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FINANCE AND MARKETS GLOBAL PRACTICE

PARAGUAY DIAGNOSTIC REVIEW OF CONSUMER PROTECTION AND FINANCIAL LITERACY

Volume I
Key Findings and Recommendations

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ABBREVIATIONS AND ACRONYMS

ADEFI	Association of Finance Companies (<i>Asociación de Entidades Financieras</i>)
ANDE	National Electricity Administration (<i>Administración Nacional de Electricidad</i>)
ASOBAN	Association of Banks (<i>Asociación de Bancos</i>)
ASUCOP	Association of Users and Consumers of Paraguay (<i>Asociación de Usuarios y Consumidores de Paraguay</i>)
BCP	Banco Central del Paraguay
BCP-SIB	Banking Superintendency (<i>Superintendencia de Bancos</i>)
BCP-SIS	Insurance Superintendency (<i>Superintendencia de Seguros</i>)
BCSD	Banking Conduct Supervision Department (Portugal)
BNF	National Development Bank (<i>Banco Nacional de Fomento</i>)
CAMP	Centre of Arbitration and Mediation of Paraguay (<i>Centro de Arbitraje y Mediación Paraguay</i>)
CONACOM	National Competition Commission (<i>Comisión Nacional de la Competencia</i>)
CONATEL	National Telecommunications Commission (<i>Comisión Nacional de Telecomunicaciones</i>)
CONPACCOOP	Cooperatives Cooperation of Paraguay (<i>Confederación Paraguaya de Cooperativas</i>)
CPFL	Consumer Protection and Financial Literacy
DCF	Financial Consumer Ombudsman (<i>Defensora al Cliente Financiero</i>)
DGEEC	Department of Statistics, Surveys and Censuses (<i>Dirección General de Estadística, Encuestas y Censos</i>)
EMPE	E-Money Issuer (Entidad de Medio de Pago Electrónico)
ENIF	National Financial Inclusion Strategy (<i>Estrategía Nacional de Inclusion Financiera</i>)
FGD	Deposit Guarantee Fund (<i>Fondo de Garantía de Depósitos</i>)
IAIS	International Association of Insurance Supervisors
IIF	Financial Inclusion Intendency (<i>Intendencia de Inclusión Financiera</i>)
INCOOP	National Institute for Cooperativism (<i>Instituto de Cooperativismo</i>)
INTN	National Institute of Standards and Technology (<i>Instituto Nacional de Tecnología, Normalización y Metrología</i>)
IOSCO	International Organization of Securities Commissions
MIC	Ministry of Industry and Commerce (<i>Ministerio de Industria y Comercio</i>)
NFIS	National Financial Inclusion Survey
NGO	Non-Governmental Organization
OECD	Organisation for Economic Cooperation and Development
PYG	Paraguayan Guarani
SBS	Superintendency of Banks of Peru
SEDECO	Secretariat for Consumer Protection (<i>Secretaría de Defensa al Consumidor</i>)
SEPRELAD	Secretariat for Prevention of Money Laundering (<i>Secretaría de Prevención de Lavado de Dinero o Bienes</i>)
SET	Tax Sub-Secretariat of the State (<i>Subsecretaría de Estado de Tributación</i>)
SIPAP	National Electronic Payment System of Paraguay (<i>Sistema Nacional de Pagos Electrónicos del Paraguay</i>)
TFC	Total Financial Cost
WB	World Bank

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Currency and Equivalent Units

(As of January 2015)

Currency Unit = Paraguayan Guarani (PYG)

USD 1 = PYG 4,707.72

Government Fiscal Year

January 1 – December 31

PREFACE

This review of the Consumer Protection and Financial Literacy Framework (CPFL) in Paraguay was undertaken in response to a request for technical assistance in this area made by the Central Bank of Paraguay (BCP). The objectives were: (i) to assess the existing consumer protection and financial literacy framework by reviewing laws, regulations, and actual practices in Paraguay, and comparing it with international good practice; and (ii) to provide recommendations on ways to improve the level of financial consumer protection and financial literacy in the country.

The Diagnostic Review provides a detailed assessment of the institutional, legal and regulatory framework for consumer protection in four segments of the financial sector: (i) banks and finance companies, (ii) financial cooperatives, (iii) insurance companies, and, - in reflection of the important role they play in Paraguay - (iv) non-bank agents and mobile payment providers. Its findings and recommendations cover six thematic areas: (i) Institutional Arrangements, (ii) Legal and Regulatory Framework, (iii) Transparency and Disclosure, (iv) Business Practices, (v) Complaints Handling and Dispute Resolution, and as a stand-alone section (vi) Financial Education.

To prepare the review, a World Bank (WB) mission visited Asunción from May 26 to June 5, 2014. Extensive consultations were held with stakeholders from the public and private sectors. This included relevant departments of BCP (in particular the Financial Inclusion Intendency, the Banking Superintendency – BCP-SIB, and the Insurance Superintendency – BCP-SIS), the National Institute for Cooperatives (INCOOP), the Secretariat for Consumer Protection (SEDECO), other government entities and public agencies, as well as private financial institutions, industry and consumer associations, and professional bodies. The complete list of mission meetings is available in Annex II.

The World Bank's *Good Practices for Consumer Protection* were used as a benchmark for the review.¹ The Good Practices are based on findings of in-depth country level reviews of consumer protection and financial literacy conducted by the World Bank since 2006, as well as international benchmarks, including (i) principles released by the Basel Committee, IOSCO and IAIS, (ii) OECD recommendations in this area, as well as (iii) laws, regulations and codes of business practices from the European Union, United States, Australia, Canada, France, Ireland, Malaysia, Mexico, New Zealand, Peru and South Africa. The World Bank (WB) has already conducted similar reviews in more than thirty countries worldwide, including Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Kazakhstan, Kosovo, Kyrgyz Republic, Latvia, Lithuania, Malawi, Mongolia, Mozambique, Nicaragua, Pakistan, Peru, the Philippines, Romania, the Russian Federation, Rwanda, South Africa, Slovakia, Tajikistan, Tanzania, Ukraine, Vietnam, Zambia, and Zimbabwe.²

The CPFL Review includes a detailed assessment of each relevant financial segment consistent with the Good Practices (Volume II), and a report summarizing the key findings for the assessment and prioritized recommendations (Volume I).

¹ The Good Practices for Financial Consumer Protection (World Bank, 2012) are available at: <http://bit.ly/GoodPracticesConsumerProtection>

² Recent CPFL Diagnostic reviews are available at: <http://responsiblefinance.worldbank.org/diagnostic-reviews>

EXECUTIVE SUMMARY

The existence of a sound financial consumer protection framework is fundamental for increasing access and usage of financial services in a sustainable way. Financial literacy and an adequate consumer protection framework are necessary precursors to building trust in the formal financial sector, creating transparency on existing products and services, and thereby facilitating financial inclusion. Their absence can contribute to over-indebtedness of clients, with negative impact on the financial sector and the economy as highlighted by recent financial crisis. The Diagnostic Review of the Consumer Protection and Financial Literacy Framework in Paraguay therefore provides an important input into the development of the government's National Financial Inclusion Strategy and for a sustainable financial sector development overall.

Over the years, important steps were taken to put in place and enhance Paraguay's consumer protection framework. A dedicated Consumer Protection Law is in place since 1998, and the institutional arrangements for its implementation recently strengthened by creating a dedicated Secretariat for Consumer Protection (SEDECO) with a separate budget. In addition, the financial supervisory authorities BCP and INCOOP incorporated some consumer protection-related business and market conduct provisions into their respective legal and regulatory frameworks. BCP for example introduced consumer protection provisions in regulations on e-money issuers and non-bank agents, and enhanced rules on transparency of prices and commissions, in particular for credit cards. A unit in charge of financial inclusion was established within the Banking Superintendency (BCP-SIB), which handles financial consumer complaints and develops financial education programs. The Insurance Supervisor BCP-SIS also has a consumer protection unit with four staff formally mapped to it. INCOOP substantially revised the regulatory framework for Savings and Loan cooperatives, incorporating in addition to changes in the prudential regulations some transparency and business conduct rules. INCOOP has also recently launched a credit registry into which the larger savings and loan cooperatives started reporting.

Despite this observed progress, the mission identified some inefficiencies and substantial gaps in the consumer protection framework, which contribute to the noted opacity of available information and non-transparent business practices. Some measures to enhance transparency and disclosure have not been effective. The BCP-SIB identified for example 250 different fees and commissions charged by banks and finance companies, covering a variety of concepts. Furthermore, the method for calculating the effective interest rate does not include all fees and commissions, such as for example life insurance premiums. This has facilitated a widespread bundling of insurance products with credit products. Opaque practices like this make it difficult for the client to understand the full cost of a product, compare prices between providers and protect him/herself from unfair business practices. Provisions to protect clients from non-transparent bundling of products are insufficient. The use of unified contracts, which include paragraphs pertaining to credit and debit cards, overdrafts, and other services is widespread, with no cooling off periods included. This leads to clients signing up for services they have not actively requested and additional costs that were not made transparent upfront. Together with reported deficiencies in credit evaluations, there are already some concerns about the rapid increase in credit card debt, with some employees having their entire payroll deducted for repaying loans. Rules to define and prevent abusive debt collection practices are not incorporated into any of the laws, and there are no requirements mandating systematic processes for complaints handling and reporting to be in place.

Furthermore, as is, the legal and regulatory frameworks in place create an uneven 'level playing field' between financial service providers and contribute to gaps in market transparency.

Regulations and standards applicable to financial cooperatives are not coherent with those of banks and finance companies, although they perform similar core activities. This not only implies different costs for compliance, but also leads to fragmented and incomparable information available for the client. The narrow outreach of financial regulation and supervision has also facilitated the development of a number of unsupervised financial service providers, which are only subject to the very broad provisions of the Consumer Protection Law.

The institutional arrangements for supervision and enforcement of consumer protection related provisions are not sufficiently clear, and are not effective to identify and sanction violations. SEDECO's current capacity to handle complaints and supervise the market appears limited, and given its broad mandate will likely remain insufficient to cover financial service providers in more depth. On the other hand, neither BCP as the supervisor of banks, finance and insurance companies, nor INCOOP as the supervisor of S&L cooperatives have a clear mandate to introduce financial consumer protection regulation in their respective sector frameworks and supervise adherence. The business and market conduct rules, which they have introduced, mostly focus on safeguarding the viability of the financial players and not on establishing fair and transparent business practices. The existing consumer protection relevant provisions are also not systematically supervised. Unregulated financial service providers, such as pawnshops and microcredit providers, are not supervised by any government entity. In the absence of an ombudsman scheme or other affordable alternative dispute resolution mechanism, unresolved disputes have to be brought before the courts, which is seldom done.

Finally, measures to foster the financial capabilities of the population are fragmented and given the dearth of available supply and demand side data not adequately targeted. Demand side surveys to measure the population's financial capabilities and actual usage of financial products are not regularly carried out. On the supply side, the available information is fragmented. Data shortages are particularly notable for S&L cooperatives, as well as across institutions for individual products. The mentioned gaps in available demand and supply side information makes it difficult to identify usage patterns and trends, understand underlying factors and gaps in financial capabilities, and target financial education measures accordingly. Existing financial education programs and measures are small and fragmented, and limited coordination between individual government agencies, private and public stakeholders reduce their cost effectiveness.

The mission identified a number of areas in which improvements need to be made to foster a sustainable deepening of the financial sector. The full assessment of the core bottlenecks and recommendations is spelled out in the main report. Detailed assessments and recommendations by sector are covered in Volume II. The following table provides an overview over the core recommendations:

Table 1. Summary of Core Recommendations

Recommendation	Time-frame	Responsible Entities
LEGAL AND REGULATORY FRAMEWORK		
Issue guidance material / circulars to clarify individual provisions of the consumer protection framework for financial products.	ST-MT	BCP/ INCOOP, with SEDECO
Introduce regulations on (i) complaints handling procedures and reporting requirements, (ii) abusive debt collection practices, and (iii) bundling of products.	ST-MT	SEDECO/BCP/ INCOOP
Assess the individual financial sector frameworks for consistency with the Consumer Protection Law, and bridge gaps in coverage.	MT-LT	BCP/INCOOP with SEDECO
Introduce a deposit insurance scheme – with the prerequisite of a sufficiently robust supervisory framework	MT-LT	INCOOP
INSTITUTIONAL ARRANGEMENTS		
Establish clear mandates and competencies of financial supervisory agencies in the area of financial consumer protection	ST-MT	SEDECO / BCP / INCOOP
Enhance coherence of financial consumer protection regulations across products and markets through enhanced coordination and information sharing.	MT-LT	BCP/INCOOP with SEDECO, CONATEL, MIC
Strengthen the capacity of the supervisory agencies to effectively monitor and enforce compliance with legal requirements: <ul style="list-style-type: none"> - Formally introduce market conduct / consumer protection in on- and off-site supervision, and develop manuals for the supervision - Increase resources (staff, budget) allocated to financial consumer protection responsibilities, and train the relevant supervisory staff 	ST MT-LT	BCP/INCOOP
SEDECO to develop system to monitor and enforce compliance of non-supervised financial service providers.	MT-LT	SEDECO
Foster industry-wide standards for responsible finance through developing guidance on minimum content and principles, and standardizing documents	MT-LT	Industry associations
TRANSPARENCY AND DISCLOSURE OF INFORMATION		
Establish consistent and considerably enhanced disclosure and transparency requirements, including: <ul style="list-style-type: none"> - Develop and require a standard methodology for calculating and disclosing "total financial cost" (TFC) - Mandate use of standard terms and definitions for commissions and fees for payment, savings, credit and insurance products. 	ST ST-MT	BCP (to take the lead) with INCOOP and SEDECO
Issue Circular (<i>Normativa</i>) or other form of guidance to set out content, wording, and format for Key Fact Statements for all financial products	ST	BCP/INCOOP
Promote the development and use of user-friendly price transparency websites and other measures to facilitate comparison, stimulate transparency and enable better consumer choice.	ST-MT	BCP/ INCOOP, Associations, Private Sector
Phase out current usury regime	MT	Gov./BCP
Mandate that clients are periodically provided with account statements	ST	BCP/INCOOP
Regularly update the registry on cooperatives, and eliminate inactive/dormant cooperatives.	ST-MT	INCOOP

Recommendation	Time-frame	Responsible Entities
BUSINESS PRACTICES		
Issue regulation to improve contract-related business practices, including (i) prohibiting the use of unified contracts, (ii) eliminate mandatory insurance requirements, and (iii) mandate provision of contract prior to signing	ST	BCP, INCOOP
Introduce guidelines on credit evaluations, including on payroll deductions and for assessment of borrower repayment capacity	ST	BCP, INCOOP, with SEDECO
Introduce cooling off periods, and establish right of clients to withdraw without penalty fees in case of unilateral changes of conditions	MT-LT	BCP / INCOOP
Establish a framework for defining and prohibiting abusive debt collection practices and associated charges	MT-LT	SEDECO with BCP /INCOOP
Develop standardized training requirements and programs for supervisors, staff and agents/non-bank intermediaries in the area of credit evaluation, product design and transparency of disclosure	M-LT	Industry Associations, BCP/INCOOP
COMPLAINTS HANDLING AND DISPUTE RESOLUTION MECHANISMS		
Require financial service providers to have a formal system and procedure for complaints and claims handling in place, and to compile regular reports/statistics for management and the relevant supervisor	ST	BCP, INCOOP, SEDECO
SEDECO and supervisory agencies to establish internal systems/procedures for receiving and resolving complaints, analyzing complaints information, and making statistics available to the public	ST	BCP, INCOOP, SEDECO
Improve the data correction processes for BCP's credit registry and the private credit bureau, and assess procedures- once tested - for INCOOP	MT-LT	BCP, INCOOP/ credit bureau
Establish an alternative dispute resolution mechanism, such as a Financial Ombudsman, which can be used for low value disputes	MT-LT	BCP/INCOOP/ stakeholders
CONSUMER AWARENESS AND FINANCIAL LITERACY		
Develop and regularly conduct a survey to gather information on the population's level of financial capabilities and usage of financial services, and conduct focus groups or other qualitative research to validate findings	ST-MT	BCP / DGEEC
Improve supply-side statistics to consistently reflect all financial intermediaries	ST-MT	BCP/ INCOOP/ DGEEC
Provide the BCP and INCOOP with an explicit mandate for financial education, and accompany selected regulatory changes with communication campaigns	ST-MT	BCP/INCOOP
Established a working group on Financial Education with a mandate to develop a well-sequenced and funded action plan.	MT-LT	BCP/INCOOP, stakeholders
Government to assess possible entry points for financial education	ST	Government

*ST: Short Term; MT: Medium Term; LT: Long Term

Diagnostic Review of Consumer Protection and Financial Literacy

The government, with support of the World Bank, is currently in the process of defining a National Financial Inclusion Strategy (ENIF). The Strategy aims to facilitate access and usage of formal financial services by all income groups and across all geographic regions, and is an integral part of the government's efforts to reduce poverty and inequalities in the country. As part of this process, a Financial Inclusion Committee was formally created by Decree No. 1971 at the end of July 2014,³ and a workshop was conducted in July to identify measures, timelines and indicators of the National Financial Inclusion Strategy (ENIF).⁴ Furthermore, BCP created in 2013 a dedicated Department for Financial Inclusion, and facilitated the elaboration and implementation of a nationwide Financial Inclusion Survey financed by the World Bank. This review of the Consumer Protection and Financial Literacy Framework will serve as input into the government's Financial Inclusion Strategy.

The existence of a sound financial consumer protection framework is fundamental for increasing access and usage of financial services in a sustainable way. Financial literacy and consumer protection is a necessary precursor to building trust in the formal financial sector, creating awareness of existing products and services, and encouraging financial inclusion. If it is not in place or inadequate, consumers cannot (i) adequately exercise their rights as consumers; (ii) select the financial products that suit them best, and (iii) sufficiently protect themselves from mis-selling, fraud, and other market abuses. This can contribute to over-indebtedness of individual clients, with negative consequences for the financial sector and the economy.⁵ Adequate consumer protection is thus important to ensure that the growth enhancing benefits of financial inclusion reach both the consumer and the economy as a whole, and are not undermined on the longer term.

A sound consumer protection framework consists of adequate rules and regulations, effective oversight structures, as well as complementary and well-targeted financial literacy initiatives. The rules and regulations can be in the form of legal frameworks or Industry-wide Codes of Conduct, but should be binding for the industry and thus enforceable. Effective oversight structures are needed to ascertain that the applicable rules are actually implemented, at least in the formal financial sector. On the demand side, the level of financial literacy and usage of financial services of the population should be regularly measured to facilitate the design of well-targeted measures, fill identified gaps, and thus build a solid basic level of financial literacy in the country. The following sections will first provide a brief overview of the usage of financial services and the structure of the financial system. Section B discusses the framework for financial consumer protection in the country, and Section C assesses the programs in place to measure and enhance financial literacy of the population.

³ The Committee members are to be from the Ministry of Finance, the Central Bank, the Ministry of Planning as well as the National Institute for Cooperatives.

⁴ A workshop to identify the core parameters of the National Financial Inclusion Strategy was housed by BCP in July 2014, with technical staff from the Ministry of Finance, the Ministry of Planning, BCP as well as INCOOP participating. The workshop was facilitated by the World Bank team that supports the government in the elaboration of this strategy, and presented its findings from an undertaken supply and demand side diagnostic.

⁵ For example see OECD (2009), "Financial Literacy and Consumer Protection: Overlooked aspects of the crisis", OECD Recommendation on Good Practices; or CGAP (2010) "Growth and Vulnerabilities in Microfinance, Focus Note 61/2010.

A. CONTEXT FOR CPFL IN PARAGUAY

A.1. Supply of Financial Services

A broad range of formal financial institutions cater to retail clients; with financial cooperatives accounting for the largest share of clients (see Table 2):

- There are 15 commercial banks, one deposit taking public bank and 12 finance companies, which together account for over 900,000 deposit accounts, and a similar number of loans.⁶ In terms of volume, they have a market share of 86 percent in deposits, and 84 percent in loans, and their loans and deposits account for around 39 and 42 percent of GDP respectively. The banking sector is fragmented. The public bank BNF mostly caters to civil servants, while many private banks focus only on the upper market segments, enterprise financing and salaried clients. Only 3 banks (former finance companies) and the 12 finance companies cater to microclients. Banks and finance companies are regulated and supervised by the Banking Superintendency within the BCP (BCP-SIB), and subject to the same rules and regulations.⁷ Their deposits are covered by a deposit insurance fund for up to 75 monthly minimum wages (currently equivalent to USD 32,000). The total loans, number of credit cards issued, and infrastructure (especially bank agents) have been steadily increasing in the latest years. The system has been showing high results (ROE of 30 percent at end of 2013).
- In addition, roughly 30 percent of the adult population is reckoned to be affiliated with one or several of the estimated 330 Savings and Loans Cooperatives operating in Paraguay. Their 1.4 million accounts currently represent 58 percent of total deposit accounts, but only 11 percent of total deposits, or 6 percent of GDP. In terms of credit, they account for 16 percent of total credit or 8 percent of GDP. Savings and Loan Cooperatives are subject to a dedicated legal and regulatory framework, and are supervised by the National Institute for Cooperativism (INCOOP), a government agency in charge of regulating and supervising financial and non-financial cooperatives. Data on the sector is scarce, as INCOOP does not publish regular reports or statistics on the sector. There are 26 Type 'A' S&L cooperatives with assets above USD 11 million; 52 S&L cooperatives type 'B' with assets between USD 1.2 and 11 million, and the remaining 250 S&L cooperatives being small with assets below USD 1.2 million. The sector is not yet covered by a deposit insurance scheme.
- The insurance market is small, with total premiums amounting to USD 343.2 million in 2012-13, but growing fast (15 percent in 2013 from the previous year). Automobile insurance represented in 2013 almost 48 percent of all the insurance premiums, and life insurance, the second largest, 12 percent. Life insurance grew 23.8 percent over the last year. Most of the life insurance sold is channeled through group contracts, which accounted for 97.9 percent of the total life insurance premiums in 2012. There are seven companies licensed to sell individual life but only one offers these contracts. The sector is regulated and supervised by the Insurance Superintendency within BCP (BCP-SIS). Although insurers can sell directly to their clients, most of the insurances are distributed through agents (individuals) or brokers (firms). Agents and brokers have to be registered at the SIS, for which they need to obtain a specific University diploma, and must contract professional liability insurance. As of June 2014, there

⁶ In addition, there are also two credit-only public financial entities: (i) the Fondo Ganadero with PYG 100 million in assets and a focus on providing credit and technical assistance to small and medium sized livestock farmers, and (ii) the Credito Agrícola de Habilitación which focuses on microloans and technical assistance to smallholders. They do not take deposits, and are not fully under supervision of BCP, and are not covered under this assessment.

⁷ Finance companies cannot open checking accounts and have lower nominal capital required.

were 776 agents and 42 brokers registered at the SIS. Claim settlers are also requested by law to be registered at the SIS. There were 15 claim settlers as of June 2014.

Table 2. Overview of Formal Financial Intermediaries (offering savings and credit products)

	# of entities	# of accounts	Deposits (PYG bn)	# of loans	Loans (PYG bn)	Credit Cards issued	Branches	Agents
Banks	16	993,411	60.9	920,700	56.1	897,000	452	117
Finance Companies	12					94,283	159	177
Financial Cooperatives	330	1.390,113	7.2	553,457	5.9	n.a.	490	n.a.

Source: World Bank Supply Side Study (forthcoming), BCP Monthly Bulletin (July 2014)

In addition, a number of semi-formal entities, which are not regulated or supervised by a financial regulatory authority, provide financial services to retail clients:

- **Payment service providers:** There are 5 dedicated payment service providers operating in Paraguay, which receive and process retail payments for public and private clients such as the National Electricity Administration (ANDE), the tax authority (SET), and private financial intermediaries. The largest one with a market share of 70 percent processed over 19 million retail transactions annually with a volume of USD 1 billion in 2013. It has over 1,500 service points in 145 of the 224 municipalities in Paraguay.
- **E-Money issuers:** The two largest mobile phone companies, Tigo and Personal, offer e-money services to their clients. Tigo introduced e-wallets in 2008, and based on internal estimates now has over 1 million clients and over 2 million monthly transactions. Personal launched its e-money product “*Billetera Personal*” in 2010, and currently has slightly over 23,000 active users with close to 30,000 monthly transactions. As will be discussed below, BCP recently issued Resolution 6 of 2014 (E-Money Resolution) to bring e-money issuers under its regulation and supervision. E-money issuers are also regulated by the National Commission of Telecommunications (CONATEL), and if using electronic signatures and/or contracts are subject to regulations enforced by the Ministry of Industry and Commerce (MIC).
- **Microcredit-only institutions:** An estimated 349 pawnshops, 2 NGO-MFIs as well as a number of other microcredit providers are catering to retail clients, but are not under any form of financial regulation and supervision. They are licensed on the municipal level they have registered at, and no consolidated data on their size and outreach is available. Observations during the mission, as well as results from the National Financial Inclusion Survey indicate, that they are widely used and likely cater to a large number of clients from the informal sector. The two larger non-profit MFIs provide e.g. microcredit and technical assistance to an estimated 73,000 clients.
- **Finally, a number of companies offer “pre-paid” medical or funeral services, which are similar to insurance products.** The Insurance Law in Paraguay defines insurance as a commercial transaction under which the insurer pays an indemnity in case a covered random event occurs. That regulation does not explicitly cover the case where an entity receives “pre-payments” and instead of paying any indemnity directly provides a service when a covered event occurs. According to figures from the Health Superintendency (*Superintendencia de Salud*), which supervises these health care providers, there are around 65 entities operating pre-paid medical schemes, covering about 500.000 beneficiaries. No formal data exists on pre-paid funeral services, but estimates suggest that over 100 entities offer these services countrywide. In many other jurisdictions they are considered insurers, and regulated and supervised, at least on their financial side, by the corresponding insurance supervisor.

A.2. Demand for Financial Services

Despite progress made in the last few years, actual access and usage of formal financial services continues to be below potential in Paraguay. Based on results of the 2014 National Financial Inclusion Survey (NFIS), as set out in Table 3, 55 percent of the interviewed adults use some form of formal financial services. However, only 29 percent have an account at a financial institution, of which two thirds with a Savings and Loan cooperative. Many adults still prefer to keep their savings at home, citing the high costs of maintaining an account, lack of sufficient funds and evasive bureaucracy as hurdles. Only 8 percent of the formally employed receive their salary directly into an account, while the vast majority still receives it in the form of cash. Borrowing has increased since 2011, with now 34 percent of the population reporting having had a loan in the last year. However, around one third of the borrowers use informal sources (including from family, moneylenders, etc.). The life insurance market is shallow, with only 4 percent of the surveyed population reporting to have a life insurance. Most of them are likely linked to a credit.

Table 3. Financial Usage of Paraguayan Adults (15+ years)

Number of adults... (%)	National Financial Inclusion Survey 2014			Global Findex 2011		
	Total	Banks	S&L Cooperatives	Paraguay	Latin American Countries	Lower middle income countries
... with an account at formal financial institution	29	12	19	21.7	39.3	28.4
... with a loan in the last year	34	8	13	29.5	25.4	36.7
... who saved in past year	39	14		18.1	26	27.6
... using mobile phones to receive money	15.1	n.a.	n.a.	5.7	1.9	3.8
... who personally pay for health insurance	14.5	n.a.	n.a.	5.9	6.8	5.1

Source: National Financial Inclusion Survey, 2014 and Global Findex 2011.

There are some concerns regarding the level of debt incurred by some borrowers, in particular through credit card debt. Meetings with stakeholders visited during the mission indicate that credit cards and installment purchases are widespread amongst employees and people with a regular income. Instead of overall assessing the affordability of debt over time, clients focus on speed of access to credit and the affordability of the monthly installments. With poor budgeting skills and impulse spending prevalent, this increasingly lead to high or excessive levels of debt, with some employees reportedly having their entire payroll deducted for repaying loans.⁸ These findings are supported by the NFIS (2014), which shows that 50 percent of the employed are struggling to meet their “basic” needs and 30 percent occasionally lack money for food and other necessary items. Various stakeholders confirmed that clients of all income levels neither assess commissions and fees charged by financial institutions, nor read the frequently complex contracts. The findings indicate gaps in financial literacy and education.

⁸ Based on feedback received during the mission, it is estimated that around 10 percent of the employees of the Ministry of Finance have up to 100 percent of their salary withheld to repay existing debt.

B. FRAMEWORK FOR CONSUMER PROTECTION IN PARAGUAY

The Diagnostic of the Consumer Protection and Financial Literacy Framework in Paraguay only covers the framework applicable to formal financial institutions supervised by either BCP or INCOOP.⁹ As shown above, this leaves a substantial share of the market for financial services out of the assessment. However, where possible, the recommendations take into consideration that basic financial consumer protection standards should also apply to semi-formal and informal market participants in order to foster transparency across market participants and create a level playing field. Furthermore, considering the recent issuance of the E-Money Resolution and its imminent entry into effect, a dedicated assessment of the applicable CPFL framework for digital financial service providers (covering non-bank agents and e-money issuers) was undertaken and is included in Volume II. Its findings are reflected throughout the report.

B.1. Overall Legal and Regulatory Framework for Consumer Protection

Overview

The Consumer Protection Law and Civil Code set the legal basis for consumer protection in Paraguay. The Consumer Protection Law covers any commercial transaction of goods and services (including financial services) that are carried out by a legal or natural person. Art. 6 establishes the basic rights and obligations of clients, including for example the right to (i) freely choose a service or good, (ii) receive clear and correct information on the composition, quality, price and risk of the product/service, and (iii) to be protected against inadequate publicity and marketing and abusive contracts. The Civil Code establishes in Art. 475 a usury interest rate to be determined by the Central Bank, and includes basic provisions on contracts, including the creditor's rights in the area of enforcement of credits. These two laws cover all financial and non-financial service providers, including unsupervised payment providers, moneylenders, pawnshops, the credit bureau and, until formally supervised by BCP, e-money issuers.

In addition to this general framework, banks, finance and insurances companies, as well as S&L cooperatives are also subject to market and business conduct provisions in their respective legal and regulatory frameworks:

- The BCP introduced over the last few years a number of regulations for banks and finance companies, which aim to enhance comparability of prices and commissions, and improve general disclosure of information. A particular focus is currently on regulating credit cards, which have surged in number and reportedly contributed to problems of over-indebtedness amongst clients. The BCP-SIB also passed a number of laws and regulations to facilitate the uptake of financial services by hitherto unbanked clients, which include consumer protection relevant provisions (see Table 4). Resolution 1, Act 70, 2011 on the use of agents, and Resolution 6, Act 18, 2014 on E-money issuers contemplate for example issues such as business practices, transparency, provider liability, and complaints handling.

⁹ Covering thus banks, finance companies, insurance providers supervised by SIS, as well as savings and loan cooperatives.

- INCOOP recently revised the legal and regulatory framework applicable to the S&L Cooperatives.¹⁰ It strengthened the prudential oversight over the larger S&L cooperatives, introduced a requirement to have annual external audits from pre-qualified auditors, and to at least annually report basic financial information to the supervisor. It also established general disclosure and privacy rules, as well as business conduct rules. The latter covers for example minimum standards for determining interest rates, purchasing of fixed assets, and standards for internal governance. However, the provisions in many instances lack specificity such as timeframes and minimum content standards for disclosure, which creates room for implementation and makes supervision more difficult. A deposit insurance scheme is under development.
- For insurance companies, no clear legal framework for consumer protection could be identified. Some provisions are in place (i) to allow BCP-SIS to verify if premiums are insufficient, abusive or discriminatory, (ii) to mandate that the contracts are written in clear and understandable language, and are filed at the BCP-SIS, and (iii) that advertisements are not misleading. Overall, the focus of the regulation is on ensuring the financial viability of the insurer.

Table 4. Consumer Protection Provisions in Recent Legislation Enacted by BCP to Enhance Financial Inclusion

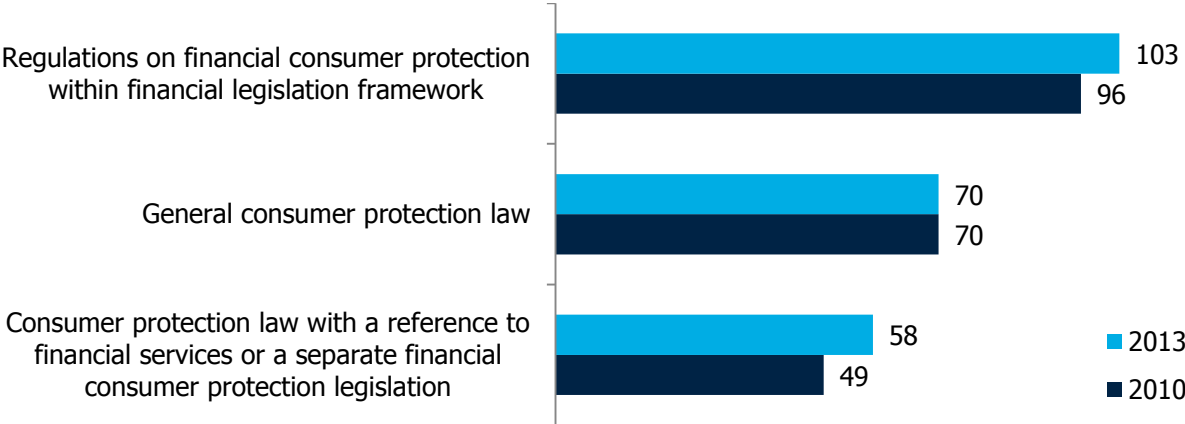
Laws and regulations	Contents	Consumer protection provisions
Basic accounts (BCP Resolution 25, Act 51, 2013)	Reduces entry and maintenance costs and fees, both for the demand and supply sides	<ul style="list-style-type: none"> • No minimum opening amount or balance. • Reduced transaction costs. • Allows account movement consultations using ATMs, Internet, mobiles and other available mechanisms, printed abstracts only upon request cost must be paid by the client. • Contracts must include conditions for accessing accounts transaction information must be included in the contract.
Agents (BCP Resolution 1, Act 70, 2011)	Allows the use of agents for the provision of financial services on behalf of banks and finance companies.	<ul style="list-style-type: none"> • Use only of electronic terminals with on-line connection to the financial institution's platform. • Not allowed to operate off-line. • After each transaction a receipt must be produced by the terminal. • Limits to type of transactions and amounts. • Not allowed to charge fees to the clients. • Visible signs containing full identification of the agent and the financial institution, phone numbers of other communication channels and address of nearest branch, fees charged by the financial institution to the client, and the opening hours.
E-Money (BCP Resolution 6, Act 18, 2014)	Regulates the provision of e-money, non-bank electronic transfers and licensing of e-money issuers.	<ul style="list-style-type: none"> • Defines e-money operations authorized. • E-money cannot be intermediated and is not subject to credit risk. • Technological platform to ensure transactions in real time together with quality, security and continuity. • Protection of the float of e-wallets through a trust fund with individualized beneficiaries. • Introduces guidelines on contract content, liability of service provider, and disclosure.

¹⁰ See for example resolution 11102/13 and 11481/14. Changes have been regularly incorporated into the compiled regulatory framework, and the framework is publicly available on INCOOP's website.

Key Findings

Covering consumer protection provisions in both general and specific laws is in line with regulatory practice observed worldwide. As can be seen in Figure 1, there is an increasing trend to frame consumer protection provisions through a dedicated consumer protection law (at times specialized on financial services), and to specify and tailor the respective principles through incorporation into the financial regulatory framework. Out of the 109 countries that contributed to the World Bank’s Global Survey on Consumer Protection and Financial Literacy in both 2010 and 2013, almost all now include some financial consumer protection related regulations in their financial legislation framework. Similar to the situation in Paraguay, this is in addition to a general consumer protection law. For this approach to work effectively, international experience suggests that the laws and regulations need to be closely coordinated to prevent overlaps and ascertain coherence of regulations across products and providers.

Figure 1. Legal Frameworks for Consumer Protection Globally



Source: World Bank Global Survey on Consumer Protection and Financial Literacy (2013).

While no overlaps were determined, the existing consumer protection framework has remained broad in nature. Additional guidance material and where necessary regulations need to be developed to facilitate actual implementation and enforcement. As in most countries with a general Consumer Protection Law, the Consumer Protection Law in Paraguay only provides the broad foundation for consumer protection, and thus needs to be complemented with sector or product specific guidance material or regulations to clarify how the established principles are to be interpreted for financial services and to guide actual implementation and supervision. This is currently still missing. SEDECO (and formerly the MIC) has so far nor issued any additional regulations for the Consumer Protection Law or developed guidance material such as minimum standards for advertisements or sample contracts. This leaves substantial room for interpretation what for example is implied by “providing the customer with clear and correct information on the composition, quality, price and risk” when buying a financial products. While some gaps are bridged by sector specific regulations issued by the respective financial regulators (see also B.3), neither the BCP-SIB, nor the BCP-SIS or INCOOP have an explicit legal mandate to cover financial consumer protection in their regulatory frameworks and thus have not covered consumer protection issues in a systematic and coherent manner. Furthermore, no formal coordination mechanism is currently in place to ascertain that sector specific regulations are aligned with the general principles of the Consumer Protection Law (see also B.2).

In addition, a number of consumer protection-related gaps were identified in the legal and regulatory frameworks. Provisions to protect clients from non-transparent bundling of products and

abusive debt collection practices are not incorporated into any of the laws, and there are no requirements mandating systematic processes for complaints handling and reporting to be in place. Furthermore, in the area of banking, some of the provisions to enhance transparency and business practices have also not been effective and need to be revised.¹¹ Furthermore, the framework has evolved over the years, with new regulations replacing or complementing old one, making it difficult for both the supervisor and the financial institution to understand and comply with / enforce the applicable legal framework. As regards S&L cooperatives, their regulatory framework focuses on enhancing the efficiency of management and safeguarding financial soundness, and not on protecting the member from unfair business practices. Many of the provisions are vague, requiring for example that a certain topic be “adequately” covered in a manual or the client “to be informed”. This leaves ample room for interpretation to the Board or management of a cooperative, while making it difficult for INCOOP to supervise and enforce. The consumer protection framework applicable to insurance companies is still basic. These issues are discussed in more depth under B.3-B.5 and for each sector in Volume II.

The observed fragmentation of consumer protection rules and regulations has contributed to an uneven ‘playing field’ between financial service providers, and to opacity of available information.

The regulations and standards applicable to S&L cooperatives are for example not coherent with the ones of banks and finance companies, although the entities perform similar core activities. This not only leads to different costs for compliance, but also to fragmented and incomparable information available for the client. The narrow outreach of financial sector specific regulation and supervision has also facilitated the development of a number of unsupervised financial service providers, which are only subject to the very broad provisions of the Consumer Protection law, and in the absence of any additional regulation and entity with the capacity to enforce compliance have de facto remained unregulated. The mission learned for example that some microfinance entities do not provide a formal contract to the client.

Finally, it should be noted that members of S&L cooperatives are not yet covered by a deposit insurance scheme to protect their members against a potential loss of savings. Many countries in the region and worldwide have already introduced such a scheme (e.g. Mexico, US, Canada, Germany, and on a voluntary basis Guatemala). Efforts to introduce the legal framework and launch a deposit insurance scheme have been ongoing since 2004, but so far have not produced results due to delays in contracting advisory services for the design of the scheme, and internal sector discussions on the adequate structure and approach. This leaves the currently estimated 1-1.2 million members of financial cooperatives vulnerable.

Recommendations

- **The supervisory agencies in collaboration with SEDECO should issue guidance material or circulars on individual provisions of the consumer protection framework to clarify their scope and content for financial products.** As a guiding principle, similar operations should have similar regulations to avoid artificial distortions and let the market develop. A careful assessment should be undertaken to develop a prioritized action plan on provisions that should be supplemented with additional guidance / regulations, and to guide their form and institutional hinge:
 - The assessment should determine which provisions should be regulated or supplemented with guidance material or circulars under the general Consumer Protection Law, thus making adherence binding for all formal and (semi-) informal market participants. These standards should

¹¹ See e.g. Volume II, Good Practice B.3.

then also be incorporated into the financial sector specific regulations to facilitate supervision and enforcement. The guidance material or circulars could be developed in broad collaboration with stakeholders from the industry and consumers to create ownership.

- Other provisions could be covered only in the dedicated financial frameworks. Requirements to provide clients with contracts, and setting minimum standards for contract information should for example be regulated under the Consumer Protection Law to also reach otherwise unregulated financial service providers, while form and timing of disclosure could be further clarified in the individual financial sector frameworks.
 - Over time, considerations might be warranted to introduce a dedicated financial consumer protection law, which is applicable to all market participants and establishes tailored principles for financial consumer protection.
- **SEDECO and / or the Supervisory agencies should introduce regulations on (i) complaints handling procedures and reporting requirements, (ii) abusive debt collection practices, and (iii) bundling of products.** These issues are discussed in more depth under B.3 to B.5.
 - **The individual financial regulatory frameworks should be assessed for their consistency with the Consumer Protection Law and identified gaps bridged.** In particular:
 - The BCP should consider introducing a Banking/Financial Sector Code, or other forms of compilation of relevant laws, regulations, and circulars. This would help establish, amongst others, a clear and coherent legal framework for consumer protection, making it easier for financial institutions to comply with the framework, for consumers to understand, and the Banking Supervisor to enforce. This would also be an opportunity to introduce missing regulations, and assess the efficiency and consistency of some of the provisions.¹²
 - A stronger emphasis on setting standards for the protection of members has to be introduced into the regulatory framework for S&L cooperatives. Timeframes, periodicity and form of disclosure of information need to be determined, and concrete minimum standards for internal processes and business conduct rules established. Ideally, consumer protection relevant laws and regulations should be compiled into a leaflet and/or made available on INCOOP's website under a separate rubric to facilitate understanding and compliance, and create awareness of rights and obligations amongst members. CONPACOOOP as the sector's confederation could take the lead in developing these industry standards together with its members.
 - The Insurance Superintendency (BCP-SIS) should develop a more detailed and comprehensive framework for business conduct of insurers. This should amongst others include rules on complaint handling, "Know Your Client" processes, and mis-selling of products. The rules should apply to insurers, intermediaries (agents and brokers) and other professionals within the insurance sector.
 - **The adequate design and introduction of a deposit insurance scheme for at least the larger cooperatives (Type A) is a priority.** When introducing the legal framework, attention should be placed that it is based on strong prudential regulations, and that the regulator or supervisor has the

¹² A similar effort has for example been done in Bolivia, and is currently underway in Kyrgyzstan. In Bolivia, the supervisory agency ASFI provides a compendium of all applicable laws and regulations, which is regularly updated and serves as a one-stop source of information on the legal framework. The National Bank of Kyrgyzstan currently introducing a Banking Code, which is also expected to improve coherence in the applicable consumer protection provisions.

necessary capacity to adequately supervise the entities and enforce the laws. The supervisor should also be able to take the necessary measures to protect depositors in the case of insolvency.

B.2. Institutional Arrangements

Overview

A dedicated government agency is in charge of regulating the Consumer Protection law and supervising its implementation, but final enforcement of remedial actions hinges on the courts. The Consumer Protection Law (Law 1334/98, sanctioned in 1998) originally assigned implementation responsibilities, fostering of awareness of rights and obligations of consumers, handling of complaints as well as the taking of violations to court to a dedicated Department within the Ministry of Industry and Commerce (MIC), and to municipalities participating on a voluntary basis. The implementation arrangements were amended by Law 4974 (issued in 2013), which converts the department within MIC into a new autonomous government body, the National Secretariat for the Defense of the Consumer (SEDECO). SEDECO can impose fines for violations of the Consumer Protection law and support out of court settlement and mediation services for disputes,¹³ but only the courts can formally settle disputes and sanction violations more broadly. They depend on individuals, SEDECO, consumer protection associations or other stakeholders for bringing individual or collective cases of violations to their attention.

BCP is in charge of prudential oversight over banks, finance and insurance companies, and soon e-money issuers. While it does not have an explicit mandate to cover market conduct / consumer protection in the financial sector, it has taken important steps in this direction. According to the Organic Law of BCP, the objectives of BCP are to preserve price stability, and to promote the efficiency and stability of the financial system.¹⁴ This indirectly includes issuing of market conduct regulations, but does not give BCP a mandate to cover consumer protection *per se*. Nevertheless, a BCP resolution in 2007 requested the Banking Superintendency (BCP-SIB) to verify compliance with the General Consumer Protection Law, and in 2010 BCP formally introduced in its workplan the objective to help the population understand economic and financial topics. In 2013, BCP also established a small unit for financial consumer protection and financial education for banks and finance companies, which is part of the Financial Inclusion Intendency (IIF) of the BCP-SIB. In the last 10 months, it has handled 48 complaints of clients of banks, finance companies and their non-bank agents.¹⁵ The availability of this complaints facility is not widely known, which hampers its uptake. For insurance, a unit has been established to handle complaints, develop and provide some financial education measures and support the general oversight function of the BCP-SIS. As such, while BCP does not have a formal mandate, it is most concerned in helping improve transparency and discipline in the market and has increasingly taken an active role in financial consumer protection and education, but its capacity to actually supervise and enforce consumer protection provisions remains limited.

¹³ In September 2014, Decree 2199/14 was issued to regulate the SEDECO law. The Decree assigns powers to sanction violations of the Consumer Protection Law by SEDECO, and also allows municipalities to play a role in promoting consumer protection issues, bringing them to the attention of the SEDECO, and mitigating disputes out of court.

¹⁴ The actual supervision is however limited to those entities that are currently supervised by the Banking and Insurance Superintendencies within BCP. This currently comprises Banks, Finance Companies and Insurance Companies. In the near future, it is also expected that the e-money providers will enter the supervision of BCP.

¹⁵ So far, these complaints are only formally presented written complaints, and do not include complaints received through phone calls or other channels of communications.

Financial cooperatives are under the regulation and supervision of INCOOP. INCOOP has the mandate to regulate and implement the General Law on Cooperatives, which sets the minimum corporate governance standards and some market conduct rules for cooperatives. The law also gives INCOOP the mandate to provide technical assistance to strengthen cooperatives and to promote the general understanding and use of cooperative principles. This provides INCOOP with an indirect role in safeguarding the interests of members of financial cooperatives, which it has however so far not formally assumed. In addition, Art. 29e of the General Cooperative law assigns INCOOP with a higher-level authority for receiving and resolving disputes that could not be resolved at the cooperative level.

Table 5. Institutional Arrangements as Mandated by Law

	Market Conduct		Prudential	
	<i>Policy, Regulation</i>	<i>Supervision, Compliance</i>	<i>Policy, Regulation</i>	<i>Supervision, Compliance</i>
Banks and Finance Companies	SEDECO, BCP-SIB*	SEDECO, BCP-SIB	BCP-SIB	BCP-SIB
Financial Cooperatives	SEDECO, INCOOP	SEDECO, INCOOP	INCOOP	INCOOP
Unsupervised Credit Providers	SEDECO	SEDECO	-	-
Insurance companies	BCP-SIS, SEDECO	BCP-SIS, SEDECO	BCP-SIS	BCP-SIS
Other insurance providers not formally supervised by SIS	Superintendencia de Salud, SEDECO	Superintendencia de Salud, SEDECO	Superintendencia de Salud	Superintendencia de Salud
EMPEs	BCP, SEDECO, CONATEL**	BCP, SEDECO, CONATEL**	BCP	BCP

**Mandate not yet clarified*

***In cases where EMPEs are also telecommunications providers*

Key Findings

The responsibilities and roles of the financial supervisors in the area of financial consumer protection are not sufficiently established. The Consumer Protection Law only establishes general principles that are to apply to all sectors of the economy. SEDECO cannot be expected to systematically regulate and supervise adherence across all sectors, as it has limited technical and human resources. This makes incorporation and tailoring of provisions into sector-specific legal frameworks, such as for the financial sector, necessary. However, as discussed above, none of the financial supervisors has a formal mandate for market conduct or consumer protection regulation and/or supervision. As a result, the focus in the financial regulations and supervision has mostly been on some selected market conduct rules to help safeguard the financial viability of financial intermediaries, rather than on protecting the client and fostering transparency in the market.

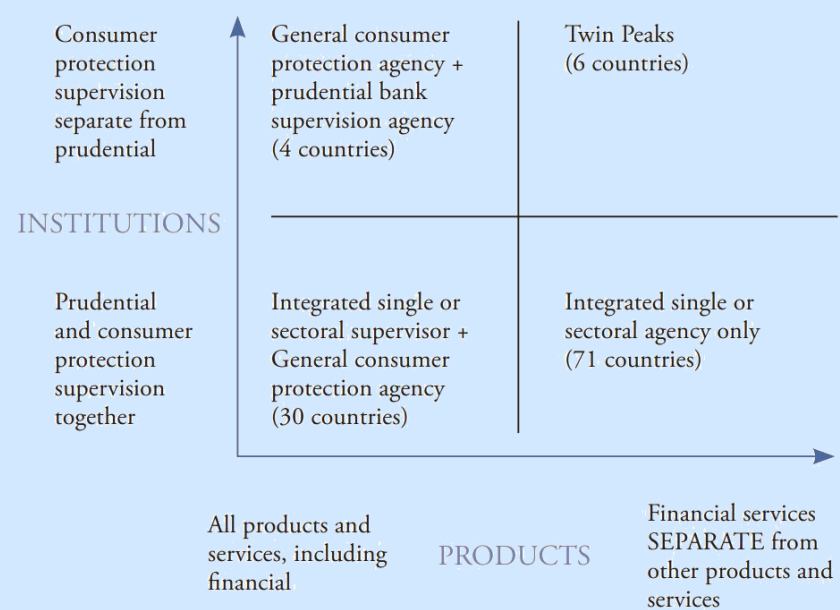
Box 1. Institutional Frameworks for Financial Consumer Protection Worldwide

The World Bank's Global Survey on Consumer Protection and Financial Literacy (2014) identified five institutional arrangements in use worldwide:

- (1) Integrated Single Agency Model
- (2) Sectoral Agency Model
- (3) Dedicated Market Conduct Agency Model (Twin Peaks)
- (4) Specialized Financial Consumer Protection Agency Model
- (5) General Consumer Protection Agency Model

As can be seen in Figure 2, in the majority of countries the financial regulatory authority is involved in supervising financial consumer protection. Using the existing capacity and expertise of the supervisor can be an economically efficient and effective approach, if sufficient attention is paid on business conduct / consumer protection during the oversight process. Of the remaining countries, 30 follow a dual approach, providing both the agency in charge of the General Consumer Protection Law and the sector specific regulator with a formal role in regulating and supervising financial consumer protection. This approach can also be effective for oversight, but requires closer coordination to prevent overlaps and contradictions in the frameworks. A dual approach has for example been taken in Brazil, where the National Consumer Protection Secretary in combination with local consumer protection bureaus inform clients of their general rights and obligations as consumer, and serve as a first point of contact for dispute settlement. Actual supervision of applicable laws and regulations itself is carried out by the respective financial regulatory authorities. The approach taken in Brazil appears particularly applicable to the Paraguayan context.

Figure 2. Institutional Arrangements Worldwide



Source: Global Survey on Consumer Protection and Financial Literacy, 2014

The roles and division of labor for the regulation and supervision of e-money issuers merit further clarification. Once formally licensed by BCP, e-money issuers will be regulated and supervised by BCP, as well as subject to compliance with regulations and certifications set forth by the telecommunications authority (CONATEL). They might also fall under the purview of the Ministry of Industry and Commerce

(MIC) with regard to their compliance with electronic signature and contract regulations. This has the potential to create overlapping areas of regulation and supervision, which merit further clarification and cooperation.

Actual enforcement of consumer protection provisions is hampered by limited human and technical capacity in all agencies involved:

- **SEDECO has limited technical and human resources.** It currently employs 16 people, of which 6 are lawyers. None have a thematic specialization (e.g. no financial sector specialist). Furthermore, standardized procedures and IT systems still need to be developed. The initially foreseen system of support for supervision and complaints handling via the participation of municipalities on a voluntary basis has not materialized.
- **Market conduct supervision at the BCP-SIB is not yet standardized.** The Financial Inclusion Intendency (IIF), which is part of the off-site supervision unit, does not have a formal arrangement with the 65-person on-site inspections unit of BCP to incorporate, on a standardized basis, market conduct supervision as part of the regular supervision. Although the on-site inspections unit does selectively supervise and report to the IIF non-prudential issues related to regulatory non-compliance, this only covers a small number of transparency-related topics and not systemically the wide range of consumer protection-related malpractices noticed during the mission. With only one person in charge of consumer protection issues, the IIF does also not have the capacity to join or independently conduct inspections to supervise market conduct.
- **BCP-SIS also does not systematically supervise non-prudential regulations.** Its main control activity is to make sure that the insurers' solvency ratio is above the minimum required and that insurers are using contracts and premium rates that were previously filed and not objected by the SIS-BCP. Its consumer protection unit has four staff formally mapped to it,¹⁶ but it has a broader mandate to also support general on- and off-site supervision. Thus, overall capacity appears weak.
- **INCOOP's general capacity to enforce its regulatory framework is limited.** It currently has 45 supervisors to conduct on and off site supervision of an estimated 330 financial and 120 non-financial cooperatives in Paraguay. As a result, on-site supervision of the largest 27 financial cooperatives is on average only carried out every three years. Off-site supervision also focuses on the larger cooperatives, as reliable information on smaller entities is scarce and technical resources are limited. No dedicated unit is currently in charge of handling complaints received from members, or supervise adherence of basic consumer protection provisions.
- **The judicial system has not been involved in a more systematic way in the resolution of disputes over financial products or services received.**

A usury law is in place, which applies to all credit activities, but enforcement is uneven in the absence of adequate institutional structures for supervision. According to provisions in the Civil Code, BCP sets the usury rate for all credit activity, but its supervisory scope is limited to the banks and finance companies. The provisions have been incorporated by INCOOP into the legal framework for cooperatives, but actual supervision is limited. Unless the clients formally complain about the interest rate to SEDECO or take the credit provider to court, no instruments are in place to supervise that moneylenders and pawnshops adhere to the usury limits.

¹⁶ As per Resolution 31/14, but during the mission only one person was de facto assigned to the unit

Industry and consumer associations are not yet playing an active role in financial consumer protection. ADEFI, the representative association of finance companies, introduced in 2008 a claims resolutions mechanism, which was however not widely used by clients. ADEFI also encourages its members to adhere to responsible finance practices, but has not established a formal Code of Conduct for its members. CONPACCOOP (the Confederation of Cooperatives in Paraguay) and the Banking Association are currently exploring options to include Consumer Protection and Financial Education in their work program. A number of consumer associations exist, but they are fragmented and do not play a relevant role in resolving disputes between financial service providers and their clients.

Key Recommendations

- **It is important to clarify the mandates and competencies of the financial regulatory agencies in the area of financial consumer protection.** Consideration should be given to revise the General Consumer Protection Law and formally establish as mandates and competencies of specialized supervisory agencies to regulate and supervise consumer protection related provisions for entities under their oversight.¹⁷ Clearer mandates would also have to be introduced in the laws of BCP and INCOOP, explicitly mandating them to cover consumer protection / market conduct in their respective legal frameworks. Market conduct and consumer protection rules established by sector specific agencies should have to be in line with the general principles established by the Consumer Protection Law. The ongoing update of the BCP Charter would already present an opportunity for this clarification.
- **To foster coherence of the consumer protection framework and facilitate transparency across products and markets, modalities for information sharing and coordination should be established between SEDECO, BCP and INCOOP, as well as between BCP, CONATEL and MIC for e-money issuers.** This could be done as before via inter-institutional Memorandum of Understandings, or formally established by regulation / Law. Two coordination mechanisms appear feasible:
 - Regulators and consumer protection / competition authorities could regularly consult to ensure the establishment, application and enforcement of consistent policies across institutional types and clarify supervisory roles. For e-money issuers, the involved authorities should determine which entity assumes the lead in consumer protection-related supervision.
 - SEDECO could regularly analyze the sector specific legal frameworks, and assesses their consistency between providers and compliance with the provisions of the Consumer Protection Law. It could then make recommendations as to changes needed to bring the sector-specific laws into compliance with the Consumer Protection Law.
- **Market conduct supervision should be formally included into on- and off site supervision carried out by BCP and INCOOP.** This would require the development of standardized approaches for supervision, provision of dedicated funding as well as capacity building of staff (see Annex 1 for an example of tools that can be used):
 - BCP should clarify the division of labor between the consumer protection units and the units in charge of on-and off site supervision. The staffing levels and available budget would have

¹⁷ BCP should for example be formally declared as competent for monitoring and enforcing compliance with consumer protection provisions for banks, finance companies, insurance companies, e-money issuers and non-bank agents; and INCOOP for financial and other cooperatives.

- to be adjusted accordingly in both BCP-SIB and BCP-SIS, and manuals for the supervision of market conduct / consumer protection rules developed. For the supervision itself, in particular for non-bank agents, cost effective tools for supervision should be introduced.
- INCOOP should determine which unit is formally in charge for developing and supervising market conduct / consumer protection rules, and for complaints handling. Over time, considerations should be given to establishing a dedicated unit for this. Given the size of the sector, considerations should also be given to introducing mystery shopping to verify compliance with consumer protection standards, and other cost effective tools for supervision. The capacity of INCOOP to supervise the S&L cooperatives needs to be strengthened as a priority (in terms of number of staff, their capacity, and available support systems).

Box 2. Institutional Arrangements for Supervision of Consumer Protection / Market Conduct Rules in Financial Supervisors

Supervisory agencies worldwide have taken a variety of organizational approaches for covering prudential and market conduct supervision. These range from units that cover both prudential as well as market conduct supervision to independent units for supervision of market conduct on a stand-alone basis. Based on results from the Global Survey on Consumer Protection and Financial Literacy, units dedicated to supervising market conduct / consumer protection are more prone to using cost effective off-site compliance tools such as mystery shopping, keeping complaint statistics and monitoring advertisement to supplement on-site supervision. They are thus likely more effective in enforcing consumer protection rules than units that cover both prudential and non-prudential regulations together. In line with this finding, over half of the financial regulators, which cover consumer protection as part of their supervision, now do this through dedicated units, separate from prudential supervision.

Source: Global Survey on Consumer Protection and Financial Literacy, 2014

- **As regards financial markets, SEDECO should focus its scarce supervisory capacity on unregulated financial service providers such as pawnshops and microcredit providers.** This could include mystery shopping activities, bringing noted violations to court and regularly publicizing information on noted infringements.
- **Industry Associations could foster the development of a common framework and standards for responsible finance.** This could for example be done through the development of sector-wide Codes of Conduct, which are to be monitored and enforced on a self-regulatory basis. Guidance material could be developed to set standards for business conduct and transparency, which are in line or complement applicable laws and regulations and clarify for example minimum content and principles, and develop standardized documents such as model contracts.

B.3. Transparency and Disclosure

Overview

The BCP has introduced a number of regulations to enhance the disclosure and transparency of information. It issued in 2001 a transparency regulation, setting the methodology for calculating annual effective interest rates, and making explicit which commissions have to be included as part of the interest

rate. The BCP has also issued a number of provisions to enhance transparency in credit cards. The 2007 Regulation on credit cards sets out provisions related to contracts and monthly statements. Furthermore, a new regulation in January 2014 requires that statements include warnings on the impact of late payment and the calculation of the time and total cost if only the minimum is paid. A joint analysis between the SIB and the SIS of life insurance premiums linked with credits concluded with a resolution of the SIS (SS 45/13) setting a limit for the level of commission charged for the generation and management for the life insurances of up to the 30 percent of the premium. For EMPEs, the minimum contents and guidelines for transparency and disclosure are set in the Resolution 6, Act 18, 2014, including the requirement to indicate applicable costs and commissions, the express indication that the e-money float does not accrue interest and is not covered by BCP's deposit insurance scheme, as well as the modalities related to the issuance of account statements, either in print or electronically.

For S&L cooperatives, the revised legal framework enhances transparency in reporting, but in the absence of additional regulations is not clear on the form and timing of disclosure. The regulatory framework now mandates entities to have audited financial statements, provides minimum rules for advertisement, and mandates that savings and credit terms and conditions (including nominal and effective interest rates for passive and active transactions and charges for overdue loans) are made available to members. However, there is no clear requirement in which form and timing this information has to be provided. This limits the relevance of the provisions and undermines transparency. Some of the visited branches and consulted websites did not provide this information, and there is no indication that the information is systematically provided to the client when signing up for a new product.

Key Findings

Overall, the introduced measures are not effective in making the total cost of financial products transparent and easily comparable across providers. Banks and finance companies have to disclose the interest rate and fees in their branches and at their website, but the pricing information is frequently shown in small letters and/or reaches 7 pages. Based on an internal study of BCP in March 2014, which tool a sample of 19 entities based on the information published in their websites (*tarifario*), there were more than 250 different denominations of fees and commissions, some of which correspond to the same concept but are named differently and/or comprise double fees for the same transaction.¹⁸ The fees comprise a significant variety of concepts and their calculation depends on several variables (number of times the service has been used, average daily balances of deposits). For cooperatives, there is no formal requirement to publicly disclose the costs and commissions of their products, and limited to no pricing information is publicly available as a result. This makes it difficult for the consumer to calculate and compare prices for financial services, and shop around.

The usury rate on credit has contributed to opacity in commissions. The usury interest rate for credits is limited to 30 percent above the average rate for domestic and foreign currency loans respectively. The current method used by banks and finance companies for calculation of the effective interest rate does however not reflect the total cost of credit, since it does not include all commissions, such as life insurance premium among others. This has led entities to include commissions, rather than

¹⁸ One example of charging twice for the same service are: (a) the commission for the acquisition of checks and an additional commission related with the number of checks issued; (b) commission for a loan who has entered into arrears and commission for the management of recovery of the same loan. Furthermore, administrative charges, charges for the preparation of a financial statement and account maintenance charges are all different denominations for essentially the same commission.

interest rate, on credits, and greatly contributed to the above noted opacity of commissions. The usury rate also applies for cooperatives, but no rule for the calculation of interest rates has been established by INCOOP and supervision of actual adherence appears limited.

One-page key fact statements that summarize the core contract conditions and terms are not mandated by any supervisor, and have not been developed by the industry. EMPEs are for example required by the E-Money Resolution to provide “*a summary of the minimum conditions mentioned [in the contract], in legible and understandable terms*”, but a format or template for this summary has not been provided. The BCP-SIB does review the contracts to verify that no abusive conditions are included, but does not systematically check for transparency and ease of understanding of the provided information nor has formally defined what abusive practices are. For insurance contracts, the BCP-SIS has the formal right to establish the minimum content of insurance contracts, but has not yet made use of this.¹⁹ For cooperatives, some information requirements are in place for credit products, but for other products the regulatory framework only specifies that members should be “informed” of the costs and charges, without details on form and time.

Regulatory gaps were also identified in the area of account statements, although they are in practice provided on a regular basis. S&L cooperatives are not formally required to provide their clients with regular account statements for their current, deposit or loan accounts, including for credit cards. Banks and finance companies are only required to provide regular statements for credit cards. For insurers, this is not yet relevant, as practically no insurance investment products or products with a cash value are sold in Paraguay. E-Money issuers are required to provide monthly statements of account to their customers, but it is not required that statements should be free of charge. In the actual practice, clients seem to be however provided with regular account statements, or can receive them upon request.

Finally, available information on registered and supervised entities is deficient for S&L cooperatives, and gaps exist for providers of insurance services. Cooperatives are required to register with INCOOP, but procedures for closing of a cooperative are cumbersome and cooperatives prefer going dormant instead. The Registry, managed by INCOOP, is also not regularly updated, with the latest publicly available information dating from 2011. Thus, of the 1405 cooperatives listed in the registry, only 450 are estimated to be still active.²⁰ Furthermore, information on the financial health of cooperatives is limited. INCOOP does not regularly publish information on the sector or the larger entities, and disclosure requirements for financial statements have until recently been deficient. This makes it difficult for the new and existing members to assess the health of the entity, and shield themselves from fraudulent ones. In the insurance sector, BCP-SIS maintains on its website a list of licensed insurers and agents/brokers, but entities are not formally required to disclose whether or not they are regulated. Unless the client is aware of this website, he/she cannot reliably establish if the entity is subject to supervision of its financial viability or not (like i.e. in the case of pre-paid medical plans).

¹⁹ Regulation No. 43/15 also waives the obligation to disclose the agent’s commission if it is equal or below 30 percent of the premium – which is the maximum allowed premium permitted. In practice, the commission is thus not disclosed, and the information provided in the contracts limited.

²⁰ This includes both S&L cooperatives, as well as producer cooperatives.

Key Recommendations

It is paramount that SEDECO and the financial supervisors BCP and INCOOP establish consistent and considerably enhanced disclosure and transparency requirements:

- **A requirement for the calculation and disclosure of "total financial costs" (TFC) should be introduced.**
 - In a first step, BCP should develop and introduce a methodology for the calculation of total financial costs, which it issues through a Circular (*Normativa*) or other mechanism. The methodology should be developed in coordination with SEDECO, INCOOP, and in consultation with private sector stakeholders. The methodology should then also be introduced by SEDECO and INCOOP, thereby making it mandatory for all market participants. Example for the calculation of total costs can be found in the Peruvian and Mexican legislation.²¹
 - For the actual implementation, a phased approach could be considered, involving for example (i) a requirement for financial service providers to supply clients with annual 'total charges/costs' statements, and (ii) TFC to be first published for leading products in the market, in a generic form.
- **Standard terms and definitions for commissions and fees for payment, savings, credit and insurance products should be developed and their use mandated (see Box 3).**
 - As this mostly applies to banks and finance companies, BCP should take the lead in developing a proposal on standard terms and definitions to be used. Consideration could be given to broadly consult with the stakeholders from the industry and consumers for this.
 - The standardized terms should then be coordinated with SEDECO and INCOOP, formally introduced for all market participants and their actual usage facilitated through guidance and monitoring.
 - BCP, INCOOP and SEDECO should accompany the introduction of the standardized terms and conditions with a broad publicity campaign to foster awareness and knowledge of the terms by clients.

Box 3. Enhancing Transparency - Selected Examples

Peru: Prior to initiating the reform, a survey of providers showed that over 4,000 different terms existed to describe various financial terms. With the purpose to foster transparency and to facilitate comparison by the financial users, the Superintendency of Banks of Peru (SBS) issued Circular B 2205-2012. The regulation defines the names and concepts that all financial institutions should use for the commissions and fees they charge on different products, including credit cards, consumption/mortgage loans, saving/checking accounts, and time deposits. This reduced the number of terms to 50 and brought consistency in disclosure. If a financial entity wants to charge a commission that does not fall under any of the categories of commissions and fees defined in said resolution, the financial entities can present a formal request to the SBS to obtain authorization for using this commission/fee. If approved, the SBS updates the list to incorporate the new commission/fee.

²¹ See Resolution SBS No 1765-2005, Art. 17 in Peru, and the definition of total cost provided on the Banco de Mexico website (<http://www.banxico.org.mx/ayuda/temas-mas-consultados/tac--total-annual-cost-.html>)

European Union: To enable consumers to better compare financial products from various providers (including cross-border), a Directive with comprehensive disclosure requirements was issued. Among them is a standardized disclosure form (Standard European Consumer Credit Information), the disclosure of the Annual Percentage Rates representing the full cost of credit and computed using a harmonized methodology across all EU member states. The Directive provides for the right of the consumer to withdraw from the credit agreement without giving any reason within a period of 14 days after the conclusion of the contract. The consumer also has the possibility to repay the credit early at any time, while the creditor can ask for a fair and objectively justified compensation. All member states have now implemented the Directive through issuance of appropriate national legislation.

In France, the General Secretariat of the Financial Sector Advisory Committees took the initiative to develop a glossary of financial terms. The committee comprises the Treasury, the supervisory agencies, financial institutions and private sector stakeholders such as consumer associations. The supervisory agency regularly carries out mystery shopping with the aim to better understand actual practices in the industry, and to guide the dialogue with the stakeholders.

Sources: Peru CPFL Diagnostic and own research, Report on the Global Survey for Consumer Protection and Financial Literacy (2014), OECD Annex to the updated report on the G20 High-Level Principles on Financial Consumer protection.

- **BCP and INCOOP should issue Circulars or other form of guidance to mandate the use of one-page Key Fact Statements for all offered financial products.**
 - This should set out minimum requirements for the content, wording, and format of Key Fact Statements, such as information on annual effective interest rate, total cost, payment schedule and components, available complaint mechanisms and information on late payment fees and debt collection. For insurance, details on coverage, exclusions and reductions should be provided, as well as on premiums to be paid. The statements should be mandatorily added to contracts, and also be made generally available. To facilitate comparisons across the different financial services providers, all service providers should use a standard format and the same terms and concepts. Examples of such Fact Statements can for example be found in Honduras, Mexico, Nicaragua, Peru and Portugal (see also Annex 2).
 - Initial focus in implementation could be on loans and credit cards, and then rolled out to all other products and service providers, including e-money issuers. The mandate to provide clients with a fact sheet should also apply to agents.
 - Key Fact Statements should be tested prior to their introduction to ascertain that the provided information is clear and easily understandable for clients.
 - On the medium to longer term, SEDECO should also explore options to mandate other financial service providers, such as pre-paid insurance, burial societies and microcredit providers, to provide clients with a standardized factsheet for financial products prior to contract signing.
- **The development and use of user-friendly price transparency websites and other measures to facilitate comparison, stimulate transparency and enable better consumer choice should be facilitated.**
 - BCP has already taken first steps in this direction, and includes as part of its financial education website a calculator for loans and a link to a interest rate comparison for banks and finance companies. However, the information is limited to loans, is not yet easy to find and

- assess, and should be distributed through various forms of mass media. Examples of other price comparison tools include Chile, Mexico and Peru.
- Information also needs to cover other financial products offered. For savings and payment products, standardized sample packages could for example be created to model clients with low and high volumes of transactions.²² The market participants could then be required to publicly disclose information on the costs of these packages in their pricing table, and the information could regularly be compiled on the supervisor's website and in public media.
 - The information can be provided as part of the financial regulator's website, or independently via associations or private sector entities.
- **Considerations should be given to phase out the current usury regime.** The above suggested transparency standards (Total Financial Costs, usage of standardized terms, and price comparison tables) would establish a more efficient regime for promoting price transparency and encouraging competition that can push prices down, which would not distort the market as has been noticed for the usury rate.
 - **Provisions should be introduced to periodically provide clients with account statements.** The account statements should include all transactions and costs, and should be in a format that is clear and easily understandable for the client.
 - **Finally, INCOOP needs to regularly update its registry (including elimination of inactive / dormant cooperatives) and greatly enhance the publicly available information on the sector as a whole and on individual entities.** Consideration should also be given to differentiate between financial and other types of cooperatives to enhance user-friendliness of the information, and facilitate compilation of statistics.

B.4. Business Practices

Overview and Key Findings

As neither of the financial supervisors has an explicit mandate to cover consumer protection-related market conduct in their regulations and supervision, the norms and regulations on business and market conduct focus mostly on measures to ensure the viability of the entities. The regulatory framework for financial cooperatives mandates for example that interest rates should be sufficient to cover the costs of funds, operational and lending costs, provisions and the building of reserves, but there are no regulations on how to calculate annual effective interest rates or mandating public disclosure of interest rates. For banks, as well as finance and insurance companies, a stronger focus is for example placed on ensuring that contracts and premiums charged are filed with the supervisor, but no systematic approach to assessing the appropriateness of the contracts seems to be in place.

²² For example, the low transaction sample package for a current account could reflect the total monthly account costs including 2 withdrawals at an ATM, two electronic transfers and one account statements, while a high volume sample would for example reflect the total costs if including 10 ATM withdrawals, 30 electronic transfers, 5 automatic debits.

The mission observed some deficiencies in the regulations on contracts, which appear to have facilitated the widespread use of bundling of products and of non-transparent business practices.

Banks and finance companies mostly work with unified contracts, which include paragraphs pertaining to credit and debit cards, overdrafts, etc. This bundling of clauses and services under one contract makes the contracts lengthy, complex, and leads to clients signing up for services they have not actively requested. The practice of banks and employers negotiating special conditions for current accounts of employees, into which the salary is then deposited, is also widespread, leading to market distortions and lack of transparency in applicable prices. In the insurance sector, the Group Life Insurance Contracts are frequently linked to loans, and in many instances do not directly require a signature of the insured. As a result, the client is not properly informed about the terms of that contract, nor about the charged cost or who is providing the coverage. In cooperatives, the practice of unified contracts was not observed. However, contracts provided to the mission did not disclose important product features like for example rules and fees for early cancellation of term deposits. This gap in information makes it difficult for a client to choose the most suitable product. E-money issuers are not yet required to provide the clients upfront with the contract.

Cooling off periods are only foreseen in a limited number of cases. The Consumer Protection Law (Art. 26) gives the customer the right to a cooling off period of 7 days if the contract was made outside of the business premises or over the phone. This is however usually not the case for financial products. In the absence of other relevant regulations, the financial institutions generally do not include a cooling off period in their contracts. While a client can instead opt to withdraw early from a contract, the mission noted some heavy fees being levied by individual institutions for early cancellation.²³ The lack of cooling off periods, and the elevated costs for early cancellation make it both difficult and costly for a client to e.g. withdraw from a bundled product, or to make use of the right to cancel a contract if the client disagrees with changes in interest rates and commission adopted by the bank.

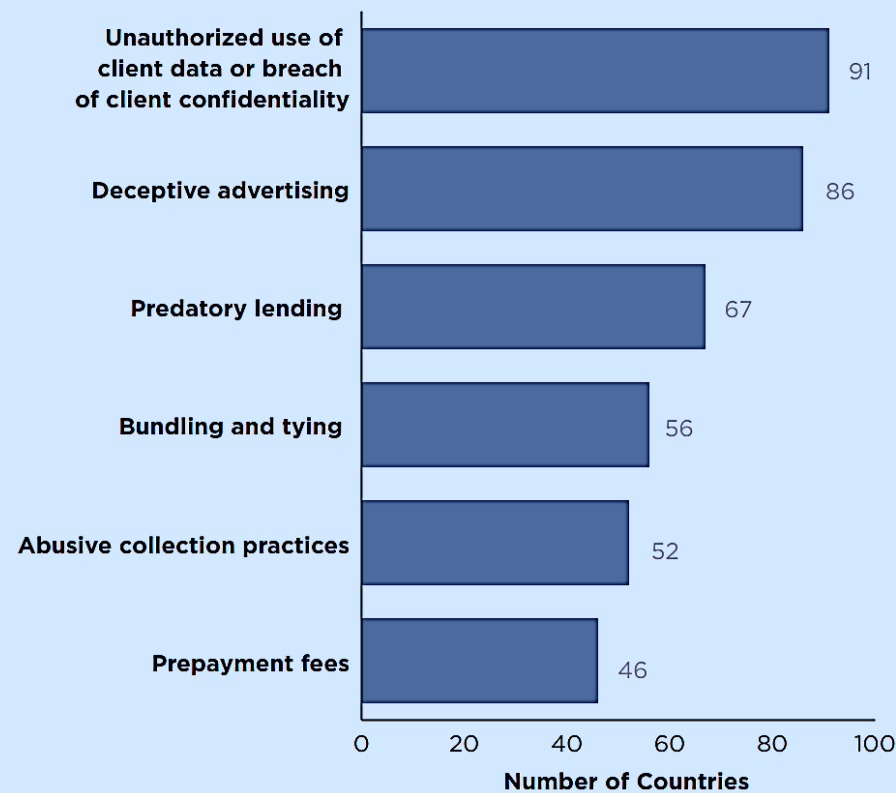
Box 4. Legal Provisions Covering Core Business Practices

According to the Global Survey on Consumer Protection and Financial Literacy a number of countries have introduced provisions to ensure fair treatment of clients (see Figure 3). Amongst the most frequently regulated are the confidentiality of client data and the prohibition of deceptive advertising. Regulations on both are also incorporated into the legislation in Paraguay.

As part of restrictions on predatory lending, a number of countries have introduced cooling off periods for contracts. The World Bank Good Practice recommends a cooling-off period of 3-5 days after contract signing, which allows the client to withdraw from a contract without penalty. Some countries like Mexico have introduced a cooling off period of 10 days or more. Cooling-off periods are particularly relevant in countries where terms of services and products are not readily available and thus cannot be compared, and where seemingly attractive terms of contracts involve additional, non-transparent costs. Given the noted opacity of information and complexity of contracts, such a cooling-off period appears warranted for Paraguay.

²³ Some entities for example add charges equivalent to 30-50 percent of the interest that would have to be paid on the remaining term or a loan, while for term deposits the interest rate can get retroactively dropped to the rate applicable for sight deposits.

Figure 3. Fair Treatment Regulations Worldwide



Source: Global Survey on Consumer Protection and Financial Literacy, 2014

Credit evaluation (due diligence) processes in many entities focus on payroll deductibility, available guarantees and / or simple scoring models²⁴, and do not sufficiently focus on assessing the client's true repayment capacity. The team learnt of cases where government employees had up to 100 percent of their salaries deducted at source for payroll loans they had received from banks. The increasing incidence of multiple loans, in particular through credit cards, was reported to the team from a number of different sources, but neither the credit registry under BCP nor the private credit bureau explicitly monitor this trend. The regulations on financial cooperatives include a requirement to assess and document the repayment capacity of a borrower, but capacity of credit officers to adequately assess the collected information is reportedly limited. There are some signs of unethical practices also in the non-regulated financial markets, which contribute to over-indebtedness among vulnerable segments of population.

The available credit-reporting systems contribute to the observed difficulties in establishing the level of indebtedness of customers. The World Bank's General Principles of Credit Reporting recommend that "credit reporting systems should have relevant, accurate, timely and sufficient data – including positive – collected on a systematic basis from all reliable, appropriate and available sources

²⁴ For example scoring models based on the use and payment history of a client with a telecommunications company

(...).²⁵ This is not yet the case in Paraguay. The credit registry of BCP contains only positive and negative information of the institutions under its regulation and supervision (banks and financial companies). INCOOP launched its credit registry for financial cooperatives in June 2014, but so far only the 26 largest financial cooperatives (Type A) are required to report, and only once a month. There are no specific plans for collaboration between the two Credit Registries to establish a more holistic database. The private credit bureau contains credit information on a broader universe of credit providers, (including also some credit unions, microcredit providers, and shops), but only provides information on people with debt in arrears of 90 days or more and not the broader positive and negative information suggested by the General Principles.²⁶ In light of the fragmented and insufficient credit information available, some of the financial intermediaries spent substantial time and resources to call around and construct a likely level of indebtedness this way, while others increasingly use scoring or payroll deduction to establish the creditworthiness of a client.

Debt collection processes are not sufficiently made transparent upfront, and no rules on abusive enforcement practices have been established. As mentioned above, debt collection standards and information requirements are not included in any of the applicable legal frameworks for formal or informal financial intermediaries, and no Codes of Conduct are in place. Banks and finance companies usually include in their contracts information on the fees related with the recovery process (e.g. phone calls) and the moratorium and punitive interest rate, but they do not specify the steps that an entity would follow for their debt collection in cases of arrears (including the possibility to transfer or sell the loan to a third party). Some of the observed practices appear excessive. The mission learned for example of multiple (and for the client costly) reminder calls, excessive fees levied on late payments, and some indication of apparently abusive enforcement practices by third parties to whom the loan has been sold. For financial cooperatives, the regulations require to include information on the rights and obligations of each party in case of non-compliance into the credit contracts and to specify the procedures for debt collection in their credit manuals. The requirements are however general, and do not set minimum standards. In practice, financial cooperatives do make use of third parties for debt collection, and the mission team is not aware of reports that they use excessive fees or aggressive enforcement methods to recover outstanding debt from their members.

Gaps were also identified in regulations covering advertising and sales materials, which together with limited enforcement lead to incomplete information being provided and limited liability of the financial service provider for rectifying damages incurred to the consumer. The Consumer Protection Law establishes as a basic right of the consumer to be protected against misleading sales practices and advertisement (Art. 35-37), and that the client should receive “adequate” information about a product (Art. 6). However, this is not sufficiently covered and specified in the financial sector specific regulations. For cooperatives, there is for example no requirement to include interest rate information,²⁷ and no provision is in place that the client can hold the cooperative responsible for damages incurred due to misleading information. For banks and finance companies, a regulation for price transparency is in

²⁵ See Principle 1 of the General Principles for Credit Reporting, World Bank, 2011

²⁶ The General Principles for Credit Reporting states on p. 25 (para. 106) that collected data “should include all relevant information to enable any given user to adequately evaluate and manage credit risks on a continuous basis. This includes information that is necessary to make an unequivocal identification of the data subject, as well as information related to the creditworthiness of the debtor and/or the repayment prospects of a new loan (e.g. current credit exposure, maturities, guarantees and/or collateral, default information, etc.)”

²⁷ Art. 2.6 of the compiled regulatory framework for financial cooperatives only mandate that the annual nominal and effective interest rate should be used *if* providing this information.

place, but there is no requirement to include costs of products in sales materials and the information is not included in practice. Banks, as well as finance and insurance companies are held responsible for information they provide and the sales material they produce, but no regulation is in place to regulate which entity is liable for additional information provided by their non-bank agents (outside of the information produced by the financial entity itself). Furthermore, while the insurance regulation mandates that consumers be given appropriate information about the nature of the relationship between the agent/broker and the insurance company, adherence is not formally supervised and may not be consistent.

Key Recommendations

To improve observed business practices, regulations pertaining to the bundling of products, debt enforcement and sales material need to be revised:

- **BCP and INCOOP should issue regulations or guidance (e.g. Circular or Norms) to improve contract-related business practices. This should include:**
 - A prohibition of the practice of using a unified contract to bundle (cross sell) other financial products in a non-transparent way (and without opt-out clause). The “Negative Option Billing Regulation in Canada for example requires the consumers’ express consent for being offered a new or additional product. If given verbally, the institution has to confirm the consumer’s consent in writing without delay. The client has a right to cancel the contract within 30 days, with a refund of charges paid in accordance to a developed formula.²⁸
 - A requirement that the contracts are written in a clear and understandable language. Where possible, considerations should be given by the industry to develop standardized contracts, which have been tested in focus groups. The contracts should include the above mentioned fact sheets, possibly as a cover sheet as done in Mexico.
 - A ruling out of mandatory insurance requirements except in specific circumstances (e.g. mortgage property insurance, insurance required by law). Where insurance is required, the client should be provided with at least three choices of providers, and receive full information on commissions and insurance policy premiums and terms (see Annex 2 for an example of information to be included). A cooling off period would have to be given.
 - A requirement that the customer receives a copy of the contract (with all applicable clauses) prior to signing, and that standard contracts are available on the website and branches of financial service providers for upfront information.

- **BCP should introduce guidelines on credit evaluations.** This should clarify practice on payroll deductions for loan repayments, and requirements for assessment of borrower repayment capacity, and make clear what the consequences are if there is a failure to comply (e.g. court powers to re-open a loan contract). A number of countries have i.e. established limits for payroll deductions to between 30 – 50 percent of the salary,²⁹ while Panama has put in place a borrowing limit for credit cards three times the monthly income. The consequences of an institution’s failure to comply should also be made clear, and could for example include court powers to re-open a loan contract.

²⁸ <http://laws-lois.justice.gc.ca/eng/regulations/SOR-2012-23/FullText.html>

²⁹ This includes Malawi, Pakistan, and Saudi Arabia.

- **Cooling off periods should be introduced into the regulations by both BCP and INCOOP, and guidance on early repayment of products provided.** The cooling off periods should provide the client with a general right to withdraw from a contract free of charge within a defined period of time, such as for example 3-5 days as suggested by the Good Practices.³⁰ In addition, the client should be given the right to withdraw without any penalty fees from a contract if done as consequence to a change in conditions unilaterally adopted by the financial entity. Finally, reasonable limits (both in terms of costs as well as types of commissions and fees to be charged) should be set for early repayment of loans and early withdrawal of term deposits.
- **A framework for defining and prohibiting abusive debt collection practices and associated charges has to be put in place.** The Fair Debt collection Act in the USA for examples sets limits in communication to third parties, prohibits the use of threats, and requires truth in representation. Standards for abusive debt collection practices should apply to both regulated and non-regulated financial service providers, as well as to dedicated debt collection agencies, so should ideally be incorporated into the General Consumer Protection Law or the Civil Code. The financial sector specific frameworks should then be updated accordingly to facilitate supervision and enforcement and specify / tailor individual rules.
- **Standardized training requirements and programs should be developed for supervisors, staff and agents/non-bank intermediaries in the area of credit evaluation and credit-worthiness assessments, product design and transparency/ disclosure rules.** The lead for this could be taken by training institutes and industry associations. The programs should be rolled out systematically, with attention paid to self-sustainability on the longer term.

B.5. Complaints Handling and Dispute Resolution

Overview and Key Findings

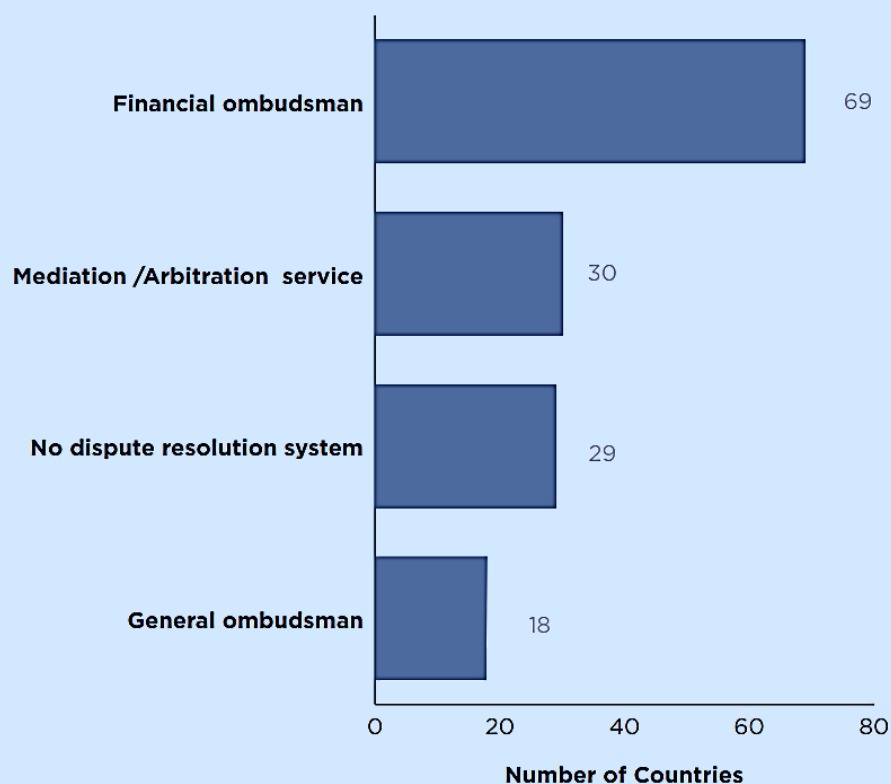
The legal and regulatory framework does not require financial institutions to have internal complaint handling processes in place. In practice, many providers have some form of internal complaints handling mechanism (ranging from a Facebook page to a call center), but there are no minimum standards or guidelines in place for industry players across the financial sector. In many instances the information on complaints received and processed is not systematically collected within each entity to allow management to understand the frequency and areas of concern, as well as actual handling of complaints. A regulation setting a minimum standard, such as timelines for the resolution of claims, record-keeping and classification of claims, and the generation of statistics on claims (to be reported to the market conduct authorities) is not yet in place for any of the regulated financial service providers. For the insurance sector, almost all the complaints received are related to settlement of claims, but insurers are not obliged to record and process these complaints. The Law on Cooperatives mandates that member complaints should be addressed by the Supervisory Board of each entity, and in case of ongoing dispute presented to INCOOP, but in practice no standardized systems for dispute handling are in place in financial cooperatives or in INCOOP, and the client is not formally informed about available processes. Members apparently use a variety of channels to complain, including the General Assembly, but no statistics or information on complaints are available.

³⁰ See World Bank (2012), Good Practices for Financial Consumer Protection, p. 14.

Box 5. Availability of Financial Dispute Resolution Systems Worldwide

In the majority of countries surveyed in the Global Survey on Consumer Protection and Financial Literacy, internal and external dispute mechanism are in place. The World Bank Good practices recommend that every financial institution should have a designated contact person with clear procedures for handling consumer complaints.¹ Between 2010 and 2013, 25 countries introduced such regulations, and now 83 countries (out of 114 surveyed) formally requiring internal dispute mechanisms to be in place. In addition, both the WB Good Practices and the G20 High Level Principles on Financial Consumer Protection call for the availability of accessible, affordable, independent, fair and timely external complaints handling mechanisms. While in general clients can take their complaint to the court, this is costly and time consuming, and inefficient for small disputes. Based on the results of the Global Survey, 75 percent of the surveyed 114 countries have now some form of external out-of-court redress mechanism in place. As can be seen in Figure 4, the most prominently used mechanisms is a financial ombudsman, followed by general mediation and arbitration services.

Figure 4. Countries with External Dispute Resolutions Systems in Place



Source: Global Survey on Consumer Protection and Financial Literacy (2014)

BCP, INCOOP and SEDECO do not receive statistics on complaints from financial service providers, and would also lack the capacity to process this information. BCP's consumer protection team only has one staff member each for the different functions, while there is no dedicated unit in place in INCOOP. SEDECO does not have any staff specialized in financial sector issues to handle incoming issues, and at the moment no formal requests from SEDECO to BCP have been made.

Processes for the correction of errors in credit reports can in practice be cumbersome. Consumers in general can access their own reports from the BCP credit registry for free but they have to go to the BCP headquarters in Asunción, which can be difficult and costly. While consumers can nominate a proxy to do this on their behalf, this process excludes a significant proportion of the population. Furthermore, correction of errors is handled directly by the data provider, which means that a consumer still has to request the credit provider to correct the problem, as BCP does not conduct any modifications to the credit registry database. This can be time consuming, and can lead to a significant delay in correction of the mistake. Being only recently introduced, the process for correcting errors in the Credit Registry of S&L cooperatives remains to be tested.

The alternative dispute resolution mechanisms currently in place lack in capacity, structure, and are not widely advertised to consumers. As of now, other than the ability to go to a court, customers can turn to SEDECO, the Office of Consumer Protection of BCP, or INCOOP. Internal structures for complaints handling are in place for BCP and SEDECO, but both lack staff resources to be able to handle a larger volume of complaints. In INCOOP, no internal unit for complaints handling is in place, and complaints are distributed amongst units and handled in an unsystematic way. The financial consumer has no clear and accessible information of where, when and how he/she should fill a claim outside of the financial service provider. None of these channels are widely publicized to customers, as also indicated by the low number of complaints they have received thus far.

An independent out of court mechanism such as an ombudsman is currently not in place. The financial regulators would face a potential conflict of interest in handling complaints that are not related to a violation of the legal and regulatory framework, but instead pertain to individual business practices, prices and renegotiation of contract terms. These complaints, which cannot cost-efficiently be settled in court if involving lower values and thus frequently do not get resolved, can be efficiently settled through an ombudsman scheme, as has been demonstrated in a number of countries.³¹ This can greatly help improve client satisfaction and the image of the financial sector overall. ADEFI at one point had such an ombudsman scheme internally available, but actual usage had been limited in the absence of broader dissemination and the scheme eventually became dormant.

Key Recommendations

An adequate system for complaints handling and resolution needs to be put in place for both regulated and non-regulated financial service providers.

- **Financial service providers should be required to have a formal system and procedure for complaints and claims handling in place.** This should include (i) identification of internal processes and persons in charge, as well as (ii) regular compilation of reports and statistics for management as well as sending to the relevant supervisor. To cover both regulated and non-regulated service providers, SEDECO and the dedicated financial sector supervisors should ideally put these regulations in place.

³¹ In Germany, for example, the association of private banks has launched its own ombudsman scheme, and has recruited independent retired judges for this task. Up to a certain amount, the suggested solution is binding for the respective private bank, but the client retains his right to pursue higher level dispute resolution if not satisfied with the ruling. A similar but public scheme was introduced successfully in Armenia.

- **SEDECO and supervisory agencies should establish internal systems/procedures for receiving and resolving complaints.** This should include processes and methodologies for analyzing complaints information, establishing formal processes for information sharing and supervision with on- and off-site supervision in case of noted problems, and a system for making statistics available to the public.
- **The data correction process for BCP's credit registry and the private credit bureau should be made more straightforward for consumers.** Consideration should be given to allow borrowers to access and dispute information on their credit report more easily, including through telephone. Once experience with the first data correction processes has been made, INCOOP should assess the process for effectiveness and efficiency.
- **Consideration should also be given to establish an alternative dispute resolution mechanism, such as a Financial Ombudsman, which can be used for low value disputes.** To be effective, financial ombudsman should be independent and impartial, and possess the legal and technical expertise to resolve financial disputes authoritatively. Information on the scheme and on an ongoing basis disputes resolved needs to be made publicly available, and presenting a complaint easily accessible for the consumer. A number of institutional options exist worldwide for the Ombudsman scheme:
 - Independent statutory body, funded by its members and / or receiving allocations from the central government. Such a scheme, which covers a broad range of financial service providers, is for example used in Armenia, with the decisions being binding for financial institutions up to USD 25 000. The ombudsman scheme is financed by the sector, and covers banks, credit institutions, insurance companies and other financial service providers.
 - Industry-based Financial Ombudsman, which is financed by individual financial sectors. This approach has for example been taken in Germany, where the German Banking Association launched an Ombudsman scheme for clients of private commercial banks in 1993, and hired a high-profile and independent lawyer to carry out this task. Up to a certain amount under dispute (currently EUR 5000), the decisions are binding for the financial institution, while the client can opt to seek additional recourse if he does not agree. In its 20 years of existence, it has processed 70 000 disputes. Similar schemes exist for financial cooperatives, insurances etc.
 - Ombudsman scheme within the supervisory agency. This approach is currently taken in 32 countries. The cost in this case is borne by the government or by the financial regulator. The existing dispute facility inside the BCP is already a first step into this direction, but lacks independence, and clear rules for fulfilling this role of a formal ombudsman.

C. CONSUMER EMPOWERMENT AND FINANCIAL LITERACY

Overview and Key Findings

More and more countries worldwide are putting mechanisms in place to increase the level of financial literacy of the population, and empower financial customers through enhanced access and transparency of information. There is increasing awareness that reforms to strengthen the supply side of the financial system (as discussed under section B) are not sufficient to effectively protect the consumer. The latter also needs to be aware of the information at his disposition, and have the financial capabilities to understand the presented information, as well as know his/her rights and obligations. Both the G20 High Level Principles of Financial Consumer Protection and the World Bank Good Practices

cover financial education, recommending that financial education and awareness should be promoted by all relevant stakeholders, and appropriate mechanisms be developed involving a broad range of stakeholders. According to the Global Survey on Consumer Protection and Financial Literacy, 49 out of 114 surveyed countries already have or are currently developing financial literacy strategies, while regulators in 60 countries are directly involved in developing training material of provide training directly.

In Paraguay, information on the population's level of financial capability / literacy is limited and not regularly collected to establish baselines or measure changes over time. Surveys conducted by the Department of Statistics, Surveys and Censuses (DGEEC) and other public stakeholders do not collect information on the population's level of financial literacy and use of financial services. A few donor-funded demand side surveys have recently been carried out as input to the development of the National Financial Inclusion Strategy (ENIF). This includes the National Financial Inclusion Survey (NFIS), which was carried out by the World Bank to measure the adult's actual usage of financial services, and also includes a small module to gauge underlying financial behaviors of adults in Paraguay. It updates and expands the 2011 Global Findex data for Paraguay. While the survey helps understand some of the existing gaps in financial capabilities (see Section A for identified issues), it is not sufficiently detailed to enable the understanding of the underlying causes and adequately help prioritize and target financial education measures. It is also not conducted regularly. More in-depth focus groups will have to be carried out to understand the cultural, behavioral, educational as well as perceived supply side factors that lead to the observed gaps in usage.

Available supply-side information is fragmented and does not allow getting an overview of the providers of financial services, their outreach and uptake of products by clients. There is no entity formally in charge of providing consolidated and consistent supply-side information across the various types of financial intermediaries and their products. The BCP regularly publishes information on entities under its supervision (banks, finance and insurance companies), but there a gaps in the data such as number of accounts and clients, and size distribution of loans and deposits. INCOOP has not published any new data on financial cooperatives since 2011, which makes it difficult to understand the apparently important role financial cooperatives play for financial inclusion and assess trends. The limited and fragmented availability of data is reflected in the annual compilation of statistics (*Anuario Estadístico*) done by the DGEEC. The compilation includes balance sheet information from the banking system, as well as some general indicators for insurance companies, but no information on finance companies, financial cooperatives or other financial service providers is included. An initial effort to overcome some of the fragmentation was recently done by BCP. It included a section on financial inclusion and a one-page summary on financial services provided by cooperatives in its financial stability report.

Stakeholders from both the public and private spheres have stepped up efforts to provide financial education programs to clients and students. The BCP signed a number of memoranda of understanding with public sector agencies to establish bilateral working groups and design joint financial education programs. This has led, amongst other programs, to the development of a dedicated high school course, which is now incorporated into the high school curriculum³² and received a prize nomination from Child and Youth Finance International. The BCP also maintains a webpage with links to basic financial education materials, and provides capacity building to teachers and professors,

³² The course explains students the core pillars and functions of a financial system and the role of individual entities such as the Central Bank, and also provides general financial education in the area of budgeting, financial products and their usage, as well as financial security.

supervisors, and individuals on a broad range of topics. Donors, NGOs and individual financial institutions provide capacity building in financial matters to producers, clients, and beneficiaries of social programs, but these programs have a limited outreach, and their content is not well coordinated (see Box 6). The cooperative sector, which has internal funds for education, does not provide financial education on a broader scale to their members, neither on the individual cooperative nor on the second tier level.

Box 6. Examples of Ongoing Financial Education Programs in Paraguay

A number of banks and finance companies have independently developed brochures, training materials and games to provide during financial education workshops and courses to students, clients and interested enterprises. Some of the material is also available on the web, including for example guides to help clients understand the information on financial statements or the calculation of interest rates.

One of the NGOs provides financial education to children to help them establish a sound savings culture, and includes financial education and management in its vocational training programs. Donors, public banks and NGOs are also actively supporting member of cooperatives and producers to help improve their financial management skills and understand financial concepts.

Finally, over 20,000 beneficiaries of a conditional cash transfer program will soon receive government transfers directly into a basic account at a public bank, together with innovative capacity building from a leading international NGO to foster savings and help beneficiaries understand financial products and services. This is consistent with earlier initiatives in which two private banks provided capacity building to beneficiaries of the government's conditional finance program Tekopora to help them understand how to withdraw money with payment cards in ATM cards, and improve their understanding of financial products.

Overall, the implemented financial education initiatives have remained fragmented, and are of limited visibility and scale. According to the NFIS (2014), just one in ten adults report that they or someone in their household have received lessons on personal finances or money management. Schools appear to be most common source of financial education, followed by parents or family members, while very few reported having received financial education from a formal financial institution. Available material is generally not widely distributed and publicly available in branches, and sector associations have not yet played an active role. No standardized material is yet developed in support of high school teachers.

None of the public institutions has a clear legal mandate and dedicated funding for providing financial education, or for coordinating the various stakeholders. Chapter XII of the Consumer Protection Law put the Department of Consumer Protection and participating municipalities in charge of rolling out general capacity building programs and materials on general consumer rights. In the absence of an adequate budget, this was however not implemented. The new Secretariat for Consumer Protection SEDECO will have a dedicated fund for general consumer education, but currently lacks capacity and technical expertise in financial services and may not be able to dedicate substantial resources to financial education. The Organic Law of BCP only provides for regular publication of information on the financial system under its supervision. In the aftermath of the worldwide financial crisis, the BCP Board formally incorporated into its work plan measures to inform the population on financial markets and the economy, and recently also created an internal unit to foster financial education and promote financial inclusions. This is however not yet a formal mandate. Finally, INCOOP only has a broad mandate to foster the cooperative movement in the country, and does not provide measures in the area of transparency of services and financial education.

The creation of a working group on financial education is planned under the umbrella of the newly establish Financial Inclusion Committee, but will likely not have a dedicated budget. The working group is expected to develop priority interventions (based on the overall financial inclusion action plan) and coordinate programs of public and likely also private stakeholders in the area of financial education. There is no dedicated budget foreseen to implement the programs of the working group. Instead, the expectation is that the participating stakeholders will finance identified measures from their regular budget. This is likely to create bottlenecks, unless the planned measures are firmly integrated in each entity's budget for the respective fiscal year.

Key Recommendations

Moving forward, coordination needs to improve to enhance outreach and efficiency of financial education initiatives, and to foster sound financial habits. The following provides a number of recommendations to achieve this:

- **Surveys to systematically gather demand side information on financial capabilities and usage of financial services should be developed and conducted on a regular basis, and existing information further explored:**
 - To be cost-effective, a module to measure usage and understanding of financial services could for example be included in regular demand-side surveys such as the national household survey (*Encuesta de Hogares*). Adequate budget would have to be made available for this. An alternative would be to launch periodic financial capability surveys, as done for example in Kenya through the Financial Access Survey (see Annex 3).
 - Focus groups or other qualitative research should be conducted to better understand the underlying cultural and behavioral factors leading to the low level of usage of financial products reported in the NFIS (2014). This could also help with the design of survey questions to be included in regular national surveys.
- **Holistic supply-side statistics should be prepared and published on a regular basis.** This would not only give the consumer's an overview of available service providers and products, thus empowering him/her to make appropriate and informed choices, but – outside of the diagnostic's remit – enable regulators, financial service providers and consumer representatives to monitor market trends. The statistics ought to consistently reflect all regulated financial intermediaries, and include supply side information on actual usage of different financial services.
 - An entity needs to be identified and given a clear institutional mandate and adequate funding for this. BCP or DGEEC both appear natural candidates for this.
 - A standardized spreadsheet with data and definitions will have to be developed to allow comparability and compilation of data from the different sources, and each financial sector supervisor mandated to report the respective data in the timeframe and quality needed to the entity in charge for compiling the data.
- **The Central Bank and the financial sector supervisors should be given an explicit mandate in the area of financial education.** The mandate ought to cover (i) fostering transparency on available financial products and service providers, and (ii) enhancing the financial capabilities of the population through direct programs and measures, and indirectly through market players and associations. Furthermore, a stronger effort needs to be made to accompany regulatory changes in the area of consumer protection with communication campaigns. For example, regulatory changes in the area of credit cards, standardization of terms, introduction of fact sheets or the availability of the complaints

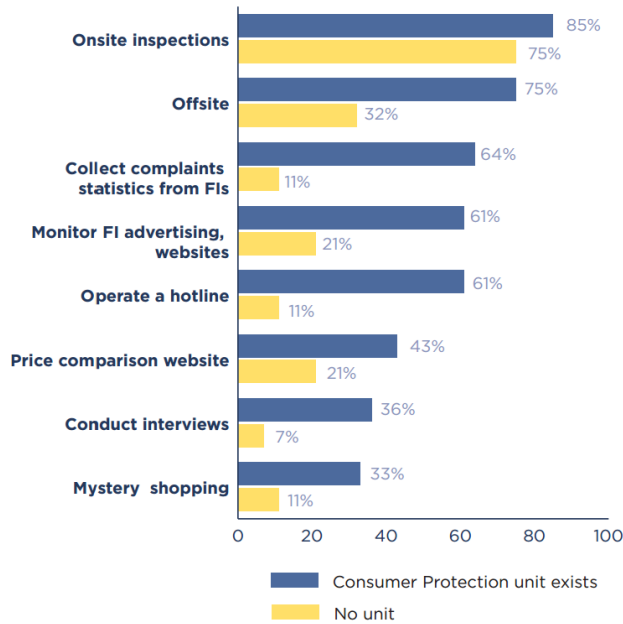
handling facility within the BCP should be broadly disseminated to create awareness amongst consumers and improve their understanding of the presented information.

- **The establishment of a working group on Financial Education under the umbrella of the Financial Inclusion Committee follows international best practice and is highly encouraged.** The mandate of the working group should be to develop a prioritized and well-sequenced financial education strategy, and monitor its implementation:
 - To create broad ownership, the working group should ideally include representatives from both public and private stakeholders. In the public sphere, in addition to the Financial Inclusion Committee members, the Deposit Insurance Fund, the BCP credit registry, the Secretariat of Social Assistance, as well as the Ministry of Education should be included as needed. Participants from the private sector should include the sector associations, and selectively also donors, NGOs and financial entities that actively conduct financial education programs.
 - The plan should be based on identified underlying constraints, and define remedial actions and entry points, sequencing, communication media to be used, responsibilities of public and private stakeholders, and funding sources for each measure. A monitoring and evaluation framework should be included to assess the effectiveness of individual measures, and progress over time.
 - Prior to launching of activities to improve the financial literacy of clients, the programs / modules should be tested in focus groups for effectiveness.
 - Consideration should be given to provide the financial education working group with a dedicated budget or to pool available resources.

- **The government should continue to assess possible entry points for financial education programs.** Entry points could for example include the delivery of conditional cash transfers, pension payments for former civil servants, as well as other government payments, as well as moments when a consumer is in the process of making a financial decision, thus is receptive for this information.

ANNEX 1. TOOLS USED WORLDWIDE FOR MARKET CONDUCT SUPERVISION

Figure 5. Compliance Verification Tools by Type of Unit (Stand-Alone vs. Merged Supervision)



As can be seen in Figure 5, entities with a dedicated consumer protection unit are much more likely to use a broad range of monitoring tool for verifying compliance with consumer protection provisions. These tools are generally considered cost-efficient approaches to monitor a larger number of players, and identify abusive or misleading market practices in an ongoing way. Below is an example from Portugal how these tools are being used in the supervision process.

Figure 6. Supervisory Inspection Activities of the BCSD in Portugal

		OFF-SITE MONITORING	MYSTERY SHOPPING	ON-SITE EXAMINATIONS
SELECTION AND DECISION-MAKING STAGES	PRE-CONTRACTUAL	<ul style="list-style-type: none"> Internet sites Price lists Standardized Information Sheet (SIS) 	<ul style="list-style-type: none"> Price lists Std. information sheets Business practices 	<ul style="list-style-type: none"> Std. information sheets Business practices
	CONTRACTUAL	<ul style="list-style-type: none"> Draft contracts Signed contracts 	<ul style="list-style-type: none"> Draft contracts 	<ul style="list-style-type: none"> Draft contracts Signed contracts
	DURING THE CONTRACT	Information provided during the life of the contract	N.A.	<ul style="list-style-type: none"> Information provided during the life of the contract IT systems and procedures
INFORMATION DISCLOSURE		Transparent and accurate information provided to consumers by institutions when promoting and selling their products and services allowing for an adequate assessment of the respective costs, returns and risks		

Source: Global Survey on Consumer Protection and Financial Literacy (2014), and World Bank Technical Note (2014), “Establishing a Financial Consumer Protection Supervision Department”.

ANNEX 2. EXAMPLES OF FACT SHEETS USED IN MEXICO AND PORTUGAL

Mexico

In Mexico, the Law on Transparency of financial services (Art. 11) establishes the basic content requirements that financial institutions need to adhere to in their contracts, including the use of clear language, provision of correct information and minimum standards on conditions and costs of products. As regulatory agency the law determines the national Financial Consumer Protection Agency CONDUSEF, which has the power to further specify the requirements and mandate the use of a standardized fact sheet for individual products. The latter included a standardized key fact sheet for basic account, deposit and credit contracts in the unified dispositions for financial institutions.

Figure 7. Mandatory Fact Sheet to be Included as Cover Page of Credit Contracts

(1) Nombre comercial del Producto:			
Tipo de Crédito:			
CAT (Costo Anual Total) (2)	TASA DE INTERES ANUAL (3)	MONTO O LINEA DE CREDITO (4)	MONTO TOTAL A PAGAR O MINIMO A PAGAR (5)
Sin IVA Para fines informativos y de comparación			
PLAZO DEL CREDITO: (6)	(7) Fecha límite de pago: Fecha de corte:		
COMISIONES RELEVANTES (8)			
<ul style="list-style-type: none"> • Apertura: • Anualidad: • Prepago: • Pago tardío (mora): 		<ul style="list-style-type: none"> • Reposición de tarjeta: • Reclamación improcedente: • Cobranza: Para otras comisiones consulte	
ADVERTENCIAS (9)			
SEGUROS (10)			
Seguro: _____ (opcional u obligatorio)	Aseguradora:	Cláusula:	
ESTADO DE CUENTA(11)			
Enviar a: domicilio __ Consulta: vía internet _____ Envío por correo electrónico			
Aclaraciones y reclamaciones: (12)			
Unidad Especializada de Atención a Usuarios:			
Domicilio			
Teléfono:		Correo electrónico:	
Página de Internet:			
Registro de Contratos de Adhesión Núm:(13)			
Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros (CONDUSEF):			
Teléfono: 01 800 999 8080 y 53400999. Página de Internet. www.condusef.gob.mx			

Source: http://www.condusef.gob.mx/PDF-s/marco_juridico/disposicion_entidades_financieras.pdf

Portugal

Portugal requires credit institutions to provide a detailed standardized information sheets for mortgage loans and other credits secured by a mortgage (see Notice 2/2010 and its recent update 16/2012). While overall the requirements are extensive and take the form of a full contract, the client is to receive standardized information on (i) the amount, terms and general conditions of the credit, including the promotional material on which the credit is based, (ii) information on the cost of the credit, including nominal interest rate, annual percentage rate (based on total costs), as well as a separate sections detailing the up-front commissions and commissions during the life-time of the contract, (iii) internal contact information for dispute resolution, and (iv) a detailed payment plan.

As can be seen in Figure 8, the key information sheet also includes a section on life insurance contracts used for the credit. This includes information on the clients right to freely choose or use an already existing life insurance, as well as information on the premium to be paid and scope of coverage.

Figure 8. Excerpt on Provided Life Insurance from the Key Information Sheet Used for Mortgage Loans in Portugal

7.1. Seguro [inserir tipo de seguro]	
7.1.1. Identificação do segurador	[Inserir]
7.1.2. Identificação e designação comercial do produto	[Inserir]
7.1.3. Coberturas [mínimas exigidas]	[Inserir]
7.1.4. Outros requisitos mínimos exigidos	[Inserir]
7.1.5. Forma de atualização do contrato (do capital seguro)	[Inserir]
7.1.6. Periodicidade de pagamento do prémio	[Inserir]
7.1.7. Valor global do prémio de seguro (base anual)	[Total dos prémios de seguro a pagar anualmente pelo cliente] <i>Ver também os planos financeiros constantes da Parte II.</i>
7.1.8. Outros custos de contratação	[Inserir]
8. Reembolso antecipado	
8.1. Comissão aplicável pelo reembolso antecipado, parcial ou total, do empréstimo	[Indicar a comissão de reembolso aplicável ao empréstimo]
8.2. Isenções à cobrança da comissão	[Indicar as isenções previstas na legislação aplicável] [Indicar outras isenções, se existentes]
8.3. Condições para o exercício do direito ao reembolso parcial	[Descrição das condições estabelecidas na legislação aplicável para o exercício do direito ao reembolso parcial]
8.4. Condições para o exercício do direito ao reembolso total	[Descrição das condições estabelecidas na legislação aplicável para o exercício do direito ao reembolso total]

Source: <http://www.bportugal.pt/sibap/application/app1/docs1/manual/anexos/45-2012m1.pdf>

ANNEX 3. FINANCIAL CAPABILITY SURVEYS - THE EXAMPLE OF KENYA

In 2006, the first Financial Access survey was rolled out in Kenya to provide baseline information on financial access of the population, track progress of government programs to foster financial inclusion and inform policy makers about main barriers to financial access. The data also facilitated the identification of needed products to reach otherwise unbanked segments of the population. The second survey was carried out in 2009, and included a module to measure consumer financial capabilities (see Figure 9). The third survey in 2013 included a module to gauge actual financial knowledge and information on past behaviour.

The results of the survey helped identify three broad categories of consumers: (i) the struggling excluded, (ii) the disciplined planners, and (iii) the engaged elite. Different Strategies were identified for the different categories of consumers:

1. For the category “struggling excluded”, a focus was placed on community-based organizations and radio programs to familiarize this client base with formal financial products and services, and assist them with developing strategies for consumption smoothing and using financial products to mitigate potential financial shocks / emergencies.
2. For the category of “disciplined planners”, mass media and community workshops were used as tools to convey information on financial regulation mechanisms, and familiarize them with long-term planning and investments. Similar to the other client category, information on products to mitigate the potential impact of financial shocks / emergencies was provided.
3. Finally, for the “engaged elite”, the focus in financial education was on credit management, and long-term financial planning. As outreach tools, the media, as well as employer based financial education workshops and one on one advice was identified.

The periodic surveys, which covered both information on usage of financial services as well as information on financial capabilities, allowed tracking of impact of provided measures over time and set baseline and evaluation framework for the government’s and donor’s financial inclusion strategy. Based on the 2013 survey results, the proportion of the adult population using different forms of formal financial services increased to 66.7% compared to 41.3% in 2009. The proportion of the adult population totally excluded from financial services declined during the same period from 31.4 % to 25.4%.

Figure 9. Overview of Questions Used for the FinAccess Survey in 2009 and 2011

FinAccess 2009	
Section	Purpose
A: Control over finances	<ul style="list-style-type: none"> ▪ Asks questions about saving and spending behaviors. ▪ Includes whether the word "budgeting" is part of one's vocabulary and whether the need for disciplined spending is part of one's goals. It is also a comfort level that one has in knowing how well they are managing their money, or whether they feel out of control. ▪ Reasons for borrowing and saving.
B: Short- and long-term financial planning	<ul style="list-style-type: none"> ▪ Identifies both attitudes and intentions about saving and how well those intentions are carried through into action. ▪ Indicators to examine actual financial behaviors indicating planning to cover financial needs across a range of time horizons: income and consumption smoothing in the short term, preparing to respond to emergencies/shocks and investment in the more distant future.
C: Appropriate use of financial services	<ul style="list-style-type: none"> ▪ The ability to assess and judge different financial product options. ▪ This includes whether respondents recognize the names of different financial services providers and whether they are using these options inadvisably.
D: Ability to Manage Debt	<ul style="list-style-type: none"> ▪ Enquires into the percentage of monthly income spent on debt service, the purpose of borrowing, and the number of credit sources.
FinAccess 2011: Additional questions from the analysis of FinAccess 2009 data and fieldwork conducted in 2010	
Knowledge	<ul style="list-style-type: none"> ▪ Familiarity with practices of service providers (for example, paying dividends to members, providing loans). ▪ Understanding key concepts about engaging with the formal financial sector. ▪ Knowledge about how to resolve a problem with common financial services.
Attitude	<ul style="list-style-type: none"> ▪ Planning day-to-day expenditures. ▪ Discipline to stick to a budget. ▪ Borrowing to buy things but don't need to survive. ▪ Planning for common emergencies. ▪ Able to cope with income shocks. ▪ Planning adequately for old age. ▪ Saving in advance for anticipated expenditures. ▪ Demanding clarity from providers (for example, asking questions before taking out loans). ▪ %age of monthly expenditures spent on debt service. ▪ Number of formal and informal credit sources.

Source: World Bank (2014), *Making Sense of Financial Capability Surveys around the World*, and *FinAccess National Survey 2013*

