Disclosure and Transparency in Banking

Financial Consumer Protection Policy in the Philippines

HKMA - SFC - OECD Asian Seminar
13 December 2012

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AREAS FOR DISCUSSION

- Overview of Philippine Financial System
- Enabling regulatory environment
  - Product Disclosures
  - Regulatory enhancements in lending and credit card
- Entity Disclosures
- Corporate Governance
- “Know Your Client” Policy
- Protection/education efforts/initiatives
  - Consumer Assistance Mechanism
  - Financial Education
- Collaboration w/ Co-Regulators
Philippines at a Glance....

Population – less than 100 million
Dialects – 171
Provinces – 80
Regions – 17
Barangays – 41,960
Religions – 6
Overview of the Philippine Financial System

BSP

Banking Institutions (PDIC as co-regulator)
- Universal Banks
- Commercial Banks
- Thrift Banks
- Rural Banks
- Cooperative Banks

Other FIs
- w/ Quasi Banking Functions
  - Forex Dealers, Money Changers
  - Bank-affiliated NBFIs
  - Pawnshops
  - NSSLAs

NBFIs w/o Quasi Banking Functions
- Lending Companies
- Investment Houses
- Financing Companies
- Capital Market Participants
- Pre-need Companies
- Insurance Companies
- Cooperatives

Securities and Exchange Commission
Insurance Commission
Cooperative Dev’t Authority
A Means to Attain One of Central Bank’s Pillars

Fair and responsible banking system thru proper disclosure and transparency hand-in-hand with effective consumer protection mechanism ensures public confidence geared towards FINANCIAL STABILITY.
Meeting the Needs of the Triumvirate

Financial Inclusion, Financial Literacy and Consumer Protection

BSP as a pro-active and client-driven institution

Efforts to strengthen the economic and financial systems will have a far better chance of succeeding if they go hand-in-hand with efforts to protect and educate the public.
BSP’S Efforts/Initiatives

Enabling Regulatory Environment
- Disclosure requirements on key information of banking products and services
- Enhancements in regulations

Continuing financial education and consumer protection initiatives
- Financial Education:
  1) Advisories
  2) Roadshows
  3) Information Campaigns
  4) Primers/Flyers
  5) Essay Writing Contests
- Consumer Protection:
  1) Consumer Assistance Mechanism
  2) Clarificatory Meetings
  3) Mediation

Collaboration w/ Co-Regulators
- Financial Sector Forum
- National Consumer Affairs Council
- Department of Trade & Industry
- Securities & Exchange Commission
- Philippine Deposit Insurance Corp
Aims of Enabling Policy and Regulatory Environment

Policies/Regulations on Disclosure and Transparency

Engage:
- Capable
- Responsible
- Aware
- Protected
CONSUMERS

Financial Service Provider-Based

Promote:
- Comparability
- Enhanced Competition
- Responsible Banking

Product Disclosure
- Entity Disclosure
- Corporate Governance
- Know Your Client
Aims of Enabling Policy and Regulatory Environment

Policies/Regulations on Disclosure and Transparency

Consumer-Based

Engage:
- Capable
- Responsible
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Financial Service Provider-Based

Promote:
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• Product Disclosure
• Entity Disclosure
• Corporate Governance
• Know Your Client
What Do Consumers Complain About…

- Excessive interest
- Hidden charges
- No notice on fee increase
- Unauthorized debits/charges
- Lower denominations not allowed
- Delayed remittance
- Money lost or value declined
- Missing pawn
<table>
<thead>
<tr>
<th>Category</th>
<th>Complaints</th>
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| Credit Card    | • Unfair Collection Practices  
|                | • Disputed Charges  
|                | • Excessive Charges  |
| Deposits       | • Dormancy  
|                | • Excessive Fees/Charges  |
| Lending        | • Unfair Collection Practices  
|                | • Excessive Charges  |
| E-Banking      | • Excessive Charges  |
| Pawnshop       | • Failure to redeem pawned item  
|                | • Excessive Charges  |
| Remittance     | • Failure/Delay to receive remittance  
|                | • Excessive Charge  |
Required Product Disclosures

- Total Amount, Net Proceeds
- Type of Interest
- Full Costing
- Currency Conversion/Exchange Rate
- Mode and Terms
- Basis of Interest Computation
- Marketing Materials
- Product Key Information
- Redress Mechanism

Product Information Disclosure
Truth in Lending Act (TILA)

- Aims to protect citizens from a lack of awareness of the **true cost of credit** by assuring a **full disclosure of such cost** with a view of preventing the uninformed use of credit to the detriment of the national economy

**Enhanced Implementation in 2012:**

- Interest charged on outstanding balance at the start of each interest period
- Disclosure of ALL charges incident to the loan
- Effective Interest Rate in all loan documents
CIRCULARS EFFECTIVE JULY 2012 PROVIDE FOR:

A. ENHANCED FEATURES

- Comparable basis via Effective Interest Rate (EIR)
- Full costing of credit (fees, interest, service charges, discounts etc)
- Charging of interest based on outstanding balance of loan
- Consistent use of EIR in all loan documents and marketing materials
- Simplified disclosure statements (key information useful to borrowers and explicit notification that disclosure statements is required and client has a right to demand disclosure statement)
- Poster requirement on right of borrowers to demand copy of loan documents
B. BROADENED COVERED ENTITIES

- Banks and other non-bank financial institutions
- Lending and financing companies
- Insurance companies and mutual benefit associations
- Credit and multi-purpose cooperatives with savings and loan services

- Other Credit-Granting Entities (CGEs)
  - Corporations, organizations, partnerships and single proprietorships registered with the Securities and Exchange Commission (SEC) and the Department of Trade & Industry (DTI)
  - Examples: real estate dealers or property developers, car and other vehicle dealers, or appliance stores.
Enhanced Credit Card Regulations

- Terms and Conditions in Arial Font, Size 12
- Table of fees and charges
- Computation of interest and other charges
- Amount and number of instalments, due dates or periods of payment schedules
- Notification on endorsement of collection of account to third party agents/agencies
AIMS of ENABLING POLICY and REGULATORY ENVIRONMENT

Policies/Regulations on Disclosure and Transparency

Engage:
- Capable
- Responsible
- Aware
- Protected
CONSUMERS

Promote:
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- Enhanced Competition
- Responsible Banking

Consumer-Based

Financial Service Provider-Based

- Product Disclosure
- Entity Disclosure
- Corporate Governance
- Know Your Client
Required Entity Disclosures

- Posting of Audited Financial Statements
- Disclosure Requirement in the Notes to Audited Financial Statements
- Posting and Submission of Annual Report
- Disclosure Requirement on Annual Report
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Transparency Requirement:
Corporate Governance

**Responsiveness to Complaints/Concerns:**
1) Inventory of complaints thru database maintenance
2) Comprehensive consumer assistance and redress mechanism

**Mindset towards Disclosure:**
More information disclosed by financial service providers, the narrower the gap for consumers in making informed decisions

**Product Key Information:**
To include fundamental benefits, risks and terms of the product

**Organization Structure:**
To reflect all related entities for risk assessment
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on
CONSUMERS’ INFORMATION RESPONSIBILITY

Financial Institutions
• KNOW YOUR CLIENT

Consumers
RELEVANT, ACCURATE AND RELIABLE INFORMATION
FINANCIAL CONSUMER and PROTECTION INITIATIVES

2004 Jan
BSP Consumer Education Committee

2004 05 Jul
Consumer Protection and Education Committee under the Financial Sector Forum (BSP, IC, PDIC and SEC)

2005 15 Jul
BSP Chairs Subgroup on Bank-Related Initiatives for Overseas Filipinos (Executive Order No. 446)

2006 16 Oct
Financial Consumer Affairs Group (Consumer Assistance Mechanism, Policy Initiative and Financial Education)

2008 03 Oct
Launching of the Economic and Financial Learning Center (EFLC)

2010 28 Jul
Adoption of the integrated Economic and Financial Learning Program (EFLP) and Start of Re-launch of the EFLCs

2012 27 Feb
BSP Steering Committee on Inclusive Finance, (Financial Education and Consumer Protection Group)

2013
Financial Consumer Affairs Group Reorganization (inclusion of Supervision Techniques such as Off-site and On-Site Examination, and Market Monitoring)

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ENGAGEMENT WITH STAKEHOLDERS

- Financial Service Providers
- Students
- Workers
- Co-regulators
- other Government Bodies

Financial Learning Programs
Exploratory Meetings
Coordination Meetings
Information Sessions

- Banking Industry Associations
- Financial Service Providers
- Students
- Workers
Channels of Financial Education Initiatives

- School Curriculum
- Resource Persons
- Lectures, Road shows and Awareness Sessions
- Information Materials (Advisories, Flyers, Pamphlets)
- Media Relations (TV, Radio and Press Releases)
- Dedicated Phone Lines and e-mail
MUCH TO BE DONE…..TO HAVE

- Wider information reach-out
- Nationally coordinated consumer protection and education strategy
- Financially knowledgeable, capable and protected citizenry
- Pro-active and responsible financial services providers
“If you don't know where you are going, you will end up someplace else.”
— Yogi Berra
Without disclosure and transparency in the financial system... 

Illustration from Allen ein schönes Wochenende

...it will drive out financial consumers!!!
• Many are the things that man seeing must understand. Not seeing, how shall he know what lies in the hand of time to come? - SOPHOCLES, Ajax
• Knowing it and seeing it are two different things..
  - Suzanne Collins
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Bangko Sentral ng Pilipinas