the UK and the US. For mortgage debt there are two schools of thought. The first is that the consumer will have done everything in his power to keep possession of his or her home, and the pursuing of a debt after foreclosure would prevent the household from recovering financial stability. Another view is that in cases of negative equity, it may be too easy for the borrower to walk away from the debt, by simply handing over the keys to the house and leaving the bank to suffer the consequences of negative house prices.

The recommendation would be for a middle ground, where a debt is not written-off completely once foreclosure has taken place, but that a repayment schedule is calculated based on the borrower’s ability to pay, and covering a limited time-span of 5 years. Any debt still owing after this period is written-off by the lender.

<table>
<thead>
<tr>
<th>SECTION D</th>
<th>PRIVACY AND DATA PROTECTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good Practice D.1</td>
<td><strong>Confidentiality and Security of Customers’ Information</strong></td>
</tr>
<tr>
<td></td>
<td>Customers have a right to expect that their financial transactions are kept confidential. The law should require banks to ensure that they protect the confidentiality and security of personal data, against any anticipated threats or hazards to the security or integrity of such information, and against unauthorized access.</td>
</tr>
</tbody>
</table>


\(^8\) See Report by US Department of Housing and urban Development – “Providing Alternatives to Mortgage Foreclosure: A Report to Congress”, 1996. Although the report is over 10 years old and is tailored for the US system, many of the processes and options are relevant and applicable to any mortgage market. See [www.huduser.org/publications/hsgfin/mortgage.html](http://www.huduser.org/publications/hsgfin/mortgage.html)
**Description**

The Civil Code requires the banks to secure the confidentiality of the bank account, the deposit, all related operations and the client (article 6.925). In addition, the Law on the Legal Protection of Personal Data (article 24) requires that “the employees of the data controller, the data processor and their representatives who are processing personal data must keep confidentiality of personal data if these personal data are not intended for public disclosure. This obligation shall continue after leaving the public service, transfer to another position or upon termination of employment or contractual relations.”

In terms of security, the Law on the Legal Protection of Personal Data requires that the data controller and data processor implement organizational and technical measures for the protection of personal data against any accidental or unlawful destruction, alteration, disclosure and any other unlawful processing. These measures shall ensure a level of security appropriate to the nature of the data to be protected and the risks represented by the processing.

**Recommendation**

No recommendation.

**Good Practice D.2**

**Sharing Customer’s Information**

a. A bank should inform its customer in writing: (i) of any third-party dealing for which the bank should share information regarding any account of the customer, such as any legal enquiry by a credit bureau; and (ii) how it will use and share the customer’s personal information.

b. No bank shall sell or share account or personal information regarding a customer of the bank to or with any party not affiliated with the bank for the purpose of telemarketing or direct mail marketing.

c. The law should allow a customer of a bank to stop or "opt out" of the sharing by the bank of certain information regarding the customer and, prior to any such sharing of information for the first time, every bank should be required to inform each of its customers in writing of his or her rights in this respect.

d. The law should prohibit the disclosure of any information of a banking customer by third parties.

**Description**

The Law on the Legal Protection of Personal Data establishes the rights of the consumer (article 17): to know and be informed of the processing of his or her personal data, to have access to his or her personal data and familiarize with the processing method, to demand rectification or destruction of his or her personal data or restriction of further processing of his or her data, and to object the processing of his or her personal data.

In the case of personal data for the purposes of evaluation of a person’s creditworthiness, article 16 states that data controllers shall have the right to process and disclose to relevant third parties the data and personal identification number of the debtors who have failed to fulfill their financial obligations. The data controller may disclose the debtor’s personal data only after sending a reminder in writing to the debtor about his or her default and where, within 18 calendar days, the debt was not settled or the deadline was not extended.

The Law on Personal Data states that personal data may be processed for the purposes of direct marketing provided that the data subject has given his or her consent, and only if the time period for the storage of personal data is set during the collection of the data (article 14).

**Recommendation**

No recommendation.

**Good Practice D.3**

**Permitted Disclosures**

The law should:
<table>
<thead>
<tr>
<th><strong>Good Practice D.4</strong></th>
<th><strong>Credit Reporting</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td>Credit reporting systems should be subject to appropriate oversight and have sufficient enforcement authority.</td>
</tr>
<tr>
<td></td>
<td>At the present time, the credit reporting system is in its initial stages of development in Lithuania. The Bank of Lithuania maintains an extensive database on loans within the Republic of Lithuania. (See the Rules for Managing the Loan Risk Database, approved by the Bank of Lithuania Board Resolution No. 125 of 21 December 1995, as amended by Resolution No. 144 of 14 November 2002.) Article No. 11 of the Resolution indicates that all loans and financial leasing in excess of LT 50,000 must be reported to the loan risk database managed by the Bank of Lithuania. This means that most consumer loans would not be reported (automobile financing, which might exceed LT 50,000, is not generally done by consumer lending but rather by leasing.) This information is also confined to negative information.</td>
</tr>
<tr>
<td></td>
<td>There is no reference to credit reporting systems in the Civil Code. However there is reference to the credit reporting systems in the Directive on Consumer Credit. There is an obligation for the provider of credit to base decisions on the creditworthiness of the consumer, including information derived directly from the consumer and information derived from a data base (article 8). In article 9, access to a database is afforded to all licensed lenders in all Member States (to enhance cross-border competition), and the consumer has to be notified if denial is based upon information contained in the database.</td>
</tr>
<tr>
<td></td>
<td>Given the obligation to assess consumer creditworthiness, it is inevitable that some sort of consumer database will evolve over time. Consumer protection will be afforded by the Law on Legal Protection of Personal Data. Article 17 gives the consumer the right to be informed about the processing of his/her personal data, to have access to the</td>
</tr>
</tbody>
</table>
data, to demand the correction of errors, and to object to the processing of the data (for example, for direct marketing). The Law is enforced by the State Data Protection Inspectorate. The Inspectorate administers the Register of Personal Data Controllers and receives complaints as set out in the Law on Public Administration.

The removal of restrictions in the Data Protection Law should be accelerated to enable full-fledged credit information bureaus to operate.

**Recommendation**

The emerging credit information facility should come under the supervisory scrutiny of the Bank of Lithuania.

As credit scoring systems evolve, utilizing in part information from the credit bureaus, it will be necessary to avoid the use of information that could be considered discriminatory (e.g., information on race, religion, gender, etc.).

The existing Law on Legal Protection of Personal Data should be scrupulously applied to any such credit information facility.

### SECTION E

**DISPUTE RESOLUTION MECHANISMS**

**Good Practice E.1**

*Internal Complaints Procedure*

a. Every bank should have in place a written complaints procedure for the proper handling of any complaint from a customer, with a summary of this procedure forming part of the bank’s Terms and Conditions referred to in B.7. above.

b. Within a short period of time following the date a bank receives a complaint, it should: (i) acknowledge in writing to the customer/complainant the fact of its receipt of the complaint; and (ii) provide the complainant with the name of one or more individuals appointed by the bank to deal with the complaint until either the complaint is resolved or cannot be processed further within the bank.

c. The bank should provide the complainant with a regular written update on the progress of the investigation of the complaint at short intervals of time.

d. Within a few business days of its completion of the investigation of the complaint, the bank should inform the customer/complainant in writing of the outcome of the investigation and, where applicable, explain the terms of any offer or settlement being made to the customer/complainant.

e. When a bank receives a verbal complaint, it should offer the customer/complainant the opportunity to have the complaint treated by the bank as a written complaint in accordance with the above. A bank may not require, however that a complaint be in writing.

f. A bank should maintain an up-to-date record of all complaints it has received that are subject to the complaints procedure. For each complaint, this record should contain the details of the complainant, the nature of the complaint, a copy of the bank’s response(s), a copy of all other relevant correspondence or records, the action taken to resolve the complaint and whether resolution was achieved and, if so, on what basis. The bank should make these records available for review by the bank supervisor or regulator as and when requested.
### Description

There is no requirement for banks to have a written internal complaints procedure. Currently the largest financial institutions all maintain complaint departments, but this is not a practice required or developed by all providers of financial services.

### Recommendation

At the time of signing the contract, the customer should be advised of the name of the department (or the individual) to whom any inquiries, complaints or disputes should be addressed. The terms of conditions should also include a summary of the internal complaints procedure.

All financial institutions should be required to have an internal complaints procedure and to maintain an up-to-date record of all complaints received through this procedure. The codes of conduct should provide guidelines for financial institutions on the number of days in which a response is given for a simple complaint and a longer period for complex disputes.

### Good Practice E.2  **Formal Dispute Settlement Mechanisms**

- **a.** A system should be in place that allows a customer of a bank to seek affordable and efficient recourse to a third-party banking ombudsman or equivalent institution, in the event the customer’s complaint is not resolved to his or her satisfaction in accordance with the procedures outlined in E.1 above.

- **b.** The existence of the banking ombudsman or equivalent institution, and the procedures before this institution, should be set forth in every bank’s Terms and Conditions referred to in B.7 above.

- **c.** The banking ombudsman or equivalent institution should be impartial and act independently from the appointing authority, the banking industry and the specific bank with which the complaint has been lodged.

- **d.** The decision of the banking ombudsman or equivalent institution should be binding upon on the bank with which the complaint has been lodged and this fact, as well as the mechanism to ensure the enforcement of such a decision, should be set forth in every bank’s Terms and Conditions referred to in B.7 above.

### Description

At the present time, there is inconsistency between the process of dealing with consumer financial service dispute resolution both among the agencies (Insurance Supervisory Commission, Lithuanian Securities Commission and SCRPA) and within the SCRPA (payments and consumer credit). In the case of SCRPA, the decisions regarding payments disputes are binding to the credit institution, but the consumer maintains the right to apply to the court. For consumer credit, the decisions of SCRPA are only advisory.

**Mortgages**

There is no formal mechanism for consumer dispute resolution at present, given that the provisions for consumer credit do not apply for mortgage lending.

### Recommendation

The decisions of SCRPA regarding consumer disputes should be binding not only for payments services but for all consumer financial products under its responsibility.

As a first stage, the SCRPA should take over responsibility for consumer disputes of all financial services but insurance. This should include mortgage lending, leasing and other credits granted to consumers. Over time, once it has developed sufficient institutional capacity, the SCRPA should also take responsibility over insurance.

As the system of consumer protection becomes stronger, the number of inquiries, complaints and disputes is likely to grow rapidly. The process of responding to all of them is time-intensive. Consideration should be given to the creation of a financial ombudsman to take over the process of dealing with complaints and related activities in the longer term.
Lithuania’s success with ombudsmen for other sectors suggests that a financial sector ombudsman might also be effective. However a cost-benefit analysis should be prepared of the possible approaches.

For additional recommendations on dispute resolution mechanisms, see Volume I.

<table>
<thead>
<tr>
<th>SECTION F</th>
<th>GUARANTEE AND COMPENSATION SCHEMES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good Practice F.1</td>
<td>Depositor Protection</td>
</tr>
<tr>
<td>a.</td>
<td>The law should ensure that the regulator can take prompt corrective action on a timely basis.</td>
</tr>
<tr>
<td>b.</td>
<td>The law on deposit insurance should be clear on amongst other things:</td>
</tr>
<tr>
<td>(i)</td>
<td>the insurer;</td>
</tr>
<tr>
<td>(ii)</td>
<td>the classes of those depositors who are insured;</td>
</tr>
<tr>
<td>(iii)</td>
<td>the extent of insurance cover;</td>
</tr>
<tr>
<td>(iv)</td>
<td>the holder of all funds for payout purposes;</td>
</tr>
<tr>
<td>(v)</td>
<td>the contributor(s) to this fund;</td>
</tr>
<tr>
<td>(vi)</td>
<td>each event that will trigger a payout from this fund to any class of those insured; and</td>
</tr>
<tr>
<td>(vii)</td>
<td>the mechanisms to ensure timely payout to depositors who are insured.</td>
</tr>
<tr>
<td>c.</td>
<td>In the absence of deposit insurance, there should be an effective and timely payout mechanism in the event of insolvency of a bank.</td>
</tr>
</tbody>
</table>

| Description | At the present time, all banks in Lithuania participate in deposit insurance program as required by the EU Directive on Deposit Protections. The Law on Insurance of Deposits and Liabilities to Investors indicates the classes of depositors who are insured and the coverage level. In October 2008 and July 2009, the law was amended in order to increase the coverage to the equivalent of EUR 100,000 and eliminate the co-insurance provisions. |
| | The Law indicates that the deposit insurance agency has responsibilities for investing the assessment revenues that are accumulated in the Fund. The funds are invested in government securities subject to policies established by the governing Council. |
| | The Law indicates the assessment base and rate of the insurance premium. At the present time, there is a flat rate paid by all banks and credit unions participating in the program. In many countries, the assessments are adjusted to reflect the risk of the fund. All banks and credit unions are obliged to participate in the program. The Law also indicates the insured events that trigger a payout from the fund. |
| | In terms of payment of claims, article 10 of the Law was amended in July 2009, and the maximum number of days established to pay compensations was reduced from three months to 20 working days from the day of the insured event. This time limit can be extended, under exceptional circumstances, for a maximum of 10 working days. |
| | The Law does not contain any explicit provisions on “prompt corrective action” for the deposit insurance agency. This is because of the status of the agency as a “paybox”, with no role in the resolution process. The decision to close a bank and the actions taken prior to that decision are the responsibility of the Bank of Lithuania. Representatives of the Bank of Lithuania (as well as the Ministry of Finance) serve on the managing council of the agency. There is only one case established in the Law on Banks where the agency can take a greater role than a “paybox”. Article 28 states that in the event that an insured event may pose a threat to the liquidity of the agency and |
the proper payment of insurance compensations, the bank’s shares may be taken over from shareholders for public needs. The shares shall be managed, used and disposed of by the agency.

**Recommendation**

As experience is gained, consideration should be given to expand the functions of the deposit insurance agency to take a more active role in prompt corrective action and in the resolutions process.

**Good Practice F.2**

*Insolvency*

- Depositors should enjoy higher priority than other unsecured creditors in the liquidation process of a bank.
- The law dealing with the insolvency of banks should provide for expeditious, cost effective and equitable provisions to enable the maximum timely refund of deposits to depositors.

**Description**

The Law on Banks (article 87) provides the ranking of creditors’ claims. The higher priority is assigned to obligations to employees related to employment relationship, and the second priority to the deposit insurance agency (“insured depositor preference”). The third priority goes to claims related to the payment of taxes, payments of compulsory state social insurance and compulsory state health insurance, as well as granted loans received on behalf of the State and with the guarantee of the State. The fourth priority is assigned to the claims of other bank creditors, without making any distinction between deposits not covered by the deposit insurance program and other unsecured creditors.

The Law on Banks establishes the procedures to deal with the bankruptcy of banks (article 85). The time limit laid down by court for the lodging of claims by a bank’s creditors shall not exceed 3 months of the entering into force of the court’s ruling on the opening of bankruptcy proceedings.

**Recommendation**

The law should be modified in order to assign a higher priority to depositors over other unsecured creditors in the liquidation process of a bank.

**SECTION G**

**CONSUMER EMPOWERMENT**

**Good Practice G.1**

*Financial Education in Schools*

Information about basic financial products, such as current and deposit accounts, leasing contracts, term loans and mortgages and credit cards, as well as how to calculate and compare interest rates, should be taught in schools.

**Description**

The Ministry of Education and Science (responsible of education on consumer protection issues) has worked with the National Council on Economic Education in the United States to adapt the US materials for Lithuanian schools. The program covers primary school students (with special materials aimed at parents) as well as secondary school students. They have incorporated financial education and improvement of financial literacy as part of other core curriculum programs, including in mathematics and civics lessons.

The NGO Economic Education Development Centre has played an active role in this field since it was established in 2002. It has developed and published guiding materials for school teachers, as well as text books and activity guidebooks for school students, covering economics and finance. These materials include the translation into Lithuanian of part of the financial literacy program elaborated for US schools by the Council for Economic Education. The NGO has also developed several interactive workshops on finance and economics for school teachers and managers.

**Recommendation**

A national program of financial education is important. The public school system should be primarily responsible for delivering a long-term program of financial education.
SCRPA could also work with the financial supervisory agencies and the Ministry of Education and Science in order to experiment with different financial education methods and evaluate which method works best.

<table>
<thead>
<tr>
<th>Good Practice G.2</th>
<th>Financial Education through the Media</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Print and broadcast media should be encouraged to cover issues related to retail financial products.</td>
</tr>
<tr>
<td>b.</td>
<td>Regulators and/or industry associations should provide sufficient information to the press and broadcast media to facilitate analysis of issues related to financial products and services.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>For the size of its financial sector, Lithuania has an active financial press. The Bank of Lithuania also regularly issues press releases and articles regarding the banking sector. However more could be done.</th>
</tr>
</thead>
</table>

| Recommendation    | Authorities should increase their coordination with the media, organizing workshops to improve their knowledge and understanding of the financial sector and consumer protection issues, and providing them with information on financial products and services as well as consumer protection issues. |

<table>
<thead>
<tr>
<th>Good Practice G.3</th>
<th>Information Resources for Consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Financial regulators should seek to improve consumer awareness of financial products and services by devising, publishing and distributing independent information on the costs, risks and benefits of such products and services.</td>
</tr>
<tr>
<td>b.</td>
<td>Non-governmental organizations should be encouraged to provide consumer awareness programs to the public regarding financial products and services.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>The Bank of Lithuania publishes academic papers and specialized articles related to the financial system, but there are no publications or documents oriented to consumers explaining basic products and services.</th>
</tr>
</thead>
</table>

| The Bank of Lithuania publishes since 2005 the average annual percentage rate of charge for consumer and housing loans in the financial sector. However, there is no available comparative information of the annual percentage rates of charge for the different financial institutions in the market. |
| Some consumer organizations, such as the Lithuanian Consumer Institute, have been active in providing information resources to consumers, through media articles, direct consultation with consumers, leaflets, workshops or conducting comparative analysis of products and services. |

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>The Bank of Lithuania should elaborate publications that provide the average consumer with information on the costs, risks and benefits of financial products and services.</th>
</tr>
</thead>
</table>

| Consumer associations and the Association of Lithuanian Banks should be encouraged to be more active in conducting consumer awareness initiatives for consumers. The Association of Lithuanian Banks could also provide comparative information on the interest rates and annual percentage rates of charges of the financial institutions as part of the banking statistics published on its website. |
| Mortgages are still relatively new to Lithuania and a significant proportion of the population may not yet be familiar with how they work and some of the basic concepts of the product. It may be worth considering the elaboration of a short guide to mortgages setting out some of the basic principles of how they work. This should be in non-legal language with clear illustrations and examples. It could be produced as a joint initiative by SCRPA and the Association of Lithuanian Banks and distributed through branches. |

---

33
In addition, it would be helpful to produce comparative mortgage pricing tables for consumers. The UK’s FSA introduced these in response to the multiplying number of mortgage products which were reaching several thousand. The tables compare products using set criteria and include some of the costs and fees involved. Because the tables are produced by an independent party, they instill confidence in the consumer that they are selecting a product which is appropriate for them and at a competitive price. To maintain the independence of such comparisons it may be most appropriate for the SCRPA to take on this role.

<table>
<thead>
<tr>
<th>Good Practice G.4</th>
<th>Financial Inclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Since participation in the financial system, at a minimum by operating a current account, is necessary for any consumer to be an effective and full member of society, any initiative to bring the so-called “un-banked” population into the financial system is to be encouraged.</td>
<td></td>
</tr>
</tbody>
</table>

**Description**

Article 6.914 of the Civil Code refers to the conclusion of bank account agreements and indirectly deals with the issue of financial inclusion. Paragraph 3 states that “the bank shall have no right to refuse to open the account if the possibility for its opening is set forth in the law, operational documents of the bank or the license issued to the bank, except for the cases when such refusal is permitted by laws.”

| Recommendation | No recommendation. |

**Good Practice G.5**  
Financial Consumer Advocacy

In the development of financial sector policy, government and state agencies need to consult with banks and consumers and their respective associations in order to develop proposals that meet the needs and expectations of these key stakeholders.

To ensure that consumers are actively involved in the policy development process, the government should either provide appropriate funding to NGOs for this purpose or create a special entity to lobby on behalf of consumers in the policy-making process.

**Description**

The Law on Consumer Protection identifies consumer associations as key components of the institutional system of consumer protection (article 9). The law also states that these associations have the right to present proposals on the development of consumer protection policies, and defending public interest of consumers (article 13). In addition, the law establishes the basic requirements to be fulfilled by consumer associations to receive government financial support.

However in practice, consumer associations seem not actively involved in consumer protection issues regarding financial services.

| Recommendation | The government should encourage the development of consumer associations in the field of financial consumer protection. |

**Good Practice G.6**  
Measuring Financial Capability

In order to ensure that financial consumer protection, education and information initiatives are proportionate and appropriate, and in order to measure the effectiveness of those initiatives over time, the financial capability of consumers should be measured periodically by way of large-scale market research that gets repeated from time to time.

For these purposes, the term “financial capability of consumers” means the ability to manage money, keep track of finances, plan ahead, choose appropriate financial products and services and stay informed about financial matters.

---

9 This definition, as amended here slightly, is used on the website of the UK’s Financial Services Authority.
### Description
No nation-wide survey on financial capability of consumers has been conducted in Lithuania.

### Recommendation
An initial survey should be conducted as a baseline analysis with a follow-up survey three to five years later. The survey should use the methods that have been successfully applied in other EU Member States, such as the United Kingdom. The survey should be comprehensive and segmented. It should be large enough to cover all key groups in Lithuania, segmented by geographic area, socio-economic level, gender, family status, household income, level of formal education, profession, and ethnic origin. Special consideration should also be given regarding how low-income groups will be reached since collecting data from these groups is notoriously difficult.

Using the information in the surveys, programs of financial education and consumer awareness can be targeted to those who need the training and information the most. The baseline survey can be used by SCRPA and NGOs to identify and focus on the most vulnerable to find the most effective ways of providing education. The follow-up surveys can be used to determine to what extent the programs are effective and what further modifications may be needed.

### SECTION H  COMPETITION AND CONSUMER PROTECTION

#### Good Practice H.1  Regulatory Policy and Competition Policy
Financial regulators and competition authorities should be required to consult with one another for the purpose of ensuring the establishment, application and enforcement of consistent policies regarding the regulation of financial services.

### Description
The Law on Competition states the conditions where an intended concentration of two or more entities shall be notified to the Competition Council. In the specific case of banks and credit institutions, the Law requires that the notification be submitted along with the finding of the Bank of Lithuania (article 11).

The Regulations of the Competition Council also establish that the Council shall have a right to set up commissions and working groups to draft laws or resolve other issues within the competence of the Competition Council, and include into such commissions or working groups specialists of other institutions (article 7).

### Recommendation
There should be a more explicit requirement of consultation or a Memorandum of Understanding between the Competition Council and the Bank of Lithuania in order to ensure consistent policies for the banking system.

#### Good Practice H.2  Review of Competition
Given the significance of retail banking to the economy as a whole and to the welfare of consumers, competition authorities should:

a. Maintain a watching brief on competition in retail banking; and

b. Conduct and publish periodic assessments of competition in retail banking, and make recommendations on how competition in retail banking can be enhanced.

### Description
According to the Law on Competition (Law No. VIII-1099 of 23 March 1999, as last amended by 15 April 2004), one of the functions of the Council is to “establish the criteria and procedure for providing the definitions of the relevant market and a dominant position, investigate and define relevant markets, determine the market share of undertakings, and their position in a relevant market”. The legislation also states that, in order to perform its tasks, the Council shall obtain from undertakings (including banks and other credit institutions) and the public authorities, financial and other documents (including those containing commercial secrets) and other information required for market research, performance of investigations and other tasks of the Competition Council”.

35
In 2006 the Council conducted a study on the bank payment card market with the objective of finding out how and what kind of services were provided in this market. The survey helped to understand the behavior of consumers in this market.

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>No recommendation.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Good Practice H.3</strong></td>
<td><strong>Licensing of Commercial Entities</strong></td>
</tr>
<tr>
<td><strong>Description</strong></td>
<td>All commercial entities that either collect funds from consumers or lend funds to consumers need to be licensed and supervised.</td>
</tr>
<tr>
<td><strong>Description</strong></td>
<td>In recent years, the Lithuanian financial system has seen the appearance of &quot;quick loans&quot; provided by non-bank financing companies. These are small loans, with very high interest charges, that are provided quickly based on information supplied generally over a mobile phone. The Law on Financial Institutions defines a financial institution in such a way that the financing companies that provide quick loans would be considered financial institutions. According to article 51 of the Law on Financial Institutions, financial institutions should be supervised by licensing, documentary (off-site) supervision, and verification (inspection) of financial institutions.</td>
</tr>
<tr>
<td><strong>Recommendation</strong></td>
<td>Non-bank financing companies are financial institutions under the Law on Financial Institutions. Hence, they should be subject to licensing and supervision by a supervisory institution. In general, all providers of consumer financial services, especially consumer credit, should be licensed and supervised by the Bank of Lithuania on the same basis as banks and credit unions. Moreover, these companies should be subject to all of the consumer protection rules that apply to banks so that consumers receive the same level of protection regardless of the bank or non-bank status of the provider. The SCRPA should explore the details of the quick loan contracts to determine whether the consumer protection law is being violated. Under article 48 of the Law on Financial Institutions, there is a Commission for Coordination of Regulation and Supervision of the Activities of Financial Institutions. That Commission should meet and consider the supervised (or non-supervised) status of the providers of quick loans. However, supervision of limited financial service providers (e.g. money transfer companies, quick loans providers) should be light in nature. Since they do not take deposits from the public, prudential supervision is not needed. However the supervisor should receive minimum information about the credit providers, such as records of those owning and controlling significant stakes of the company (to verify that they are free of criminal records), audited financial statements, and statistics on the volume of business.</td>
</tr>
</tbody>
</table>
Lithuania: Consumer Protection in the Securities Sector

Overview

Historically, consumer protection in securities area has developed somewhat differently than in banking. Bank customers in most countries enjoy deposit protection and strong prudential supervision of banks – factors that create a solid safety net for the customers. On the other hand, investors in securities are not guaranteed any returns, and hence, on average, are usually more sophisticated and financially educated than average bank customers. The most important market conduct regulations protecting the investors are those dealing with disclosure of a variety of investment information by industry intermediaries.

The size of the securities sector in Lithuania had been continuously growing until 2008. The total assets of collective investment undertakings (CIUs) by end-2007 represented 2.6 percent of GDP compared with 0.4 percent by end-2004, as shown in Table 8. However in 2008 the share of total assets of CIUs as percentage of GDP fell to 0.8 percent as a result of the global financial crisis.

Table 8: Collective Investment Undertakings

<table>
<thead>
<tr>
<th>Assets (as percent of GDP)</th>
<th>Number of Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lithuanian Open-ended Investment Companies</td>
<td>0 0.1 0.1 0 0 0</td>
</tr>
<tr>
<td>Lithuanian Investment Funds</td>
<td>- 0.2 0.5 1 1.3 0.4</td>
</tr>
<tr>
<td>Foreign Collective Investment Undertakings</td>
<td>0.1 0.1 0.2 0.8 1.3 0.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>0.1 0.4 0.8 1.8 2.6 0.8</strong></td>
</tr>
</tbody>
</table>

Source: Lithuanian Securities Commission

The number of persons investing in Lithuanian CIUs has also been increasing in the past years. The number of investors grew more than 4 times in 2005 and reached 9,700 by the end of that year. In 2006, the number doubled to 19,700 and by the end of 2008 there were 42,442 persons investing in Lithuanian CIUs (investment funds and open-ended investment companies).

Figure 4: Number of Persons Investing in Lithuanian CIUs

Source: Lithuanian Securities Commission
The number of persons holding financial broker’s licenses more than doubled between 2003 and 2008. The growth was led by the number of persons obtaining licenses as consultants, which rose from 28 in 2003 to 140 in 2007 and 204 in 2008 (see Table 9).

Table 9: Number of Persons Licensed as Financial Brokers

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>121</td>
<td>123</td>
<td>134</td>
<td>150</td>
<td>175</td>
<td>238</td>
</tr>
<tr>
<td>Consultant</td>
<td>28</td>
<td>39</td>
<td>58</td>
<td>90</td>
<td>140</td>
<td>204</td>
</tr>
<tr>
<td>Trader</td>
<td>23</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>34</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>172</td>
<td>192</td>
<td>222</td>
<td>270</td>
<td>349</td>
<td>482</td>
</tr>
</tbody>
</table>

Source: Lithuanian Securities Commission

Legal Framework

The following are the key laws and regulations addressing consumer protection in the securities sector:

- Guarantee Fund Rules of the Vilnius Stock Exchange
- Resolution No. 1K-22 on the Approval of the Rules on the Provision of Investment Services and the Acceptance and Execution of Client Orders (31 May 2007)
- Resolution No. 1K-17 on the Organization of Activities of Financial Brokerage Firms (17 May 2007)

Institutional Arrangements

The Lithuanian Securities Commission (LSC) is the governmental agency that supervises the securities markets.

The Vilnius Stock Exchange is the only exchange in Lithuania. It is part of the NASDAQ OMX network of exchanges and is owned 93 percent by NASDAQ OMX.

The Central Securities Depository of Lithuania acts as the central depository for the securities market. It is independent of the Vilnius Stock Exchange and government agencies. It handles clearing and settlement for transactions on the Vilnius Stock Exchange and receives and publishes information in transactions off-exchange.
There are two main securities industry professional associations in Lithuania, the **Association of Brokerage Houses** and the **Association of Investment Management Companies**.

The **Data Protection Inspectorate** has the responsibility to supervise the compliance with the Law on Legal Protection of Personal Data.

The **State Consumer Rights Protection Authority** (SCRPA) under the Ministry of Justice was established to co-ordinate the activities of state institutions on consumer protection, including for financial services. The SCRPA is the enforcement agency for the Law on Payments and the consumer credit provisions of the Civil Code. For other financial services (except insurance), the SCRPA provides recommendations for consideration by financial institutions. In addition, the SCRPA is responsible for enforcing the Law on Prohibition of Unfair Business to Consumer Commercial Practices and the Law on Advertising, regarding those provisions that are not related to misleading and comparative advertising, which are responsibility of the **Competition Council**.

**State Undertaking “Insurance of Deposits and Investments”** is a corporation established for the purpose of providing insurance to investors who are damaged by the bankruptcy of a financial brokerage house.

**Key Recommendations**

The key recommendations for the securities sector are the following:

- LSC regulations should be amended to provide for specific provisions related to the procedures for account transfers and closings and the disclosure to customers of such procedures. (short-term)
- In addition, the regulations should require that the internal complaint procedure and available external alternative resolution procedures should be disclosed to the investor in the opening documents. (short-term)
- The law should be amended to provide for sanctions for false advertising and LSC regulations should require that all sales persons of securities disclose their licensing status and the status of their broker. (medium-term)
- The Law on Collective Investment Undertakings should be amended to require sales people of CIUs to establish minimum competency by taking an examination and obtaining a license of by such other means as determined by the LSC to be effective. (medium-term)
- The law should be amended to make clear that the basic protections for the investors can not be waived or restricted. (medium-term)
- The sanctions regime for unfair sales practices is rather weak. Relatively small fines can be applied to legal entities and natural persons are only vaguely subject to suspension of their licenses. The sanctions section of the Law on MFI needs to be clarified and made stronger in regards to natural persons since they are the direct link to customers in the sales activity. (medium-term)
- The LSC may want to consider amending the regulations to add a requirement for quarterly statements for any quarter in which a transaction occurred in a non-managed retail brokerage account. Although a notification is been sent for each transaction, it would be helpful to clients to get a summary of the quarter in which they had transactions. (medium-term)
- The law should be amended to give the State Data Protection Inspectorate the authority to bring disciplinary actions for violations of the Law on the Legal Protection of Personal Data and include significant sanctions for violations. (medium-term)

- The Parliament should consider the creation of an alternative dispute resolution mechanism, such as an ombudsman or a small claims arbitral tribunal, to handle retail investor claims as an alternative to the expensive court system and commercial arbitration system. (medium-term)

- The Law on Insurance of Deposits and Liability to Investors needs to be amended to be more specific as to which financial instruments the law covers and how they are valued for repayment. (medium-term)

- In addition, the Law on MFI should be amended to provide for a more detailed procedure for payouts to investors in bankruptcy proceedings of financial brokerage houses. (medium-term)

- Similarly the Law on Collective Investment Undertakings should be amended to provide for a more detailed procedure for payouts to investors in bankruptcy proceedings of CIUs. (medium-term)
**Good Practices: Securities Sector**

<table>
<thead>
<tr>
<th>SECTION A</th>
<th>INVESTOR PROTECTION INSTITUTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Good Practice A.1</strong></td>
<td><strong>Consumer Protection Regime</strong></td>
</tr>
<tr>
<td></td>
<td>The law should provide for clear rules on investor protection in the area of securities markets products and services, and there should be adequate institutional arrangements for implementation and enforcement of investor protection rules.</td>
</tr>
<tr>
<td></td>
<td>a. There should be specific legal provisions in the law, which creates an effective regime for the protection of investors in securities.</td>
</tr>
<tr>
<td></td>
<td>b. There should be a governmental agency responsible for data collection and analysis (including complaints, disputes and inquiries) and for the oversight and enforcement of investor protection laws and regulations.</td>
</tr>
<tr>
<td><strong>Description</strong></td>
<td>a. The law creates an effective regime for the protection of investors in Lithuania. The Law on Markets in Financial Instruments (MFI) creates the Lithuanian Securities Commission (LSC) (art. 69, et seq.) and states that the LSC acts in interests of investors (article 71). The Law on MFI also provides the LSC with authority to conduct investigations (articles 85 and 86) and impose sanctions for violations of the Law (article 94). The Law on Securities in articles 41 and 42 gives the LSC additional powers and article 47 provides it with powers for the enforcement of the investor protection regime. The Law on Collective Investment Undertakings gives the LSC the authority to protect investors in CIUs.</td>
</tr>
<tr>
<td></td>
<td>b. The LSC collects data regarding investor protection, including complaints, but there have been few complaints against brokers.</td>
</tr>
<tr>
<td><strong>Recommendation</strong></td>
<td>No recommendation.</td>
</tr>
<tr>
<td><strong>Good Practice A.2</strong></td>
<td><strong>Code of Conduct for Securities Intermediaries and Collective Investment Undertakings.</strong></td>
</tr>
<tr>
<td></td>
<td>a. Securities Intermediaries and CIUs should have a voluntary code of conduct.</td>
</tr>
<tr>
<td></td>
<td>b. Securities Intermediaries and CIUs should publicize the code of conduct to the general public through appropriate means.</td>
</tr>
<tr>
<td></td>
<td>c. Securities Intermediaries and CIUs should comply with the code and an appropriate mechanism should be in place to provide incentives to comply with the code.</td>
</tr>
<tr>
<td><strong>Description</strong></td>
<td>The Association of Brokerage Houses and the Association of Investment Fund Management Companies have Codes of Ethics for their members. They are publicized on the Associations’ web sites. No complaints have been filed under the Codes so there is no means to judge how effectively these Codes can be enforced or encourage compliance.</td>
</tr>
<tr>
<td><strong>Recommendation</strong></td>
<td>No recommendation.</td>
</tr>
<tr>
<td><strong>Good Practice A.3</strong></td>
<td><strong>Other Institutional Arrangements</strong></td>
</tr>
<tr>
<td></td>
<td>a. The judicial system should provide an efficient and trusted venue for the enforcement of laws and regulations on investor protection.</td>
</tr>
<tr>
<td></td>
<td>b. The media should play an active role in promoting investor protection.</td>
</tr>
</tbody>
</table>
### Lithuania

**Securities Sector**

| c. The private sector, including voluntary investor protection organizations, industry associations and, where permitted, self-regulatory organizations should play an active role in promoting investor protection. |

**Description**

a. The court system in Lithuania is quicker and has fewer procedures than the mean in other countries in Central Europe, but the cost of litigation is higher. Nonetheless, it is generally considered a trusted venue for bringing complaints in general, even though few if any cases have actually been brought to court.

b. The media is active in publishing financial sector information for investors, given the small size of the country.

c. The Association of Brokerage Houses and the Association of Investment Management Companies, as industry associations, play an active role in investor protection, given the small size of the financial sector.

**Recommendation**

No recommendation.

---

**SECTION B DISCLOSURE AND SALES PRACTICES**

**Good Practice B.1 — General Practices**

| There should be disclosure principles that cover an investor’s relationship with a person buying or selling securities, or offering to do so, in all three stages of such relationship: pre-sale, point of sale, and post-sale. |

| a. The information available and provided to an investor should inform the investor of the choice of accounts, products and services; the characteristics of each type of account, product or service; and the risks and consequences of purchasing each type of account, product or service. |

| b. A securities intermediary or CIU should be legally responsible for all statements made in marketing and sales materials related to its products. |

| c. A natural person acting as the representative of a securities intermediary or CIU should disclose to an investor whether he is licensed to act as such a representative and by whom he is licensed. |

**Description**

a. Article 22 of the Law on MIF requires a broker to provide information on: i) the firm and its services; ii) financial instruments and proposed investment strategies, including appropriate guidance on, and warnings of, the risks associated with investments in those instruments or in respect of particular investment strategies; iii) the venues of the execution of the clients’ orders; and iv) costs of the execution of the order and other charges.

b. The Law on Securities, article 11 regarding Advertising, provides that all advertising shall be truthful and in compliance with LSC regulations. However the only sanction seems to be the suspension or prohibition of the advertising.

c. There is no specific rule or provision in the laws that require an individual to provide his or her licensing status.

**Recommendation**

The law should provide for sanctions for false advertising and LSC regulations should require that all persons selling securities disclose their licensing status and the status of their brokerage company.

**Good Practice B.2 — Terms and Conditions**

| Before commencing a relationship with an investor, a securities intermediary or CIU should provide the investor with a copy of its general terms and conditions, and any terms and conditions that apply to the particular |

---

42
Insofar as possible, the terms and conditions should always be in a font size and spacing that facilitates easy reading. The terms and conditions should disclose:

- details of the general charges;
- the complaints procedure;
- information about any compensation scheme that the securities intermediary or CIU is a member of, and an outline of the action and remedies which the investor may take in the event of default by the securities intermediary or CIU;
- the methods of computing interest rates paid or charged;
- any relevant non-interest charges or fees related to the product;
- any service charges;
- any restrictions on account transfers; and
- the procedures for closing an account.

### Description

<table>
<thead>
<tr>
<th>Description</th>
<th>a. Resolution No. 1K-22 in article 45 provides that an intermediary should give a potential customer the details of the general charges in the contract.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>b. There is no specific provision in the Lithuanian laws or regulations that the complaint procedure should be disclosed to customers in the opening documents.</td>
</tr>
<tr>
<td></td>
<td>c. Article 30.7 of Resolution No. 1K-22 provides that the statutory investor protection plan be disclosed to customers.</td>
</tr>
<tr>
<td></td>
<td>d. Article 45 of Resolution No. 1K-22 provides that the opening documents should disclose the total fees and charges related to the financial product or service. If it is not possible to provide the exact price of the product or service, then the method in which the fees are calculated should be disclosed.</td>
</tr>
<tr>
<td></td>
<td>e. and f. Article 45 of Resolution No. 1K-22 requires that all fees and charges be disclosed.</td>
</tr>
<tr>
<td></td>
<td>g. There are no specific provisions in the Lithuanian laws or regulations requiring restrictions on account transfers, if any, be disclosed to customers in the opening documents.</td>
</tr>
<tr>
<td></td>
<td>h. There is no specific provision in the Lithuanian laws or regulations requiring that the procedures for closing an account be disclosed to customers in the opening documents.</td>
</tr>
</tbody>
</table>

Article 46 of Resolution No. 1K-22 provides that investors should be given a simplified prospectus as required. This prospectus will fulfill the disclosure of the terms of the investment, including entry and exit commissions, to a CIU customer under Article 22 of the Law on MFI.

### Recommendation

The regulations should provide for specific provisions related to the procedures for account transfers and closings and the disclosure to customers of such procedures. In addition, the regulations should require that the internal complaint procedure and available external alternative dispute resolution procedures should be disclosed to the investor in the opening documents.

### Good Practice B.3

**Professional Competence**

Regulators should establish and administer minimum competency requirements for the sales staff of securities intermediaries and CIUs, and collaborate with industry associations where appropriate.

<p>| Description | Article 14 of the Law on MFI requires that natural persons who seek to obtain a license |</p>
<table>
<thead>
<tr>
<th>Good Practice B.4</th>
<th><strong>Know-Your-Customer</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td>Before providing a product or service to an investor, a securities intermediary or CIU should obtain, record and retain sufficient information to enable it to form a professional view of the investor's background, financial condition, investment experience and attitude toward risk in order to enable it to provide a recommendation, product or service appropriate to that investor.</td>
</tr>
<tr>
<td><strong>Recommendation</strong></td>
<td>The Law on Collective Investment Undertakings should be amended to require that sales people of CIUs satisfy minimum competency requirements by taking an examination and obtaining a license or by such other means as determined by the LSC to be effective.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Good Practice B.5</th>
<th><strong>Suitability</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td>A securities intermediary or CIU should ensure that, taking into account the facts disclosed by the investor and other relevant facts about that investor of which it is aware, any recommendation, product or service offered to the investor is suitable to that investor.</td>
</tr>
<tr>
<td><strong>Recommendation</strong></td>
<td>No recommendation.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Good Practice B.6</th>
<th><strong>Sales Practices</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td>Legislation and regulations should contain clear rules on improper sales practices in the solicitation, sale and purchase of securities. Thus, securities intermediaries, CIUs and their sales representatives should:</td>
</tr>
<tr>
<td></td>
<td>a. Not use high-pressure sales tactics.</td>
</tr>
<tr>
<td></td>
<td>b. Not engage in misrepresentations and half truths as to products being sold.</td>
</tr>
<tr>
<td></td>
<td>c. Fully disclose the risks of investing in a financial product being sold.</td>
</tr>
<tr>
<td></td>
<td>d. Not discount or disparage warnings or cautionary statements in written sales literature.</td>
</tr>
<tr>
<td></td>
<td>e. Not exclude or restrict, or seek to exclude or restrict, any legal liability or duty of care to an investor, except where permitted by applicable legislation.</td>
</tr>
<tr>
<td></td>
<td>Legislation and regulations should provide sanctions for improper sales practices.</td>
</tr>
<tr>
<td><strong>Recommendation</strong></td>
<td>No recommendation.</td>
</tr>
</tbody>
</table>

**Lithuania**

Securities Sector
brokerage houses and CIUs. In addition, article 22.2 of the Law on MFI requires that the information given to clients not be misleading. Resolution No. 1K-22 (articles 10-17) elaborates in detail as to the information that can be misleading.

c. Resolution No. 1K-22 (articles 33-37) sets forth the requirement that financial brokerage firms disclose the risk of investing in different types of financial instruments and using different types of strategies.

d. Article 11 of Resolution No. 1K-22 provides that information given to clients "shall not disguise, diminish or obscure important items, statements or warnings."

e. There is no specific provision in the Lithuanian laws or regulations that forbids the exclusion or restriction of any duty of care or liability to an investor, however the general requirement that a financial brokerage house deal fairly with its clients would seem to forbid such a practice.

Lithuanian legislation provides for sanctions for improper sales practices. The Law on the Prohibition of Unfair Business to Consumer Commercial Practices provides for warning and fines for violations of the Law. Article 11 of the Law on Securities allows the LSC to suspend advertising in violation of the law. Article 95 of the Law on MFI provides for fines for legal persons, such as financial brokerage houses, that do not meet the requirements for disclosure related to the opening of an account. Natural persons are subject to liability under the law and may be subject to suspension of their licenses.

<table>
<thead>
<tr>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The law and regulations should be clear that the basic protections for the investors can not be waived or restricted. The sanctions regime for unfair sales practices is rather weak. Relatively small fines can be applied to legal entities and natural persons are only vaguely subject to suspension of their licenses. The sanctions section of the Law on MFI needs to be clarified and made stronger in regards to natural persons since they are the direct link to customers in the sales activity.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Good Practice B.7</th>
<th><strong>Advertising and Sales Materials</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>a. All marketing and sales materials should be in plain language and understandable by the average investor.</td>
<td></td>
</tr>
<tr>
<td>b. Securities intermediaries, CIUs and their sales representatives should ensure their advertising and sales materials and procedures do not mislead the customers.</td>
<td></td>
</tr>
<tr>
<td>c. Securities intermediaries and CIUs should disclose in all advertising, including print, television and radio, the fact that they are regulated and by whom.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Article 11 of Resolution No. 1K-22 requires that all advertising be clear and likely to be understood by the person to whom it is directed.</td>
</tr>
<tr>
<td>b. Article 3 of the Law on Unfair Business to Consumer Commercial Practices prohibits unfair sales tactics and Articles 5 and 6 set out misleading acts and omissions that include misstatements and half-truths. These legal provisions would apply to financial brokerage houses and CIUs. In addition, article 22.2 of the Law on MFI requires that the information given to clients not be misleading. Resolution No. 1K-22 (articles 10-17) elaborates in detail as to the information that can be misleading. In addition, Article 5 of the Law on Advertising bans misleading advertising.</td>
</tr>
<tr>
<td>c. Article 22 of the Law on MFI requires that a financial brokerage house describe the firm. Resolution 1K-22 (article 30.4) in elaborating on this requirement requires a financial brokerage house to make a statement of the fact that the financial brokerage firm is authorized and the name and contact address of the competent authority that authorized it.</td>
</tr>
<tr>
<td>Recommendation</td>
</tr>
<tr>
<td>----------------</td>
</tr>
</tbody>
</table>

**SECTION C**

**CUSTOMER ACCOUNT HANDLING AND MAINTENANCE**

**Good Practice C.1**  
**Segregation of Funds**

Funds of investors should be segregated from the funds of all other market participants.

**Description**

Article 13 of the Law on MFI provides that a financial brokerage firm shall keep its assets in separate accounts from its clients and it shall not use its clients’ assets without their permission.

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>No recommendation.</th>
</tr>
</thead>
</table>

**Good Practice C.2**  
**Contract Note**

Investors should receive a detailed contract note from a securities intermediary or CIU confirming and containing the characteristics of each trade executed with them, or on their behalf. The contract note should disclose the commission received by the securities intermediary, CIU and their sales representatives.

**Description**

Resolution No. 1K-22 (articles 109-116) sets forth the details of the requirement that a financial brokerage house should notify its clients of the relevant information regarding the execution of their orders. This notification includes information on the date, time and venue of the transaction, as well as the number of shares, type of order (solicited or unsolicited), total value of the transaction, and fees and commissions.

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>No recommendation.</th>
</tr>
</thead>
</table>

**Good Practice C.3**  
**Statements**

An investor should receive periodic, streamlined statements for each account with a securities intermediary or CIU, providing the complete details of account activity in an easy-to-read format.

- a. Timely delivery of periodic securities and CIU statements pertaining to the accounts should be made.
- b. Investors should have a means to dispute the accuracy of the transactions recorded in the statement within a stipulated period.
- c. When an investor signs up for paperless statements, such statements should also be in an easy-to-read and readily understandable format.

**Description**

Article 126 of Resolution No. 1K-22 requires a financial brokerage house to provide a client at least once a year with a statement of the account. This elaborates on article 22 of the Law on MFI, which creates a general obligation to provide information to clients regarding their accounts. In addition, for managed accounts, financial brokerage firms and management companies must provide the statements every six months or, if requested by the client, every three months. Retail customers must be informed by the firm that they can receive statements every three months. For accounts with leveraged portfolios, the statement must be provided at least once a month.

| Recommendation | The LSC may want to consider adding a requirement for quarterly statements for any quarter in which a transaction occurred in a non-managed retail brokerage account. Although a notification is sent for each transaction, it would be helpful to clients to get a summary of the quarter in which they had transactions. |
### Good Practice C.4  
**Prompt Payment and Transfer of Funds**

When an investor requests the payment of funds in his or her account, or the transfer of funds and assets to another intermediary or mutual fund, the payment or transfer should be made promptly.

#### Description

Section 92 of Regulation 1K-22 provides that “a financial brokerage firm shall commence the execution of the Client order immediately unless the Client order or the Agreement specifies differently.” Section 98 specifies that “where a financial brokerage firm is responsible for overseeing or arranging the settlement of an executed order, it shall take all reasonable steps to ensure that any client financial instruments or client funds received in settlement of that executed order are promptly and correctly delivered to the account of the appropriate client.” In addition, there is a general requirement in Article 22 of the Law on MFI that a financial brokerage house deal fairly with clients.

#### Recommendation

No recommendation.

### Good Practice C.5  
**Investor Records**

A securities intermediary or CIU should maintain up-to-date investor records containing at least the following:

- a. A copy of all documents required for investor identification and profile;
- b. The investor’s contact details;
- c. All contract notices and periodic statements provided to the investor;
- d. Details of advice, products and services provided to the investor;
- e. Details of all information provided to the investor in relation to the advice, products and services provided to the investor;
- f. All correspondence with the investor;
- g. All documents or applications completed or signed by the investor;
- h. Copies of all original documents submitted by the investor in support of an application for the provision of advice, products or services;
- i. All other information concerning the investor which the securities intermediary or CIU is required to keep by law; and
- j. All other information which the securities intermediary or CIU obtains regarding the investor.

Details of individual transactions should be retained for a reasonable number of years after the date of the transaction. All other records required under a. to j. above should be retained for a reasonable number of years from the date the relationship with the investor ends. Investor records should be complete and readily accessible.

#### Description

The record-keeping laws and regulations that have been translated into English do not go into depth regarding the nature of the records that should be maintained by a financial brokerage house or CIU. Article 155 of Resolution No. 1K-22 provides that the LSC shall draw up and maintain a minimum set of records that financial brokerage houses should keep. This list is included in Annex No. 1 to the regulation.

The Law on MFI (article 22.11) requires a financial brokerage house to keep records regarding the contractual relations between the firm and its clients for the duration of the relationship. In addition, the Law on MFI (article 31) requires a financial brokerage house to maintain records of transactions for clients for at least 10 years. Article 151 of Regulation No. 1K-22 creates a flexible rule and allows the LSC to determine the length that customer records are kept after the customer/investor leaves a financial brokerage.
<table>
<thead>
<tr>
<th>Recommendation</th>
<th>No recommendation.</th>
</tr>
</thead>
</table>

### SECTION D  PRIVACY AND DATA PROTECTION

#### Good Practice D.1  Confidentiality and Security of Customers’ Information

Investors of a securities intermediary or CIU have a right to expect that their financial activities will have privacy from unwarranted private and governmental scrutiny. The law should require that securities intermediaries and CIUs take sufficient steps to protect the confidentiality and security of a customer’s information against any anticipated threats or hazards to the security or integrity of such information, and against unauthorized access to, or use of, customer information.

**Description**

Article 13.5 of the Law on MFI creates a general obligation on financial brokerage houses to have effective safeguards for information processing systems.

The Law on Legal Protection of Personal Data (article 24) requires any data controller and data processor – which would include a financial brokerage house or CIU – to implement measures for the protection of personal data with a level of security appropriate to the character of the data.

**Recommendation**

No recommendation.

#### Good Practice D.2  Sharing Customer’s Information

Securities intermediaries and CIUs should:

a. Inform an investor of third-party dealings in which they should share information regarding the investor’s account, such as legal enquiries by a credit bureau, unless the law provides otherwise;

b. Explain how they use and share an investor’s personal information;

c. Allow an investor to stop or “opt out” of certain information sharing, such as selling or sharing account or personal information to outside companies that are not affiliated with them, for the purpose of telemarketing or direct mail marketing, and inform the investor of this option.

**Description**

a. The Law on the Legal Protection of Personal Data (articles 17 and 18) requires a data controller to inform the “data subject”, i.e. the investor, regarding his or her rights and when the data is going to be used by giving it to a third party.

b. Articles 17 and 18 of the Law on the Legal Protection of Personal Data require the data subject to be informed as to these matters.

c. Article 21 of the Law on the Legal Protection of Personal Data allows an investor to opt out when the information is being processed for marketing.

**Recommendation**

No recommendation.

#### Good Practice D.3  Permitted Disclosures

a. The law should state specific procedures and exceptions concerning the release of customer financial records to government authorities.

b. The law should provide for penalties for breach of investor confidentiality.

**Description**

a. The Law on the Legal Protection of Personal Data in article 5 sets the criteria for lawful processing of data by governmental authorities such as for criminal records. Articles 9-16 provide for public interest uses for processed data such as for social
b. Articles 32-34 of the Law on the Legal Protection of Personal Data provide for civil liability in the event of non-compliance with the law regarding disclosures, but does not provide for enforcement by the State Data Protection Inspectorate.

**Recommendation**
The State Data Protection Inspectorate should be given the authority to bring disciplinary actions for violations of the Law on the Legal Protection of Personal Data.

## SECTION E  DISPUTE RESOLUTION MECHANISMS

### Good Practice E.1  Internal Dispute Settlement

a. An internal avenue for claim and dispute resolution practices within a securities intermediary or CIU should be required by the securities supervisory agency.

b. Securities intermediaries and CIUs should provide designated employees available to investors for inquiries and complaints.

c. Securities intermediaries and CIUs should inform their investors of the internal procedures on dispute resolution.

d. The securities supervisory agency should provide oversight on whether securities intermediaries and CIUs comply with their internal procedures on investor protection rules.

**Description**
Chapter VII, item 32 of the Resolution No. 1K-17 on the Organization of Activities of Financial Brokerage Firms sets forth an obligation for financial brokerage firms as well as certain management companies to approve and maintain transparent and effective internal procedures for resolution of disputes for their clients. Other items of this Chapter regulate the maximum duration of the resolution of disputes under such procedures (30 calendar days) and state other obligations of companies regarding the issue.

**Recommendation**
No recommendation.

### Good Practice E.2  Formal Claims Dispute Mechanisms

**Description**

a. The Law on Commercial Arbitration provides for arbitration of commercial actions if both parties agree to its use in an arbitration agreement. It does not appear to be a useful mechanism for small retail claims due to the formality and costs of the arbitration, although it may be useful for large claims. There is a dispute resolution system at the Vilnius Stock Exchange but it is only for disputes between members and the exchange. Article 84 of the Law on MFI states the LSC should encourage alternative dispute resolutions systems but does not provide for the creation of such a system.

b. The Arbitration Court system does appear to be impartial and independent.
c. The Decisions of an Arbitral Tribunal are binding and can be appealed to the Lithuanian Court of Appeal.

**Recommendation**
The legislature should consider the enhancement of the institutional capacity of the SCRPA in order to expand its responsibilities to cover retail investor disputes. Consideration could also be given to the creation of an alternative dispute resolution mechanism, such as an ombudsman, to handle retail investor claims as an alternative to the expensive court system and commercial arbitration system.

### SECTION F  
**INSOLVENCY OF AN INTERMEDIARY**

<table>
<thead>
<tr>
<th>Good Practice F.1</th>
<th>Legal Provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>a. There should be clear provisions in the law to ensure that the regulatory authority can take prompt corrective action on a timely basis in the event of distress at a securities intermediary or CIU.</td>
</tr>
<tr>
<td></td>
<td>b. The law on the investors guarantee fund, if there is one, should be clear on the funds and financial instruments that are covered under the law.</td>
</tr>
<tr>
<td></td>
<td>c. There should be an effective mechanism in place for the pay-out of funds and transfer of financial instruments by the guarantee fund or insolvency trustee in a timely manner.</td>
</tr>
<tr>
<td></td>
<td>d. The legal provisions on the insolvency of securities intermediaries and CIUs should provide for expeditious, cost-effective and equitable provisions to enable the timely payment of funds and transfer of financial instruments to investors by the insolvency trustee of a securities intermediary or CIU.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Articles 89 and 90 of the Law on MFI permit the LSC to review reorganizations and bankruptcies of securities brokerage houses and they give the LSC has the right to place a brokerage house in bankruptcy. A bankruptcy can only be handled through court proceedings and the court will freeze the assets of the brokerage house on the date of filing to protect customer assets.</td>
</tr>
<tr>
<td>b. The Law on Insurance of Deposits and Liability to Investors creates the State Undertaking Insurance of Deposits and Investments that acts as a guarantee fund for investors. Article 2.12 provides for which assets are covered by the guarantee but the provision is quite vague.</td>
</tr>
<tr>
<td>c. Article 10 of the Law on Insurance of Deposits and Liability to Investors provides for a procedure for the payout of the insurance payments to investors in a timely manner.</td>
</tr>
<tr>
<td>d. Article 90.5 of the Law on MFI sets up provisions for the payout to investors in the cases where it is handled by the administrator of a bankrupt financial brokerage house. However the article does not provide for a payout mechanism in the cases where it is handled under the standard procedures of the court.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Law on Insurance of Deposits and Liability to Investors needs to be more specific as to which financial instruments the law covers and how they are valued for repayment. In addition, the Law on MFI should provide for a more detailed procedure for payouts to investors in bankruptcy proceedings for financial brokerage houses. The Law on Collective Investment Undertakings should also provide such a payout procedure for bankruptcies of CIUs.</td>
</tr>
</tbody>
</table>

### SECTION G  
**CONSUMER EMPOWERMENT**

<p>| Good Practice G.1  | Financial Education through the Media |</p>
<table>
<thead>
<tr>
<th>Good Practice G.2</th>
<th>Information Resources for Investors</th>
</tr>
</thead>
</table>
| **Description**  | a. For the size of its market, Lithuania has an active financial press.  
b. The LSC has an active press program to facilitate the analysis of issues related to financial products and services. |
| **Recommendation** | No recommendation. |

**Description**

a. The LSC launched a special investor education program aimed at promoting Lithuanian residents to prudently manage their personal finances and take measures to protect and ensure their safe financial future in 2004. The program was further developed into a continuous campaign whose main task is to facilitate the development of an investment culture in Lithuania.

In 2007-2008 the LSC organized seminars on the subjects of personal finance management, as well as the global financial crisis. The seminars were held in 5 major towns of Lithuania and were attended by nearly 2,500 participants of different age groups and professions.

In 2008 "A Consumer’s guide to MiFID" was translated from English into Lithuanian and 10,000 free copies of the brochure were distributed to those interested in Lithuania.

b. The industry associations to a lesser extent have engaged in educating the public.

**Recommendation**

No recommendation.
Lithuania: Consumer Protection in the Insurance Sector

Overview

Total assets of the insurance market have been increasing in recent years, reaching over LTL 3.4 billion at end-2008. Total assets of the insurance industry grew by 147 percent from 2003 to 2007. The life segment showed the strongest growth of the sector in this period (life assets grew almost 330 percent, reaching LTL 1.71 billion by December 2007). Non-life assets grew over 75 percent from 2003 to 2007 and reached LTL 1.77 billion by end-2007. In 2008, life insurance assets decreased by 11 percent from 2007, while non-life insurance assets increased by 10 percent (see Figure 5).

![Figure 5: Life and Non-life Insurance Assets](image)

After four years of significant growth, the Lithuanian insurance market shrank in 2008. Total premium income of the Lithuanian insurance market in 2007 was over LTL 2,090 million compared with LTL 835 million in 2003, a growth rate of over 150 percent. In 2007, the total premium income of the industry grew 42 percent relative to 2006, with life premiums reaching LTL 788 million (an increase of 73 percent from 2006) and non-life premiums reaching LTL 1,303 million (an increase of over 29 percent from 2006). In 2007, the real growth rate adjusted for inflation was 35 percent, or about 11 times greater than the average growth rate in the EU insurance market. However, in 2008 the insurance market shrank by 4.8 percent, due to the contraction of 32 percent in the life insurance market. By end-2008 life insurance accounted for 26.9 percent of total premiums compared to 37.7 percent in 2007.
Despite the industry’s growth in recent years, the development of Lithuania’s insurance market lags behind other EU New Members States (NMS). Lithuania remains behind most other NMS both in terms of insurance penetration and density. There was a low level of insurance penetration at 2 percent of GDP at end-2007, although it increased from 1.4 percent in 2003. Insurance penetration is lower than the NMS average of 3 percent and the EU-15 average of 9.6 percent. With an insurance density (premiums per capita) of about USD 227 at end-2007, Lithuania lags behind most of the NMS and the EU-15 average of USD 3,668.

The insurance market in Lithuania is dominated by the non-life segment. In 2008 the non-life insurance market increased by 16 percent and its total premium income reached LTL 1.5 billion. The non-life segment accounted for 73 percent of all premiums (up from 64 percent in 2007). On the contrary, life assurance annual premium income decreased by 23 percent in 2008, and its market share declined from 36 percent in 2007 to 27 percent in 2008.

The dominant product of the non-life insurance segment is auto insurance. In 2008, auto insurance products accounted for 58 percent of non-life insurance premiums: 30 percent for motor third party liability (MTPL) and 28 percent for motor own damage (casco). In 2007, important
amendments occurred to the Law on Social Insurance exempting employees from the social insurance tax calculated on contributions for employees’ health insurance. Although these changes were expected to promote a more rapid development of health insurance products, their share remained around 7 percent in 2008.

**Figure 8: Structure of Non-Life Insurance Premium Income by Product**

![Pie charts for 2007 and 2008 showing the distribution of non-life insurance premium income by product category.]

Source: Insurance Supervisory Commission

**The non-life insurance market is very concentrated and mostly foreign-owned.** The concentration ratio of the top five non-life insurers increased from 78 percent in 2006 to 83 percent in 2007, and has remained at this level by end-2008. The market is dominated by Lietuvos Draudimas (formerly state-owned and now owned by Codan, Denmark) which had a 35 percent of market share in 2008. The remaining top 5 insurers for 2008 are PZU Lietuva (Poland) and ERGO Lietuva (Germany) with 14 percent of market share, and BTA Draudimas and If Draudimas with 10 percent.

**The rapid growth of unit-linked life assurance products was affected by the capital markets crisis of 2008.** The premium income of unit-linked life assurance products more than doubled during 2007, representing 76 percent of the portfolio at the end of 2007. The capital markets crisis of 2008 affected the growth of these insurance products. By end-2008, the premium income of unit-linked products decreased 31 percent compared to 2007, reducing their market share to 68 percent. Traditional life assurance products were the most dynamic in 2008: premium income for death insurance products grew 26 percent and for survival insurance grew 5 percent.

---

10 Unit-linked products are investment products with tax advantages offering different investment funds to the policy holders. The freedom in choosing the investment fund goes hand in hand with the investment risk beard by the policy holder, as these products do not offer any type of investment return guarantee.
The life insurance market is highly concentrated and mostly foreign and bank-owned. The top five life insurers dominated 94 percent of the market at end-2007 and the top two insurers that are bank-owned dominated almost 67 percent of the market. However, by end-2008 the concentration ratio for the top five insurers decreased to 89 percent and the ratio for the top two insurers decreased to 55 percent. The leader of the market is Hansa Gyvybės Draudimas and his market share fell from 41 percent in 2007 to 36 percent in 2008. The rest of the top five insurers in 2008 are: SEB Gyvybės Draudimas with a 19 percent market share (down from 26 percent in 2007), Aviva Lietuva with 16 percent of the market, Ergo Lietuva Gyvybės Draudimas with 10 percent of the market and Sampo Gyvybės Draudimas with 9 percent. Almost all insurers are foreign-owned.\(^1\)

**Legal Framework**

The following are the key laws governing consumer protection in the insurance sector:

- Civil Code of the Republic of Lithuania, Chapter LIII on Insurance
- Regulations of the Insurance Supervisory Commission of the Republic of Lithuania, approved by the Government of the Republic of Lithuania, Resolution No. 27 (13 January 2004)
- Resolution No. N-74 of the Insurance Supervisory Commission of the Republic of Lithuania on the approval of the description of the procedure for the provision of information to policyholders on life assurance related to investment funds (where the policyholder bears the investment risk) (11 July 2006)

\(^1\) The ownership of the top five insurers is as follows: Hansa Gyvybės Draudimas owned by Hansabankas; SEB Gyvybės Draudimas by SE Bank, Sweden; Sampo Gyvybės Draudimas by Sampo Group, Finland; Aviva Lietuva by Aviva, UK; and Ergo Lietuva Gyvybės Draudimas by Ergo Group, Germany.
Lithuania

Insurance Sector

- Resolution No. N-30 on Information provided by Insurance Intermediaries to Customers (16 March 2004)

**Institutional Arrangements**

The **Insurance Supervisory Commission** (ISC) is the government institution in charge of supervising activities in the areas of insurance, reinsurance and insurance intermediation. The purpose of the ISC is to ensure reliability, efficiency, safety, and stability of the insurance system and to protect the interests and rights of policyholders, insured, beneficiaries, and injured parties. The ISC is responsible for settling consumer disputes according to the procedure established in the Law on Insurance.

The **State Consumer Rights Protection Authority** (SCRPA) under the Ministry of Justice was established to implement the state policy in the sphere of the protection of consumer rights. As part of its functions, the SCRPA shall coordinate the activities of state institutions on consumer protection, including for all financial services. The SCRPA is responsible for handling consumer disputes in all financial services except insurance. The SCRPA is in charge of enforcing legal provisions on unfair business-to-consumer commercial practices, whereas the **Competition Council** is responsible of enforcing legal provisions on misleading and comparative advertising.

There are several associations of insurance providers. The **Lithuanian Insurers Association** was founded in October 1992 as an NGO that represents its members (non-life insurance companies) in their relations with the authorities, gives information about insurance for press and society, and cooperates with foreign partners. The **Lithuanian Association of Life Assurance Companies** represents life assurance undertakings established in Lithuania. The **Motor Insurers’ Bureau** is an association of insurance undertakings that have the right to engage in the activity of MTPL insurance. The **Chamber of Insurance Brokers** is a professional association that unites independent insurance intermediaries –insurance brokers– and implements self-governance principles of insurance brokers. The general meeting of the Chamber is in charge of developing the statute and appointing three of five members of the **Court of Honour of Insurance Brokers**. The Court is responsible for taking disciplinary actions against insurance brokers. The **Lithuanian Association of Insurance Broker Companies** and the **National Association of Insurance Broker Companies** both represent interests of insurance broker companies.

**Key Recommendations**

The key recommendations regarding consumer protection in the insurance sector include:

- Coordination between ISC and SCRPA should be strengthened. Consideration should be given to providing the SCRPA with independent status, and to allow them to participate in the Commission for Co-ordination of Regulation and Supervision of the Activities of Financial Institutions and Insurance Undertakings.

- A code of conduct should be developed by the insurance associations, subject to review by ISC and applied to all members of the associations. The code of conduct should be made widely available to consumers, including through the websites of industry associations and insurance providers. To further encourage the compliance with the code, the ISC could require that all entities issue an annual statement indicating whether they have complied with the code or the reasons for their failure to do so.
• Consideration should be given to establishing a Division for Consumer Protection within ISC responsible not only for the settlement of disputes but for all measures oriented to consumer protection, including dispute settlement, consumer awareness and financial education.

• The government should encourage the development of consumer associations in the field of financial consumer protection.

• In cases where insurance contracts are sold to consumers along with other financial services, consumers should be informed on their right to freely choose the provider for any insurance product independently. This could be done via a statement that a consumer should sign.

• A 14-day cooling period should be established for all products sold through high pressure sales channels with duration of longer than six months. However consumers who decide to cancel contracts during the cooling-off period should be obliged to compensate the financial institution for any loss due to changes in market conditions.

• Simple and standardized key facts statements should be developed by the industry associations, to allow consumers to compare different products from different insurance providers. Key facts statements have proved to be useful in many jurisdictions, such as Australia.

• The segregation of assets for life insurance is recommended to provide additional protection to the consumers.

• A baseline survey assessment should be conducted in order to better determine the needs of training and to identify the segments of the population that require particular attention.
Good Practices: Insurance Sector

<table>
<thead>
<tr>
<th>SECTION A</th>
<th>CONSUMER PROTECTION INSTITUTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good Practice A.1</td>
<td>Consumer Protection Regime</td>
</tr>
<tr>
<td></td>
<td>The law should provide for clear rules on consumer protection in the area of insurance and there should be adequate institutional arrangements for the implementation and enforcement of consumer protection rules.</td>
</tr>
<tr>
<td></td>
<td>a. There should be specific legal provisions in the law which create an effective regime for the protection of consumers of insurance services.</td>
</tr>
<tr>
<td></td>
<td>b. There should be either a general consumer agency or a specialized agency responsible for implementing, overseeing and enforcing consumer protection, as well as collecting and analyzing data (including complaints, disputes and inquiries).</td>
</tr>
<tr>
<td></td>
<td>c. The rules should prioritize a role for the private sector, including voluntary consumer protection organizations and self-regulatory organizations.</td>
</tr>
<tr>
<td>Description</td>
<td>The Insurance Law (article 181, paragraph 3) states that the ISC has a mandate not only to ensure reliability, efficiency, safety, and stability of the insurance system but also to protect the interests and rights of the policyholders, insured, beneficiaries, and injured party.</td>
</tr>
<tr>
<td></td>
<td>The Insurance Law also grants authority to the ISC to require insurers to amend policy conditions which are in contradiction to the provisions of legal acts or violate consumer rights and interests (article 77, paragraph 3). Further, in all future contracts the insurer is obliged to use the amended insurance policy conditions.</td>
</tr>
<tr>
<td></td>
<td>The Insurance Law also provides ISC with the authority to not only sanction companies but also hold individuals in key positions personally accountable for wrongdoings of the company. According to Article 197, the ISC has the right to &quot;impose administrative penalties on members of the supervisory and management boards, heads of administration of insurance undertakings, reinsurance undertakings, insurance brokers, insurance intermediaries, heads of branches of non-member-country insurance and reinsurance undertakings or branches of independent insurance intermediaries established in the Republic of Lithuania, the chief accountants and chief actuaries of insurance and reinsurance undertakings and branches of non-member-country insurance and reinsurance undertakings established in the Republic of Lithuania&quot;.</td>
</tr>
<tr>
<td></td>
<td>According to the Consumer Protection Law (article 22), the ISC is responsible for settling consumer disputes out of court, in the cases and according to the procedure set up in the Insurance Law. The Insurance Law establishes that the ISC is responsible for settling disputes between consumers and insurers which arise from an insurance contract or are related to it. The right to address the ISC shall not deprive consumers of the right to apply directly to the court. According to article 207, consumers shall have the right to address the ISC (without paying any fee) only after having addressed the insurer and within two months of receiving a negative final answer on the matter of dispute. The Law states the conditions under which the ISC shall not settle disputes (basically when it is subject to other resolution mechanism), and it also mentions that the ISC has three months to settle a dispute, period which can be extended for no longer than 3 more months. According to the Law, the decision of the ISC shall be of advisory nature. If the insurance provider fails to implement the decision issued by ISC, this authority shall inform the State Consumer Rights Protection Authority (SCRPA),</td>
</tr>
</tbody>
</table>
which would proceed to publish the notification of failure in its website (article 28 of the Consumer Protection Law).

As part of its consumer protection activities, the ISC publishes statistics and analysis on complaints and disputes regularly and as part of its Annual Report.

The Consumer Protection Law allows a role for consumer associations in Lithuania. According to Article 9, the protection of consumer rights shall be guaranteed by state and municipal institutions, and consumer associations. Article 13 identifies the rights of the consumer associations, which include educating consumers, representing consumers in the cases of out-of-court disputes, presenting proposals on the development of policies regarding the protection of consumer rights, among others. This article also emphasizes that consumer associations shall receive state financial support after they meet minimum conditions established by the law.

**Recommendation**

Although the legislation includes several provisions that enhance consumer protection in the insurance sector, the ISC does not have binding powers to settle consumer disputes with insurers. The law should be amended to provide ISC with binding authority over insurers, although consumers should always retain the right to proceed to courts.

Coordination between ISC and SCRPA should be strengthened, considering that SCRPA has the role of coordinating activities of the financial supervisory agencies on consumer protection issues. Consideration should be given to providing the SCRPA with independent status. The SCRPA could also participate in the Commission for Coordination of Regulation and Supervision of the Activities of Financial Institutions and Insurance Undertakings, which has the role of coordinating activities and mutual cooperation between all the financial supervisory authorities.

SCRPA could be assigned the role of centralizing all consumer complaints and disputes of the financial sector in a database. This would allow it to monitor possible systemic issues across the financial sectors.

**Good Practice A.2 Contracts**

There should be a specialized insurance contracts section in the general insurance or contracts law, or ideally a separate Insurance Contracts Act. This should specify the information exchange and disclosure requirements specific to the insurance sector, the basic rights of insurers and policyholders and allow for any asymmetries of negotiating power or access to information.

**Description**

The Civil Code has a dedicated chapter on insurance contracts (Chapter LIII) that covers disclosure of information and confidentiality of data, as well as the rights and obligations of the parties involved. The Chapter covers all types of insurance and does not differentiate between types of insurance.

The Insurance Law also has a chapter on insurance contracts (Chapter V), with some general provisions applicable to all classes of insurance, and additional specific provisions for different types of insurance (property, civil liability, life, health and reinsurance).

In addition, there is a specific regulation describing the procedures to provide information to policyholders on unit-linked life assurance products (Resolution No. N-74 of 11 July 2006).

**Recommendation**

No recommendation.

**Good Practice A.3 Codes of Conduct for Insurers**

a. There should be a principles-based code of conduct for insurers that...
is devised in consultation with the industries and relevant consumer protection associations, and is monitored and enforced as a last resort by a statutory agency.

b. Insurers should publicize the statutory code to the general public through appropriate means.
c. The statutory code should be limited to good business conduct principles. It should be augmented by voluntary codes on matters specific to the product or channel concerned.
d. The operation of voluntary codes should be monitored by a statutory agency, and the Annual Report of that agency should comment on the operation of those codes.

Description

There is no requirement for insurers to have a code of conduct. Some insurance undertakings have internal codes of conduct for different employees of the company that take into account the nature of the particular activity. There is a code of conduct for agents, a code of conduct for management, etc. The Lithuanian Association of Life Assurance Companies has also developed a code of conduct.

Insurance brokers are required to belong to the Chamber of Insurance Brokers, their professional association. The members of the Chamber have to abide to a Code of Conduct that is published in their web page.

Recommendation

A Code of Conduct for the insurance industry would not only benefit the consumers but also improve the image of the industry. A code of conduct should be developed by the insurance associations, subject to review by ISC and applied to all members of the associations.

The code of conduct should be made widely available to consumers, including through the websites of industry associations and insurance providers. To further encourage the compliance with the code, the ISC could require that all entities issue an annual statement indicating whether they have complied with the code or the reasons for their failure to do so. In addition, at the time of onsite supervision, the ISC should verify if the entity has followed the industry code of conduct and provide recommendations on measures to ensure compliance.

Good Practice A.4  Other Institutional Arrangements

a. There should be a balance between prudential supervision and consumer protection.
b. The judicial system should provide credibility to the enforcement of the rules on financial consumer protection.
c. The media and consumer associations should play an active role in promoting financial consumer protection.

Description

In the last years a number of insolvencies have been declared indicating the need for an increased supervision of the solvency of the companies. Fierce competition and poor management in the MTPL business has driven some players into insolvency. While the life insurance companies rely on conservative mortality tables to calculate the mathematical reserves, the lack of a mandatory minimal statutory reserve table could cause problems in the future as the market becomes more competitive. Also, the introduction of solvency II will require additional resources for the ISC to focus on prudential supervision.

In terms of the organizational structure of the ISC, the Commission consists of the Chairman and four other members who are responsible for the fields of activities assigned to them. Currently, the Deputy Chairman is in charge of activities related to international relations, accounting and financial analysis. One Member is in responsible for supervising the fields of life assurance and pension accumulation, another member supervises non-life insurance and compulsory insurance, and another member is
Lithuania

Insurance Sector

responsible for legislation, settlement of disputes between consumers and insurers, and insurance mediation. Besides the Commission, the ISC has the Administration body, consisting of eight divisions: Legal, International Relations, Life Assurance, Non-Life Insurance, Insurance Intermediaries, Information Analysis, Finance, and General. There is no special division for consumer protection issues.

In general, the court system is quicker and has fewer procedures than other countries in Central Europe, but the cost of litigation is slightly higher, which may be discouraging their use by consumers. According to the Doing Business indicators, the average cost of enforcement of contracts is 23.6% of the claim (compared with an average of 22.7% for Eastern Europe and Central Asia).

It was noted that consumer associations currently have only a limited engagement in the insurance area, probably due to the requirement of specialized knowledge.

**Recommendation**

The ultimate consumer protection is the solvency of the companies that would allow them to fulfill their obligations. A revision on the capital and reserve requirements in the area of MTPL needs attention. The introduction of minimal reserve requirements for the mathematical reserves in the Life business will facilitate the supervision of the adequacy of those reserves. The development of a Lithuanian mortality table should be a medium term objective.

Consideration should be given to establishing a Division for Consumer Protection issues that goes along with the responsibility for settlement of consumer disputes already assigned to one of the Commission Members. Currently, all other responsibilities assigned to Commission Members have a parallel administrative division. The Division should be responsible not only for the settlement of disputes but for all measures oriented to consumer protection, including consumer awareness and financial education.

The development of an alternative dispute resolution procedure, such as an ombudsman should be evaluated, in order to deal more effectively with consumer disputes in the field of insurance.

The government should encourage the development of consumer associations in the field of financial consumer protection. Authorities should increase their coordination with consumer associations and media, organizing workshops to improve their knowledge and understanding of financial and consumer protection issues, and providing them with information on finance and consumer protection. The government should also provide additional incentives and support to consumer associations in order to strengthen their role as a pillar institution for consumer protection in the financial sector.

**Good Practice A.5**

*Linked Products and Bundling Clauses*

Whenever an insurer contracts with a merchant or credit grantor (including banks and leasing companies) as a distribution channel for its contracts, no bundling (including enforcing adhesion to what is legally a single contract), tying or other exclusionary dealings should take place without the consumer being advised and able to opt out.

**Description**

In a highly concentrated market, the moral hazard of anti-competitive tying and bundling of products increases. There have been reported cases of tying banking with insurance products.

The Civil Code allows for the provision of credit insurance as part of a consumer credit agreement. Article 6.887 states that if the creditor has to provide credit insurance, “the agreement shall also specify the value of the credit insurance as well as the conditions under which the amount of insurance will be transferred to the creditor.”
<table>
<thead>
<tr>
<th><strong>Recommendation</strong></th>
<th>The ISC should introduce the requirement to inform consumers of their right to freely choose the provider of any insurance product independently. This could be done in the form of a statement that the consumer should sign. The ISC should ask the insurers to provide standardized quotes for different types of products and make comparisons of these quotes available to the public.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SECTION B</strong></td>
<td><strong>DISCLOSURE &amp; SALES PRACTICES</strong></td>
</tr>
<tr>
<td><strong>Good Practice B.1</strong></td>
<td><strong>Sales Practices</strong></td>
</tr>
<tr>
<td></td>
<td>a. Insurers should be held responsible for product-related information provided to consumers by their agents (i.e. intermediaries acting for the insurer).</td>
</tr>
<tr>
<td></td>
<td>b. Consumers should be made aware of whether the intermediary selling them an insurance contract (known as a policy) is acting for them or for the insurer (i.e. in the latter case they have an agency agreement with the insurer).</td>
</tr>
<tr>
<td></td>
<td>c. If the intermediary is a broker (i.e. acting on behalf of the consumer) then the consumer should be advised at the time of initial contact with the intermediary if commission will be paid by the underwriting insurer. The consumer should have the right to require disclosure of the commission and other costs paid to an intermediary for long term savings contracts. The consumer should always be advised of the amount of commission paid on single premium investment contracts.</td>
</tr>
<tr>
<td></td>
<td>d. An intermediary should not be allowed to identically fill broking and agency roles for a given general class of insurance (i.e. life and disability, health, general insurance, credit insurance).</td>
</tr>
<tr>
<td></td>
<td>e. Sanctions, including meaningful fines and, in the case of intermediaries, loss of license, should apply for breach of any of the above provisions.</td>
</tr>
<tr>
<td><strong>Description</strong></td>
<td>The Insurance Law contains a chapter on insurance intermediaries, and it has been harmonized with the EU Directive on Insurance Mediation. According to the Law (article 169), insurers are required to ensure that their agents are directly or indirectly covered with professional liability insurance, for damages which might arise in case of improper insurance mediation. In case of failure to fulfill this duty, the insurer is obliged to fully indemnify the consumer with the loss incurred due to the failure by the agent to fulfill professional obligations or improper fulfillment thereof. The law also requires that intermediaries disclose to consumers the contractual relations with the insurers upon whose authorization they carry out mediation activity (article 149). The Resolution on Information provided by Insurance Intermediaries to Consumers No. N-30 specifies the disclosure requirements for untied insurance intermediaries (whether they act as brokers or agents, and in case they act as agents, the requirement to provide, at the consumer’s request, the name of the insurers which he or she may or does conduct businesses) and tied insurance intermediaries (requirement to provide, at the consumer’s request, with the names of insurers that the intermediary has a contractual obligation with). There is no regulatory requirement of disclosure of commissions paid to agents. The law does not prohibit an intermediary to act as broker and agent for a given general class of insurance. Brokers and agents are licensed and supervised by the ISC. The ISC publishes the list of licensed brokers on its website. All brokers need to become members of the Chamber of Insurance Brokers, their professional association. The Code of Conduct for</td>
</tr>
</tbody>
</table>

63
members of the Chamber of Insurance Brokers is published and their members have to abide to the code.

The Court of Honor of Insurance Brokers is in charge of evaluating and executing disciplinary actions against insurance brokers. The Court of Honor is set up by the Chamber of Insurance Brokers and consists of three experienced brokers, a member of the ISC and a member of the SCRPA. For violations of the Insurance Law, other legislation, regulation on professional activities or the Code of Conduct of Insurance Brokers, the Court of Honor of Insurance Brokers may impose one of these penalties: i) a warning, ii) a reprimand, or iii) a publicly announced reprimand. In the case of repeated violations, the Court of Honor may request ISC to suspend the broker’s license for up to one year, or to take a broker out of the list of licensed brokers. Decisions made by the Court of Honor may be appealed within one month of the date of service of the appropriate decision.

**Recommendation**

The legislation on insurance intermediaries could be improved by requiring more disclosure on the commissions paid to the agents, and by prohibiting the possibility of performing broking and agency roles for a given general class of insurance.

**Good Practice B.2**  
**Advertising and Sales Materials**

- a. Insurers should make sure that their advertising and sales materials and procedures do not mislead customers. Regulatory limits should be placed on investment returns used in life insurance value projections.
- b. Insurers should be legally responsible for all statements made in marketing and sales materials they produce related to their products.
- c. All marketing and sales materials should be easily readable and understandable by the general public.

**Description**

The Civil Code covers, in articles 6.301 through 6.304, the concept of misleading advertising and the liability that it may create.

The Law on Prohibition of Unfair Business to Consumer Commercial Practices prohibits misleading commercial practices, which include advertising and marketing. Under article 12, commercial operators who infringe the requirements of this Law shall be held liable under this Law and other laws. The Law on Advertising also covers the issues of misleading and unpermitted comparative advertising.

The Competition Council is in charge of enforcing the provisions of these two laws related to misleading and comparative advertising. The SCRPA is in charge of enforcing other provisions of the laws.

In the case of unit-linked life insurance products, Resolution No. N-74 (article 7) states that the pre-contractual information offered to the consumer should include a description of the investment direction that is required to be presented in “a clear and comprehensible manner, avoiding special terms or providing their explanations; they may not contain any incorrect or misleading information”. In terms of investment returns, the regulation requires that the insurer present the change in the value of the investment unit over the past three years.

**Recommendation**

Regulations should incorporate provisions on the calculation of estimated investment returns and their use in advertising and marketing of life insurance products. These provisions could follow the existing requirements of pre-contractual disclosure of information of investment value for life insurance products to consumers.

**Good Practice B.3**  
**Know Your Customer**

The sales intermediary or officer should be required to obtain sufficient information about the consumer to ensure an appropriate product is offered.
**Formal ‘fact finds’ should be specified for long term savings and investment products and should be retained and be available for inspection for a reasonable number of years.**

### Description

In an effort to know the needs of a customer, insurance companies require all customers to fill out an insurance application form to answer extensive questions about different aspects of the insured persons. The Civil Code and the Insurance Law both require full disclosure by the insured.

The Regulation on Information provided by Insurance Intermediaries to Consumers requires that the intermediary specify, prior to the conclusion of a contract and based on the information provided by the customer, “the demands and needs of that customer as well as the underlying reasons for any advice given to the customer on a given insurance contract. These details shall be modulated according to the complexity of the insurance contract being proposed.” (article 7) This information shall be communicated to the consumer on a durable medium available and accessible to the consumer, and in a clear and accurate manner, comprehensible to the consumer.

### Recommendation

As mass distribution channels of insurance products for small amounts enter the market, KYC could become a complex topic. Most countries have adopted a minimum premium threshold for this requirement and it should be adopted and introduced by the ISC.

### Good Practice B.4

**Cooling-off Period**

There should be a reasonable cooling-off period associated with any traditional investment or long term life savings contract after the policy information is delivered, to deal with possible high pressure selling and mis-selling.

### Description

In the case of financial services contracted through means of communication, the Law on Consumer Protection (article 37) provides the consumer with the right to withdrawal from the contract within a period of 14 days from the date of conclusion of the contract, with the exception of contracts for life assurance and pensions, where the period is of 30 days.

The Insurance Law in article 107 requires a cooling-off period of 30 days for any life insurance product with a duration of longer than six months, following the provisions of the EU Directive on Life Insurance.

The EU Directive on Non-Life Insurance does not provide for cooling-off periods for non-life insurance products. The ISC is of the opinion that such cooling-off periods could raise negative outcomes (for example, rise of insurer’s administrative costs or fraud when entering into a contract in the field of compulsory insurance.)

### Recommendation

As distribution channels operating on high pressure sales techniques enter the market (e.g. telemarketing), a 14-day cooling off period should be extended for all products with duration of longer than six months sold through these channels. However consumers who decide to cancel contracts during the cooling-off period should be obliged to compensate the financial institution for any loss due to changes in market conditions.

### Good Practice B.5

**Key Facts Document**

A Key Facts Document should be attached to all sales and contractual documents, disclosing the key factors of the insurance product or service in large print.

### Description

Insurance companies are required to provide key facts of the insurer, the insurance contract, procedures to deal with complaints and other information, according to the Civil Code (article 6.993). The insurer should also provide consumers with the insurance policy, as required by the Insurance Law (article 77). Insurers are required to
Lithuania

### Insurance Sector

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommendation</strong></td>
<td><strong>Good Practice B.6</strong></td>
<td><strong>Professional Competence</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>a. Sales personnel and intermediaries selling and advising on insurance contracts should have sufficient qualifications, depending on the complexities of the products they sell.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>b. Educational requirements for intermediaries selling long term savings and investment insurance products should be specified, or at least approved, by the regulator or supervisor.</td>
</tr>
<tr>
<td><strong>Description</strong></td>
<td>All brokers are required to become members of the Chamber of Insurance Brokers. The code of conduct for members of the Chamber of Insurance Brokers requires continuous education.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The Insurance Law requires insurers or branches of non-member-country insurers to “organize professional training sessions for the staff of companies of insurance agents whose activities include insurance mediation as well as for insurance agents” (article 169). The Law also provides the Chamber of Insurance Brokers with the functions of “setting the number of hours of compulsory annual in-service training of insurance brokers” and “organizing and coordinating internship and in-service training for insurance brokers”.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The Insurance Law states that the ISC shall organize qualification examinations and conduct performance re-evaluation of insurance brokers, especially when there are justified complaints about the activities of an insurance broker or if the evaluation data puts in doubt the broker’s qualification. If it is established that the insurance broker has lost his or her qualification or failed to attend the performance re-evaluation without a good reason, he or she shall be removed from the list of insurance brokers.</td>
<td></td>
</tr>
<tr>
<td><strong>Recommendation</strong></td>
<td>For complex products like unit-linked insurance, a special training and certification requirement for agents can avoid possible inappropriate sales. The ISC could develop those requirements.</td>
<td></td>
</tr>
<tr>
<td><strong>Good Practice B.7</strong></td>
<td><strong>Regulatory Status Disclosure</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. In all of its advertising, whether by print, television, radio or otherwise, an insurer should disclose: (a) that it is regulated and (b) the name and address of the regulator.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. All insurance intermediaries should be licensed, and proof of licensing should be readily available to the general public, including through the internet.</td>
<td></td>
</tr>
</tbody>
</table>
| **Description** | The Insurance Law requires that the name of an insurance undertaking contain the word “insurance”. The Law also states that “no other legal person shall have the right

In the case of life insurance products, the Insurance Law requires more specific information on key facts of the product (article 99), and in the case of unit-linked products, Resolution No. N-74 (article 7) states specific information that an insurer or intermediary shall offer to the consumer regarding the investment direction of the insurance product. The information shall be available on the website of the insurer, easily accessible to the consumer and presented in a clear and comprehensible manner, avoiding special terms or providing their explanations.

Standardized information throughout the industry should be provided. The key aspects should be displayed in a simple and standardized format to allow consumers to easily and quickly identify the key terms and conditions of products, and compare different products from different insurance providers. The industry associations should be encouraged to develop key facts statements. Although the ISC does not agree with this recommendation, such key facts statements have proved to be useful in many jurisdictions, such as Australia.

All brokers are required to become members of the Chamber of Insurance Brokers. The code of conduct for members of the Chamber of Insurance Brokers requires continuous education.

The Insurance Law requires insurers or branches of non-member-country insurers to “organize professional training sessions for the staff of companies of insurance agents whose activities include insurance mediation as well as for insurance agents” (article 169). The Law also provides the Chamber of Insurance Brokers with the functions of “setting the number of hours of compulsory annual in-service training of insurance brokers” and “organizing and coordinating internship and in-service training for insurance brokers”.

The Insurance Law states that the ISC shall organize qualification examinations and conduct performance re-evaluation of insurance brokers, especially when there are justified complaints about the activities of an insurance broker or if the evaluation data puts in doubt the broker’s qualification. If it is established that the insurance broker has lost his or her qualification or failed to attend the performance re-evaluation without a good reason, he or she shall be removed from the list of insurance brokers.

For complex products like unit-linked insurance, a special training and certification requirement for agents can avoid possible inappropriate sales. The ISC could develop those requirements.

The Insurance Law requires that the name of an insurance undertaking contain the word “insurance”. The Law also states that “no other legal person shall have the right...
to use in its name this word or the combination ‘insurance undertaking’ or a similar phrase, save for the exceptions provided by law.”

Brokers and agents are required to be licensed and supervised by the ISC. The ISC publishes on its web page the list of licensed brokers. Resolution No. N-30 requires that all insurance intermediaries provide consumers with “the register of legal persons and/or the list of tied insurance intermediaries in which he or she has been included and the means for verifying that he or she has been registered. Insurance broker undertakings shall also make reference to the website of the Insurance Supervisory Commission of the Republic of Lithuania where a list of insurance broker undertakings is published” (article 1.2)

Recommendation | No recommendation.
--- | ---

**Good Practice B.8 Disclosure of Financial Situation**

- a. The regulator or supervisor should publish annual reports, made available to the public, on the development, health, strength and penetration of the insurance sector, either as a special report or as part of the disclosure and accountability requirements under the law governing it.
- b. Insurers should be required to disclose their financial information to enable the general public to form an opinion with regards to the financial viability of the institution.
- c. If credible claims paying ability ratings are not available, the regulator or supervisor should periodically publish sufficient information on each insurer so that an informed commentator or intermediary can form a view of the insurer’s relative financial strength.

**Description**
The Insurance Law authorizes the ISC to require detailed information from insurers. The ISC publishes annual financial statements of the insurance sector and of each insurance company levels. Starting from the end of 2007, the ISC has been publishing a quarterly insurance market bulletin which, besides detailed statistical insurance market data, includes quarterly financial indicators of insurance undertakings.

All insurers are required to publish their audited annual financial statements on their website, as well as their interim quarterly financial statements starting from 2008.

Recommendation | No recommendation.
--- | ---

**SECTION C CUSTOMER ACCOUNT HANDLING AND MAINTENANCE**

**Good Practice C.1 Customer Account Handling**

- a. The customer should receive periodic statements with the value of their policy in case of insurance savings and investment contracts. For life insurance (which covers both risk coverage and investment), the customer should receive statements on the portion of the premium used for risk cover vs. investment.
- b. For traditional savings contracts an annual statement should be provided however more frequent statements should be produced for investment-linked contracts.
- c. Customers should have a means to dispute the accuracy of the transactions recorded in the statement within a stipulated period.
- d. Insurers should be required to disclose the cash value of a traditional savings or investment contract upon demand and within a reasonable time. In addition, a table showing projected cash values should be provided during the delivery of the initial contract and any
| Description | Resolution No. N-74 requires that a report on the investment life assurance contract be provided to the policyholder in writing or in any other form acceptable to the policyholder at least once per calendar year. This report shall include: main information on the contract (e.g. validity period of the contract, proportions of investment options selected by the policyholder at the end of the period); the reporting period; information about premiums paid; information about the value of the policyholder's accumulated capital; amounts of deductions from premium and from accumulated capital made by the insurers during the reporting period; investment profit or loss obtained during the reporting period; surrender value at the end of the reporting period; a reference to the website of the insurer, where descriptions of investment directions chosen by the policyholder are published; locations where the policyholder could receive written descriptions of the investment directions chosen by the policyholder; other information (including the right to receive more detailed information on the contract or to change the chosen investment direction).

The Insurance Law requires insurers to include in the policy the procedure for resolution of disputes between the insurer and the policyholder.

Article 99 of the Insurance Law requires that, prior to the conclusion of a contract, the insurance provider provide the consumer with information on “the interest rate, the principles and ways of calculation of the insurer’s profit share belonging to the policyholders and methods of the distribution of that profit share, the procedure for determining the surrender value and approximate amounts of the surrender value, if a contract concluded is related to capital accumulation.”

Article 83 of the Insurance Law states that the “conditions for an automatic extension of the validity period of an insurance contract must be negotiated individually at the moment of concluding the insurance contract.”

The Insurance Law requires the insurer to prove the circumstances which give it the right to refuse or reduce the payment of the insurance benefit. “When the insurer refuses to pay the benefit or reduces it due to violation of the insurance contract conditions by the policyholder, he or she has to consider the policyholder’s fault, the gravity of breach of the insurance contract, its causal relationship with the insured event and the amount of loss resulting from the breach” (article 82). |
| Recommendation | No recommendation. |
| **SECTION D** | **PRIVACY & DATA PROTECTION** |
### Good Practice D.1  
**Confidentiality and Security of Customers’ Information**

Customers have a right to expect their financial transactions be kept confidential. The law should require banks to ensure that they protect the confidentiality and security of personal data against any anticipated threats or hazards to the security or integrity of such information, and against unauthorized access.

| Description | The confidentiality of the data received by the insurer is protected by provisions of the Civil Code on Insurance contracts (article 6.995).

The request for genetic data is not allowed according to the Insurance Law (article 100). |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendation</td>
<td>No recommendation.</td>
</tr>
</tbody>
</table>

### SECTON E  
**DISPUTE RESOLUTION MECHANISMS**

### Good Practice E.1  
**Internal Dispute Settlement**

- a. The supervisory agency should require all insurers to have an internal avenue for claim and dispute resolution practices.
- b. Insurers should designate employees to handle retail policyholder complaints.
- c. The insurer should inform its customers of their internal procedures on dispute resolution.
- d. The regulator or supervisor should oversee whether insurers comply with their internal procedures on consumer protection rules.

| Description | According to article 6.993 (paragraph 8) of the Civil Code, before concluding an insurance contract the insurer shall inform the consumer on the procedure for settlement of the disputes arising from or related to the insurance contract.

The Insurance Law in article 24 (part 2, paragraph 5) obliges insurers to establish the procedure for the examination of complaints submitted by the policyholders, insured persons, beneficiaries, and injured parties, as well as the procedure for giving a response to applicants. This procedure must be publicly announced on the website of the insurer and be provided upon request of any interested person.

Article 77 (paragraph 13) of the Insurance Law requires insurers to include in the policy the procedure for resolution of disputes between the insurer and the policyholder. The policy shall state the point of contact at the company and the ISC, and include a statement of the consumer’s right to go to court on a dispute. |
| Recommendation | No recommendation. |

### Good Practice E.2  
**Formal Dispute Settlement Mechanisms**

- a. A system should be in place that allows consumers to seek affordable and efficient third-party recourse, which could be an ombudsman or tribunal, in the event the complaint with the insurer is not resolved to their satisfaction in accordance with internal procedures.
- b. The role of an ombudsman or equivalent institution vis-à-vis consumer complaints should be made known to the public.
- c. The ombudsman or equivalent institution’s impartiality and independence from the appointing authority and industry should be assured.
- d. The enforcement mechanism of the decisions of the ombudsman or
equivalent institution and binding nature of the decision on banks should be established and made public.

**Description**

The Insurance Law describes the procedure for handling disputes in Article 207. The ISC has the mandate to resolve disputes between the consumer and the insurer only after both parties have failed to resolve the dispute. When a dispute reaches the ISC, the first step is to have a three-party discussion with the consumer, the insurer and the ISC. If the disagreement persists, a formal written claim is required. A dispute has to be settled within 3 months. In some cases, based on the complexity of the dispute, the ISC has the right to extend the time period for no longer than an additional 3 months.

The ISC issues recommendations to be followed by the insurer. Insurers that do not follow the recommendations of the ISC are reported to the SCRPA. The SCRPA, after notifying the insurer, publishes the case, in a short version, on its website. The ISC submits information concerning the settlement of disputes to the SCRPA. The insurer and insured may elect to go to court, at any stage, to resolve the case.

The complexity of disputes in this area of financial services makes expertise knowledge of the business essential. The ISC is doing a good job resolving the disputes that do not reach agreement between consumers and insurers. There were 168 disputes during 2007 handled by the ISC, an increase of 13 percent compared with 2006 (149 disputes). In addition, consumers submitted 192 complaints in 2007, an increase of almost 2.5 times compared with 2006 (78 complaints). These numbers will continue growing as consumers get more familiar with their rights and more complex products are offered.

**Recommendation**

For recommendations on dispute resolution mechanisms, please see Volume I.

**SECTION F**

**GUARANTEE SCHEMES AND INSOLVENCY**

**Good Practice F.1**

*Guarantee Schemes and Insolvency*

a. With the exception of schemes covering mandatory insurances, guarantee schemes are not to be encouraged for insurance because of the opaque nature of the industry and the scope for moral hazard. Strong governance and supervision are better alternatives.

b. Nominal defendant arrangements should be in place for mandatory insurance such as motor third party liability insurance.

c. Assets covering life insurance mathematical reserves and investment contract policy liabilities should be separated or at the very least, earmarked, and long-term policyholders should have preferential access to such assets in the event of a winding-up.

**Description**

Only MTPL insurance has a guarantee fund that provides protection in case of insolvency of the insurer and for all uninsured claims.

The assets backing up the mathematical reserves of unit-linked products are not segregated from the general insurance undertaking’s assets.

**Recommendation**

The segregation of assets is recommended to provide additional protection to the consumers.

**SECTION G**

**CONSUMER EMPOWERMENT**

**Good Practice G.1**

*Information Resources for Consumers*

a. Consumers, especially the most vulnerable, should have access to
sufficient resources to enable them to understand financial products and services available to them.

b. Financial regulators should seek to improve consumer awareness of financial products and services by devising, publishing and distributing independent information on the costs, risks and benefits of such products and services.

c. Non-governmental organizations should be encouraged to provide consumer awareness programs to the public regarding financial products and services.

Description

Authorities and the insurance industry are in agreement that consumer financial education is important. Due to the complexity of the insurance business, it is particularly important for consumers to gain at least a basic understanding of the concept of insurance and its main components: premiums, exclusions, coverage, etc.

The ISC has included the improvement of consumer awareness as one of its lines of action regarding consumer protection. In 2006 ISC incorporated a new section on its website called “Frequently Asked Questions – Policyholder’s Manual”. In addition, ISC drafted a comprehensive information guide on life assurance, in order to help consumers better understand the purpose and features of life assurance products and services and the basic terms and conditions of these contracts, as well as to inform consumers about their rights and duties. The guide also includes a section on which life assurance product is the best choice for certain types of policyholders. The guide is published on the ISC website.

A stronger engagement of the NGOs to elaborate product’s surveys that compare the benefits and prices throughout the industry is recommended to help consumers in their decisions. The websites of the ISC and the SCRPA could have a dedicated section to divulge cross-industry product terms and tariffs.

Recommendation

Several studies have shown that the most effective way to educate consumers is when they are interested in obtaining a particular product. For instance, when reaching retirement age, people are interested in retirement products; or when buying a mortgage and realizing the need for life protection, consumers will look for information on life insurance products, etc. Thus, training material should be readily available for any phase of a prospective consumer’s life.

The ISC could set up a free toll number to address financial questions and inquiries from consumers.

Good Practice G.2 Measuring Financial Capability

a. Policymakers, the insurance industry and its advocates should understand the financial capability of various market segments, particularly those most vulnerable to abuse.

b. In order to ensure that financial consumer protection, education and information initiatives are proportionate and appropriate, and in order to measure the effectiveness of those initiatives over time, the financial capability of consumers should be measured by way of large-scale market research that gets repeated periodically.

For these purposes, the term “financial capability of consumers” means the ability to manage money, keep track of finances, plan ahead, choose appropriate financial products and services and stay informed about financial matters.

Description

No nation-wide survey on financial capability of consumers has been conducted in Lithuania.
| **Recommendation** | A baseline survey assessment should be conducted in order to better determine training needs and identify the segments of the population that require particular attention. |