Financial education is not a silver bullet...
The Dutch credit environment

- Central credit registration (BKR)
- Self regulation combined with strong supervision
- Mandatory affordability check
- Interest cap 14%
- Mandatory credit warning
  – “Watch out, borrowing money costs money”
Evaluation of the credit market.

Issues:

• Credit provided with online shopping → 34% payment arrears

• Consumers are “nudged” towards
  – Higher credit amount and /or longer payback terms
  – Credit without periodic payback

• Consumers perceive credit as something “normal”.

• Early warning signs are often not seen or ignored
In your country:

- Credit has become more easily available
- High cost high risk credits (e.g. payday loans) are an issue
- There is a cap on interest
OECD-Russia Global Symposium
Advancing financial literacy globally: implementation and innovation.
Moscow, 04 October 2018

Session 6: Financial education and consumer protection to improve credit decisions and outcomes

Sue Lewis
Chair, Financial Services Consumer Panel
Consumer credit in the UK

- £213bn outstanding unsecured debt\(^1\)
- In 2017, the average household spent £900 more than it received; poorest 10% spent two and a half times income on average\(^2\)
- Use of unsecured credit in 2017\(^3\)
  - 31.8 million adults had one or more credit cards
  - 17 million arranged overdrafts; 13 million unarranged
  - 3.1 million used other high-cost credit (e.g. ‘payday’ loans, rent to own, store cards, catalogue credit, ‘doorstep’ credit)
- Main users of high cost credit: young single parents, unemployed, renters, long term illness, no savings

Consumer protection: FCA regulation since 2014

- **Financial promotions** - ‘fair, clear and not misleading’
  - Risk warnings for ‘payday’ loans
- **Affordability**
  - “Reasonable steps to assess the customer’s ability to make repayments in a sustainable manner”
- **Product interventions**
  - **Payday lending** – Price cap, restrictions on rollovers and CPAs.
  - **Credit Cards** – measures to help customers in ‘persistent debt’¹.
  - Proposals to ban fixed fees on **overdrafts** and ban price differential between arranged and unarranged; also to price cap **rent-to-own**.
- **Redress** - Over £900m in compensation
- **Debt advice** – when all else fails...

¹. A customer is in **persistent debt** if they have paid more in interest and charges than they have repaid of their borrowing, over an eighteen month period.
FCA regulation of ‘payday’ lending

FCA regulation of high-cost short-term credit (HCSTC)

The FCA has significantly strengthened regulation of high-cost short-term credit (often known as ‘payday lending’), driving up standards across the sector.

- **Authorisation**: Scrutinised firms to ensure they meet our threshold conditions
- **Supervision**: Taken action including delivering more than £300m in redress
- **Policy**: Introduced a price cap, risk warnings, restrictions on rollovers and how recurring payments are collected

These changes have brought substantial benefits for consumers:

- **HCSTC loans are cheaper** – the cost of a typical loan has gone from over £100 to around £60, saving 750,000 borrowers a total of £150m per year.

  - Firms are less likely to lend to consumers who can’t afford to repay – default rates on HCSTC loans in 2016 were around a third of what they were in 2014, and firms’ revenue from late payment interest and charges is about half of what it was.

  - Fewer customers are experiencing HCSTC debt problems – StepChange saw a 30% drop in clients with HCSTC debt from 2013-2016, while Citizens Advice saw a 80% drop after 2014.
Education, awareness, and ‘nudges’

- **Tools and calculators** (eg Money Advice Service)
- **Budgeting apps**
- **New products** - ‘save as you repay’
- **‘What works’ projects** – eg parent/child project ‘Talk, Learn, Do’ reduced parents’ overindebtedness¹

**FCA behavioural trials:**
- **Credit card repayments**
  - Removing minimum repayment ‘anchor’ *(small increase for manual payments)*
  - Showing time/cost of repaying under different scenarios *(no effect)*
- **Overdraft prompts**
  - Auto-enrolling people into alerts warning of impending overdraft *(worked for people who rarely incurred charges, no effect on others)*

Conclusions

- Credit is too easily available, and too quickly

- The poorest and most vulnerable pay disproportionate costs for credit
  - Majority of unarranged overdraft costs paid by 1.5% borrowers, £450 a year each

- Behavioural interventions have limited impact, although can benefit people who have money to move around

- Financial education programmes can work, but need scaling up

- Payday regulation has been successful, but with unintended consequences
What next? - some recommendations

**Consumer protection:**
Better affordability checks and earlier identification of people in difficulty
Tougher regulation of credit cards – higher minimum payments, no unasked for credit limit increases
wider use of price caps
individual credit limits across all unsecured borrowing

**Education and awareness:**
Greater focus in schools; scaling of ‘what works’
Use of technology for money management

**Public policy:**
An open debate on the use of credit
A low cost safety net – this cannot be provided commercially
Consumer Protection & Financial Education to Improve Credit Decisions
Consumer Protection & Credit Market Trends

Consumer Protection and Financial Education policies are in one package.

- Armenia set up a comprehensive approach to financial consumer protection balancing powers of FSPs and consumers.
- Financial Education reflects the changes in the market and emerging challenges consumers face.

- Consumer credit volume has been increasing during the last decade for 17% annually in average. In 2017, consumer loans comprised 20% of the total allocated funds.
- Number of new digital, small and fast credits increased significantly involving the most vulnerable groups.
- Since 2007, the Credit/GDP ratio has increased for 32% comprising 45% in 2017.
- The average lending interest rate has decreased over the past decade for 3% comprising 17% in 2017.
Market Regulation Policy

Credit is the market where balancing Consumer Protection and Financial Education is important.

- The **right balance** between allowing innovations while ensuring an appropriate level of financial consumer protection needs to be maintained.

- Regulations, tools, education and recourse mechanisms are the avenues through which balance is kept.

Tools and measures needed to provide:

- **Comparability** - digital tools (shopping) to compare the credits becomes vital to a

- **Mobility** – switching providers and exiting the product – must be at heart of regulation

- **Transparency** – adequate regulations must provide adequate disclosure to make informed decisions by consumers.

- **Recourse mechanism** should be in place to reflect emerging issues, inter alia, accuracy & data correction.
Credit and Fintech tandem might be ‘dangerous’.

Credit and Fintech tandem is a powerful but also might be a ‘dangerous’ tendency.

Market, supervision & regulation, consumer or technology driven risks might bring to overindebtedness, jeopardized trust and confidence, exposure to mis-selling and fraud. And as a result to new wave of financial exclusion and financial instability.

- The number of product offers and choices increases exponentially making the right choice an issue for customers.
- Cross-sectoral product designs and cross selling makes the understanding of price of credit challenging.
- Misuse of unfamiliar (or new types of) products or to uninformed consumers.
- New types of fraud, often taking advantage of consumers uncertainty in the digital environment.
- Regulation and supervision might have uneven level of protection within with respect to new types of digital financial services (e.g inadequate disclosure and redress mechanisms).
- Financial literacy level does not catch up with growing digitalization of daily life and of financial decisions.
- Technology can affect decisions about credit (e.g. one click credit is very appealing). Moreover, security and safety of mobile networks and digital finance platforms may lead to inability to carry out transactions, inaccessibility of funds or cybersecurity risks.
Consumer Protection and Credit Decisions

Code of conduct is tailored to behavior, & an effective risk based market conduct supervision is in place to facilitate prompt intervention.

Transparency
- Websites
- Ads
- At branches

Disclosure
- Verbal communication
- Key Fact Statements
- Agreements
- Bank Account Statements
- Notifications (SMS, E-mails, etc.)
Financial Education and Credit Decisions

FE workshops provide appropriate knowledge & skills to effectively use the toolbox for making responsible decisions. Comparing offers & making the right choice improves credit decisions.

Shopping Tool for comparing products: Fininfo.am
Credit calculator helps understanding the cost of credit & improve credit decisions.

### Effective Interest Rate Calculator: [Abcfinance.am](https://abcfinance.am)

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Amount (Armenian Drams)</th>
<th>Interest Rate</th>
<th>Duration (Years)</th>
<th>Payment Amount (Armenian Drams)</th>
<th>Total Payment (Armenian Drams)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal</td>
<td>1,000,000</td>
<td>12%</td>
<td>10</td>
<td>66,185</td>
<td>1,078,185</td>
</tr>
<tr>
<td>Interest</td>
<td></td>
<td>0.1%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Thank You!

For further questions, please, contact: Armenak.Darbinyan@cba.am
Financial education and consumer protection to improve credit decisions and outcomes

Dmitriy Yanin
KONFOP Chairman

OECD-Russia Global Symposium
4 October 2018
Moscow
Confederation of Consumer Societies

- Founded in 1992, KONFOP brings together 36 consumer organizations from Russia, Belarus, Georgia, Kazakhstan, Tajikistan, Ukraine

- Member of Consumers International Council

- Since 2013 KONFOP has been involved in the Financial Education and Financial Literacy Project for the Russian Federation (Ministry of Finance of the Russian Federation and World Bank)

- KONFOP in cooperation with Consumers International conducts Independent monitoring of financial services market: 10 research waves on credit, insurance, deposits, online banking, payday loans
Financial Consumers Protection


UN Guidelines for Consumer Protection (revised in 2015 to include financial services):
• regulatory and enforcement policies;
• financial education strategies;
• responsible business conduct, including responsible lending.

• consumer research as a supervisory tool;
• clear and comparable information about financial products and services;
• fair treatment of consumers and business conduct.
Consumer Credit and Payday Loans in Russia

Market

• Number of consumers who must apply for bankruptcy doubled in 3 years since 2015 (927 000 consumers as of July 2018);
• Credit volume is increasing: +68% credit cards, +33% payday loans, +29% car loans (January 2018 to January 2017);
• Personal income has been decreasing for the last 3 years.

Regulation

• Central Bank of Russia as a mega-regulator -> conflict of interest between prudential supervision and consumer protection?
• Rospotrebnadzor is more consumer-oriented, but has less resources and capacity;
• NGOs and independent institutions are not influential enough (compare with Which?, Consumentenbond etc.)
Independent monitoring of financial services market

Methodology:
- 10 research waves conducted in 16 regions of Russia;
- 2 waves each year;
- 25 largest financial institutions monitored each wave;
- 3 stages:
  ✓ Desk study
  ✓ Mystery shopping
  ✓ Presentation and dissemination of results

Key findings (2014, 2016, 2018):
- No sufficient affordability checks by payday loans providers;
- Bank managers do not provide consumers with clear and understandable information (e.g. about penalty fees);
- Consumers are not provided with a contract in advance (although it is required by the law), and not encouraged to shop around;
- Disclosure of information on websites is not sufficient;
- Credit user insurance is often mis-sold.
Mystery shopping as a supervisory tool

Financial Consumer Protection

UK

- Mis-selling of PPI – ongoing compensation program;
- Price cap in payday lending resulted in the decrease of loans issued from 800,000 in 2014 to 300,000 in 2015;
- Stricter affordability checks resulted in falling of acceptance rate;
- Risk warnings on websites of payday loan providers.

Russia

- Credit user insurance is often mis-sold; consumers are encouraged to join “collective insurance” programs;
- Vulnerable consumers, pregnant, consumers with HIV, chronic diseases are discriminated;
- Price cap insufficient: 3x rule;
- Central Bank sets max APR of 842% for 30-day loans less than RUB 30,000 (Q4 2018);
- Almost all payday loan providers among the largest require only customer’s ID to issue a loan (KONFOP monitoring 2018);
- Recent trend – payday loans go online.
Highest allowed APR

1860s
Raskolnikov’s financial services provider (and victim)

120%

Q4 2018
Payday lenders
(30-days up to 30,000 RUB loans)

842%
Independent monitoring as an advocacy tool

1. **Penalties for late credit/mortgage payments reduced** from about 0,5% per day to 0,1%/0,06% (2014/2015 KONFOP Monitoring -> Law N217-FZ 23.06.2016)

2. **Unsecured loans became less accessible** (2014 KONFOP Monitoring -> Central Bank steadily rises bank reserve requirements and sets higher credit risks)


4. **Personal bankruptcy became more affordable**: state fee reduced from RUB 6000 to RUB 300 (2015/2016 KONFOP Monitoring -> Law N407-FZ 30.11.2016)

5. **Discrimination of vulnerable consumers in insurance** (2017 KONFOP Monitoring -> Central Bank announcement -> Central Bank meeting with insurance companies in Feb 2018 -> Ongoing)
Lessons learnt

1. Don’t spend time and energy on self-regulation and co-regulation!

The standard of consumers protection in microfinance (co-regulation with Central Bank):

- no disclosure of APR;
- no risk warnings;
- insufficient limiting of payday loan rollovers and refinancing (10 payday loans issued by one lender/6 rollovers per year);
- no robust affordability assessments (no PTI assessment; no credit history requirement).
Lessons learnt

2. The Project boosts multisectoral cooperation among the regulators, Ministry of Finance, NGOs.
   • Financial consumer protection issues included in the Strategy of Consumer Protection for 2017-2030;
   • Both Central Bank and Rospotrebnadzor adopted the tool of mystery shopping (2018);
   • All advocacy activities mentioned on the previous slide.

3. Dissemination of monitoring results helps to raise public awareness and are part of financial education.
   • Concrete examples of good and bad practices are interesting and helpful for consumers;
   • Policy makers get motivated to address consumers demands.
Thank you for your attention!

Confederation of Consumer Societies
(KONFOP)

115 035 Russia, Moscow
Sadovnicheskaya St. 74/1
+7 495 722-16-27
konfop@mail.ru