FINANCIAL CONSUMER PROTECTION – BEYOND COMPLIANCE

The need for Consumer Protection arises from asymmetry of power, information and resources between banks and their customers. For example, if customer with poor financial knowledge & skills make poor financial choices, this will not only lead to financial fragility of that customer but on a macro level, will result in greater market susceptibility to fraud and abuse. This will tarnish customers' trust in financial markets and ultimately the playfield for the Financial Institutions will shrink.

On the contrary, an effective Financial Consumer Protection regime will empower customers to obtain fair information while enhancing their capabilities to make informed financial decisions, ultimately leading to greater transparency and efficiency as well as higher Financial Inclusion. Need not to mention, greater financial coverage will amplify profits for the Financial Service Providers, too.

Financial Consumer Protection – A Global perspective: In the wake of the financial crisis, a great deal of attention has turned to the Consumer Protection agenda. The crisis had severely damaged the trust of the customers in financial services. Besides, the perceptions of risk, and the consequent desire for protection and assurance, have been substantially heightened.

Thus, Consumer Protection is indeed becoming a pre requisite for creating a fair market infrastructure; however, it is not new. Nor the adherence to this phenomenon is a matter of compliance only. Many components of the emerging Consumer Protection agenda were already in place before the crisis – it is over a decade, for example, since the UK's Financial Services Authority (FSA) launched its initiative on treating Customers Fairly.

Subsequent to the crisis the G20 High-Level Principles on Financial Consumer Protection were developed in 2011 by a special task force of the OECD. These high-level principles are now used worldwide by financial regulators to complement their existing financial regulations, especially those regulations relevant to the Protection of consumers. Further the G20 are keen to create an international body to oversee the development of Consumer Protection regulation, and have called for formalization of the International Financial Consumer Protection Network (FinCoNet).

Similarly, World Bank launched its good practices for Financial Consumer Protection in June 2012. USA's Dodd Frank Act and Malaysian Market Conduct supervision are a few more joining the list.

Redefining Consumer Protection for Pakistan Banking Industry: Financial Consumer Protection sets clear rules of conduct for banks regarding their consumers. It aims to ensure that consumers:

- receive information to allow them to make informed decisions,
- are not subject to unfair or deceptive practices and
- have access to recourse mechanisms to resolve disputes.

Complementary Financial literacy initiatives are aimed at giving consumers the knowledge and skills to understand the risks and rewards of using Financial products and services—and their legal rights and obligations in using them.

Clear rules of conduct for Financial Institutions, combined with programs of financial education for consumers, will increase Consumer trust in financial markets and will support the development of these markets.[1]

Financial Consumer Protection – in whose Interest?

Besides, the consumers, protecting of consumers is in the interest of bank too. It is to be appreciated that for bank's business to survive, their consumers must survive and for that they need to understand the appropriateness of the products themselves.

Guiding Principles

Impartial and Just Treatment: Banks should deal fairly and honestly with consumers at all stages of their relationship, so that it is an integral part of the culture of a bank. Care should also be made and special attention given to the needs of vulnerable persons and groups.

Clear & Timely disclosure: Banks should provide up to date information about products and services to consumers. This information should be easily accessible, clear, simple to understand, accurate, not misleading and include any potential risks for the consumer.

It should include the rights and responsibilities of each party, including the mechanism for either party to end the banking relationship, as well as details of fees, pricing and any potential penalties that the customers may incur.

Financial education and awareness: Banks should develop programmes and appropriate mechanisms to help existing and future consumers develop the knowledge, skills and confidence to appropriately understand risks, including financial risks and opportunities, make informed choices, know where to go for assistance when they need it.

Behavior and work ethics: Banks should work in a professional manner for the benefit of clients during their relationship, where a bank is primarily responsible for the Protection of the financial interests of the client.

Protection against fraud & invasion of privacy: Banks should protect and monitor Consumer deposits and savings and other similar financial assets through the development of control systems with a high level of efficiency and effectiveness to reduce fraud, embezzlement or misuse of both the asset and the related information.

Complaints handling: Consumers should have access to adequate complaints handling mechanisms that are accessible, affordable, independent, fair, accountable, timely and efficient and based on SBP's regulations.

Competition: Consumers should be able to search, compare and where appropriate, switch between products, services and providers easily and clearly at a reasonable cost. Industry wide associations can play a vital role in promoting comparable information to the customers.

[1] Good Practices for Financial Consumer Protection, the World Bank, June 2012.

Fair Treatment of Consumers throughout Product Life Cycle: The possible solution to insulate consumers from vulnerabilities is by ensuring that the banks treat their customers fairly. The banks must understand what fair and equitable treatment of customers means and then align their business practices to achieve the desired outcomes.

The fair treatment of customers is synonymous to a consumer-centric approach of conducting business that reaps higher customer satisfaction. Simply put, fair treatment of customers involves ensuring that the products and services offered by bank are suitable for the customers and appropriate to their risk profile, pricing is transparent and non-discriminatory and that the service is delivered in a speedy, safe and secure environment. For instance, while banks are justified in levying reasonable charges for services provided, are they justified in levying charges without providing any specific service (e.g. customers not conducting any transaction in the account)? An attendant aspect of Consumer Protection is the provision of efficient grievance redressal machinery which should be "quick" and "just". Similarly, feedback received from the customers shall also be incorporated back to the services being provided.

Moving ahead of tick-box compliance- Self Regulation: A bank that engages actively with its customers treats them fairly and provides them with products and services that meet customers' needs, is simply pursuing competitive advantage by delivering value to its customers. Understanding customers needs; designing products which meet those needs appropriately; providing those products at a reasonable price consistent with customer's risk profile and risk appetite _ the best banks will do these things automatically, not because of Consumer Protection regulation but because delivering Consumer value is just good business. The Consumer Protection agenda, though currently being driven by regulation, should result in business models and practices that improve customer service.

To achieve all what is elicited above, it is highly recommended that the banks must conceive a framework for Fair Treatment of their consumers (FTC) and document the same. The Framework shall include policies to regulate the design and marketing of financial products and services, the system of information dissemination, facility for after-sales support and the grievance redressal procedure. Effectiveness of such a framework in banks would depend upon how deeply rooted the FTC philosophy is integrated into bank's culture.

At the individual level, effective implementation of FTC requires that FTC goals are embedded into the employee performance measurement and rewards systems. Ensuring fair treatment to customers would also mean that behavioral and cultural changes have to be brought about in the organization. This cannot be achieved merely by fencing Consumer Protection within the compliance function. Instead, the entire bank – right from the Board to the frontline managers – has to be responsive to this.

Probable Self Assessment Questions/Areas for Banks:

1. Is identifying and addressing Consumer Protection Issues a clear priority for us?
2. Are the products and services marketed and sold, designed to meet the needs of Consumer?
3. Are the Consumers provided with clear information and are kept appropriately informed before, during and after the point of sale?
4. Do we have a complete view of where potential risks to consumers may arise throughout the lifecycle of our products and services?
5. What standards and data do we use to identify, analyze and address Consumer risks for every product and service being sold?
6. Does our business intelligence allow for an analysis of Consumer complaints? How do we use that information to drive better business practices or product improvements?
7. How quickly and decisively do we identify and address Consumer issues and most important, what changes do we need to make?

As every other regulator, State Bank of Pakistan will continue to supervise banks to ensure they are treating Consumers fairly, and make specific interventions to eliminate harmful products and ensure appropriate redress in the event of failure. But if banks act rationally, with their own and their Consumer s' long-term interests in mind, the Financial Consumer Protection will evolve and move forward from merely an imposed notion to an essential of business success.