

Report
on the Status of Financial Consumer Protection in 2018

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This publication contains results of the analysis of the state of and prospects for the consumer protection development in the financial sector of the Russian Federation for 2018, including the results of the study of regulation of financial consumer protection, analysis of trends in the financial market development and risks for financial consumer protection, review of consumer protection in the field of financial services, results of the statistical observation and practice of preventing violations of legal requirements, review of the state of informing the population in the field of financial consumer protection and improving the financial literacy, as well as the activities of major public consumer associations.

The Rospotrebnadzor’s Public Report on the Status of Financial Consumer Protection in 2018 is the seventh such publication in the history of the Russian Federation intended for a wide range of users and published on the official Rospotrebnadzor’s website in Russian and English.

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Introduction

Accomplishment of the national development goals and strategic development objectives of the Russian Federation, including improvement of the citizens' living standards and quality of life, goes hand in hand with ensuring an effective and reliable performance of the financial market, accessibility and quality of financial services, as well as a high level of public financial education and financial literacy.

The recent trends in the evolution of financial market involving digitalisation of financial services and advance of innovative financial technology, loss of monopoly positions in the area of financial services by the banks, and the rise of non-financial institutions call for a thorough analysis of potential risks and upgrading mechanisms of protecting consumers of financial services (hereinafter referred to as financial consumer protection).

The Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing (Rospotrebnadzor) is an instrumental in shaping and implementing the state consumer protection policy, in particular regarding financial services consumers. Alongside with Rospotrebnadzor, its territorial bodies, and subordinate institutions, the list of authorities and entities heavily involved in financial consumer protection and in the relevant outreach and awareness-raising work includes the Bank of Russia, the Ministry of Finance of the Russian Federation, the Ministry of Education of the Russian Federation, executive authorities of constituent entities of the Russian Federation, as well as local government authorities, and non-governmental consumer associations.

The annual Public Report "On the Status of Financial Consumer Protection" is an important component of the information system intended for consumers of financial services. The Report is aimed at providing public authorities, local government authorities, non-governmental organisations, and individual consumers of financial services with objective and organised analytical information on the status and areas of the state policy and international cooperation on matters of financial consumer protection, outcomes of federal state supervision in this area, development of the retail financial market, and assessment of the risks for financial services consumers. The information included in the Report may be used by regulatory authorities and institutions to make informed managerial decisions, raise the financial literacy of the population, and improve interaction between all parties of the financial consumer protection system.

The Public Report "On the Status of Financial Consumer Protection" is prepared by Rospotrebnadzor with the assistance of Financial and Accounting Consultants LLC as part of the Joint Project of the Russian Federation and the International Bank for Reconstruction and Development "Financial Literacy and Financial Education in the Russian Federation". The provisions of the Report, its conclusions and recommendations are supposed to provide the basis for identifying the priority domains and areas of financial consumer protection activities as part of the state consumer protection policy. In this context, the Report is developed as a supplement to the annual State Report "On Protection of Consumer Rights in the Russian Federation" specifying the legislative and practical aspects of consumer protection in the financial sector.

The sources of information for the Report are Rospotrebnadzor's statistical and in-house data, public information posted on public authorities' and non-governmental organisations' official websites, as well as in ConsultantPlus legal information system, and publications in the media engaged in the research of financial market and financial services.

Similar to six previous reports on the status of financial consumer protection, the content of the Report "On the Status of Financial Consumer Protection in 2018" is limited to relations arising from contracts for the provision of certain types of financial services that are subject to the consumer protection legislation. The legislation referred to above does not cover the services in the markets of FX operations, securities, operations based on performance of unit investment funds and non-state pension funds. The Report contains a performance analysis of financial organisations limited to credit and microfinance institutions, insurance companies, private consumer credit co-operatives, and pawnshops.

The Report "On the Status of Financial Consumer Protection in 2018" gives special attention to the activities aimed at implementing the instructions of the President of the Russian Federation issued after the meeting of the Presidium of the State Council on the development of the national consumer rights protection system¹, as well as activities aimed at implementing the Strategy of State Consumer Rights Protection Policy of the Russian Federation for the Period of up to 2030² and Strategy for Raising Financial Literacy in the Russian Federation for 2017-2023³.

Owing to the statutory establishment of the Financial Ombudsman institution as a new mechanism to protect the rights and legitimate interests of financial services consumers back in 2018, the Report clarifies the basics of the relevant federal law defining the legal status of the Financial Ombudsman, out-of-court resolution of disputes between the consumers of financial services and financial institutions by the Financial Ombudsman, and the legal framework for financial institutions' interaction with the Financial Ombudsman.

The Report contains a survey of trends in the financial market development and an assessment of risks for consumers of financial services and describes the deliverables of Rospotrebnadzor's involvement in international cooperation in respect of financial consumer protection. In addition, the Report presents a review of the supervision and oversight effort by Rospotrebnadzor and legal precedents in respect of financial consumer protection.

A separate section of the Report traditionally reviews the implementation of Rospotrebnadzor's outreach and awareness-raising function and evaluates the regional consumer counselling centres' performance. The Report gives special attention to protection of socially vulnerable consumer categories comprising individuals with health problems and physical

¹ List of Instructions of the President of the Russian Federation No. Pr-1004GS dated 25 May 2017.

² Action Plan to Implement the Strategy of State Consumer Rights Protection Policy of the Russian Federation for the Period of up to 2030 approved by Executive Order of the Government of the Russian Federation No. 481-r dated 23 March 2018.

³ Action Plan ("Roadmap") to Implement the Strategy for Raising Financial Literacy in the Russian Federation for 2017-2023 approved by the Bank of Russia and Ministry of Finance of the Russian Federation on 03 December 2018.

dysfunctions, including the disabled and senior citizens and children.

The Report is intended for the general public, including individual consumers of financial services, executives and specialists of central and local government authorities, financial market professionals, consumer non-governmental organisations, as well as research and education organisations. The Report "On the Status of Financial Consumer Protection", including the English version, is published annually on the Rospotrebnadzor's official website.

1. Improvement of the Legal Framework for Financial Consumer Protection

1.1. Improvement of the Legislation with regard to Financial Consumer Protection

2018 proved to be a significant milestone in the development and improvement of the Russian Federation legislation governing the relations in respect of consumer protection.

Pursuant to the List of Instructions of the President of the Russian Federation No. Pr-1004GS dated 25 May 2017, following the session of the Presidium of the State Council on the development of the national consumer rights protection system held on 18 April 2017 (hereinafter referred to as the List of Instructions) and in furtherance of the Strategy of State Consumer Rights Protection Policy of the Russian Federation for the Period of up to 2030 approved by Executive Order of the Government of the Russian Federation No. 1837-r dated 28 August 2017, crucial federal laws were adopted. In addition, a lot of attention was given to law-making and program activities intended to improve consumer protection.

Implementation of the List of Instructions of the President of the Russian Federation

Pursuant to Subitem “b”, Item 1 of the List of Instructions, Federal Law No. 81-FZ dated 18 April 2018 “On Amendments to Certain Legal Acts of the Russian Federation” was developed by Rospotrebnadzor and duly adopted providing for the possibility of and procedures for control purchases during federal state supervision over consumer protection and federal state sanitary and epidemiological supervision. Therefore, Rospotrebnadzor may currently obtain evidence of the instances when a seller markets the products that fail to comply with legally binding requirements by means of control purchases.

Pursuant to Subitem “b”, Item 1 of the List of Instructions, the Ministry of Labour of the Russian Federation drafted the Federal Law “On Amendments to Certain Legal Acts of the Russian Federation Providing for Special Measures to Protect the Rights of Socially Vulnerable Categories of Consumers such as Disabled, Elderly People and Children”.

This draft law provides for expanding the application of the Law “On Consumer Rights Protection”⁴ to the relations involving the provision of individuals with goods (works, services) as part of the government social assistance. In addition, it is suggested that the seller (provider) notified by the consumer of the relevant needs and constraints be placed under an additional obligation to deliver useable goods (works, services) to the consumer subject to the relevant needs and constraints, and communicate the information to the persons mentioned above by means of technologies that take into account such persons’ special needs relating to disabilities, health, and age in a timely manner and at no extra charge. Concurrently, the draft law provides for amending Federal Law No. 395-1 dated 2 December 1990 “On Banks and Banking Activities” and Federal Law No. 132-FZ dated 24 November 1996 “On the Fundamental Principles of Tourist Activities in the Russian Federation” in order to set the requirements to provide the disabled persons with access to banking operations and facilities where such operations are carried out, as well as to tourist infrastructure facilities. The draft law secured a favourable statement on regulatory impact assessment and is currently undergoing finalisation⁵.

In the meantime, it should be noted that earlier in 2017, the Ministry of Labour of the Russian Federation also drafted the Federal Law “On Amendments to the Code of the Russian Federation on Administrative Offenses”⁶ to establish administrative liability for the infringement of socially vulnerable consumers’ (disabled and senior citizens’ and children’s) rights.

This draft law provides for increased fines (up to RUB 600,000 payable by legal entities) for the administrative offences in the form of consumer fraud against the category of consumers mentioned above, infringement of their rights to the adequate and reliable information on the offered goods (work, service), on the manufacturer, seller, provider, and their business hours, incorporation of the terms and conditions that infringe upon the consumer rights stipulated by the consumer protection legislation in the contract, alongside with failure to provide the consumers with the benefits and preferences established by the law, and failure to provide a possibility to pay for the goods (works, services) in cash or by means of the national payment instruments under the national payment card system at the consumer’s discretion, where the Federal Law requires that this possibility be provided. In addition, the draft law referred to above amends Article 14.8 of the Code of the Russian Federation on Administrative Offenses⁷ by complementing it with new content establishing liability for denial of access to goods (works, services) to a consumer due to such consumer’s health, disability or age, except as required otherwise by the law.

The rationale for the draft law is based on the increasingly frequent instances when the most vulnerable categories of consumers (disabled people, parents with disabled children, senior citizens) are unreasonably denied access to shopping facilities, public eating places, sports facilities, movie theatres, etc. The draft law was prepared with due regard for the United Nations Guidelines for Consumer Protection; the updated version of the Guidelines (December 2015) gives special attention to the need to protect the rights of socially vulnerable consumers.

The draft law is currently undergoing finalisation. The meeting of the Government of the Russian Federation held on 21 March 2019 heard and approved the report on the draft law presented by A. Yu. Popova, Head of Rospotrebnadzor. In his opening statement, D. A. Medvedev, Chairman of the Government of the Russian Federation, highlighted the significance of the changes to be made⁸.

⁴ Law of the Russian Federation No. 2300-1 dated 7 February 1992 “On Consumer Rights Protection”.

⁵ Federal Portal of Draft Regulations // <https://regulation.gov.ru/p/72573> (hereinafter, the information concerning draft laws is provided as of 26 April 2018).

⁶ Federal Portal of Draft Regulations // <https://regulation.gov.ru/p/72581>.

⁷ Code of the Russian Federation on Administrative Offenses.

⁸ https://rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=11551.

FOR REFERENCE

To improve the service quality for the people with disabilities and other people with limited mobility, both in case of the services provided in person (in financial institutions), and in case of remote provision of financial services, the Bank of Russia published the “Guidelines for Personal and Remote Service of People with Disabilities and Other People with Limited Mobility in Credit Institutions and Non-Credit Financial Institutions” No. 12-MR approved on 26 April 2019. These guidelines provide for a set of measures intended to grant a full and unhindered access to financial institutions’ facilities and services to this category of clients and give a lot of attention to the rules and peculiarities of serving and managing such clients.

In addition, it is recommended that financial institutions take international practice into account when designing their own adaptive solutions to serve people with disabilities and other people with limited mobility.

Pursuant to Subitem “b”, Item 1 of the List of Instructions, Rospotrebnadzor is continuously drafting Federal Law “On Amendments to Articles 16 and 40 of the Law of the Russian Federation “On Consumer Rights Protection” providing for outlawing the instances of compelling the consumer to disclose personal data under the threat of transaction denial when the disclosure of such data is not required by the Russian Federation legislation and is unrelated to the sale of goods (works, services). In addition, pursuant to the principle of protecting a weak party to the agreement in relations governed by the Russian Federation legislation in the area of consumer protection, the draft law provides for empowering Rospotrebnadzor to determine the list of unacceptable and unfair terms that violate the consumer rights⁹.

In the meantime, Rospotrebnadzor drafted Federal Law “On Amendments to the Code of the Russian Federation on Administrative Offenses in the Part of Additional Administrative Sanctions for Compelling the Consumer to Disclose Personal Data” back in 2018 that provides for an administrative fine of RUB 1,000-3,000 imposed on officials and RUB 10,000-20,000 imposed on legal entities for the offence referred to above¹⁰. The draft law has passed the regulatory impact assessment procedure and has been brought before the Government of the Russian Federation.

The innovations proposed by the draft laws mentioned above are intended to significantly restrict the practice of compelled disclosure of personal data by consumers for the purposes unrelated to the conclusion and performance of the agreement.

Pursuant to Subitem “b”, Item 1 of the List of Instructions, Rospotrebnadzor is continuously drafting Federal Law “On Amendments to the Legislation of the Russian Federation Intended to Determine the List of Unacceptable and Unfair Agreement Terms that Violate the Consumer Rights to Further the Principle of Protecting a Weak Party to the Agreement in Relations Governed by the Russian Legislation in the Area of Consumer Rights Protection”¹¹.

Yet another instrument developed to further the abovementioned Subitem of the List of Instructions is a draft law^{12,13} providing for major amendments to the Civil Procedural Code of the Russian Federation and the Arbitration Procedural Code of the Russian Federation intended to implement a new mechanism to protect consumer groups’ rights and legitimate interests – taking legal action to protect the rights and legitimate interests of a group of persons, including consumers.

Thus, to enhance the guarantees of consumer protection, the draft law provides for amending Subclause 7, Clause 4, Article 40 of the Law on consumer rights protection to empower the officials of a state supervision authority in the area of consumer protection to take legal action for protecting the rights of consumers and legitimate interests of individual consumers (consumer group, consumers at large). In the meantime, the draft law provides for adding a new article to the Civil Procedural Code of the Russian Federation to establish the procedure for adjudicating the claims to protect the rights and legitimate interests of a group of persons.

On 13 February 2019, this draft law passed the first reading in the State Duma of the Federal Assembly of the Russian Federation (hereinafter referred to as the SD of the Russian Federation) and is currently being prepared for the second reading.

It should be noted that Article 46 of the Law “On Consumer Rights Protection” enables a state supervision authority, local government authorities, and non-governmental organisations of consumers to take legal action for compelling the manufacturer (provider, seller, authorised entity or authorised individual entrepreneur, importer) to discontinue the abusive practices against the consumers at large. However, this legal action is invariably a non-pecuniary claim. The regulation procedure provided for by the draft law introduces a brand new possibility for a consumer or any other party acting on his/her behalf or on behalf of a consumer group to take legal action to protect the consumer group’s abused rights, including by filing a pecuniary claim, that was not provided for by the Russian Federation legislation in the past. This practice of group (collective) action is quite common internationally.

In 2018, a landmark event took place, i.e. adoption of Federal Law No. 554-FZ dated 27 December 2018 “On Amendments to the Federal Law “On Consumer Loan (Credit)” and Federal Law “On Microfinancing and Microfinance Institutions” (hereinafter referred to as Law No. 554-FZ) developed by the Ministry of Finance of the Russian Federation in furtherance of Subitems “a” and “e”, Item 2 of the List of Instructions.

This law makes major changes in the concept of professional consumer lending activities. From now on, these activities should be construed as extension of consumer loans by a legal entity or individual entrepreneur in cash (except for the loans

⁹ Federal Portal of Draft Regulations // <https://regulation.gov.ru/p/74720>.

¹⁰ Federal Portal of Draft Regulations // <https://regulation.gov.ru/p/74713>.

¹¹ Federal Portal of Draft Regulations // <https://regulation.gov.ru/p/72685>.

¹² Draft Law No. 596417-7 “On Amendments to Certain Legal Acts of the Russian Federation to Govern the Procedure for Adjudicating Claims to Protect the Rights and Legitimate Interests of a Group of Persons”.

¹³ Hereinafter, as it refers to the draft laws brought before the State Duma of the Federal Assembly of the Russian Federation, this Report relies on the data in the Law-Making Support System of the “Law-Making” State Automated System (<https://sozd.duma.gov.ru>).

extended by an employer to an employee, loans extended to individual founders (participants) or affiliates of the business entity extending the loan, loans extended by a broker to a client to purchase or sell securities, and when required otherwise by the federal law).

In addition, the law stipulates that the interest rate under the consumer loan (credit) agreement may not exceed 1% per day. In case the life of the loan is not more than 1 year, maximum total payments thereunder may not exceed 150% of the loan starting from 1 January 2020. Until 30 June 2019, maximum total loan payments were set at 250% of the loan and the maximum interest rate – at 1.5% per day, while for the period from 1 July to 31 December 2019, total payments may not exceed 200 per cent of the loan. This rule is equally applicable to microfinance institutions. In the past, the maximum interest payable on the loans extended by such institutions was limited to 300% of the loan, and the maximum interest payable on the outstanding principal – to 200% of the outstanding loan.

Moreover, Law No. 554-FZ introduces the requirements to unsecured consumer loan agreements worth up to RUB 10,000 and made for a term of up to 15 days and limits the creditor's rights – from now on, the creditor may not assign its claims under the loan except as to professional lenders: debt collection agencies engaged in collecting individuals' overdue debt as their core business; special-purpose financial companies; individuals specified in the borrower's written consent. In the meantime, the Law prohibits any claims to service the loan against the borrower where the claims have been assigned to third parties and the original creditor is not a professional lender.

Therefore, adoption of this Law makes a major contribution to the normalisation of the microfinancing market regulation and consumer protection against the onerous terms of loan agreements that microfinance institutions used to offer in the past.

Pursuant to Subitem "b", Item 2 of the List of Instructions, the Ministry of Finance of the Russian Federation assisted by the Bank of Russia has drafted Federal Law "On Amendments to Article 6.1 of Federal Law "On Consumer Loan (Credit)" and on Amendments to Certain Legal Acts of the Russian Federation" that prohibits execution of any loan agreements with individuals secured with a mortgage by a party that is not qualified as a creditor as defined by the Federal Law "On Consumer Loan (Credit)" or as an integrated development institution in the housing sector or entity authorised thereby and included in the relevant list.

Currently, the draft law is being finalised by the Ministry of Finance of the Russian Federation and competent public authorities¹⁴.

Pursuant to Subitem "c", Item 2 of the List of Instructions, in 2018 the Ministry of Finance of the Russian Federation continuously drafted the Federal Law "On Amendments to the Criminal Code of the Russian Federation and Criminal Procedure Code of the Russian Federation" and "On Amendments to the Code of the Russian Federation on Administrative Offenses" intended to strengthen administrative liability for and criminalize illegal microlending. The finalised draft law was brought before the Government of the Russian Federation on 5 October 2018¹⁵.

Pursuant to Subitem "c", Item 2 of the List of Instructions, the Ministry of Communications of the Russian Federation is continuously drafting the Law "On Amendments to Article 15.1 of the Federal Law "On Information, Information Technologies and Information Protection". The current version of the draft law provides for extending the list of grounds for including the following types of information disseminated in the Internet in the "Unified Register of Domain Names and Uniform Resource Locators Enabling Identification of Websites Containing the Information That Is Not Allowed for Dissemination in the Russian Federation" by the Bank of Russia decisions:

a) Information misleading the clients of credit institutions and non-credit financial institutions as to the ownership of the information disseminated in the Internet due to the similarity of the domain names, form, and content;

b) Information associated with the offer and/or provision of financial services in the Russian Federation set forth in the Federal Law "On Protection of Competition" by the parties not qualified to provide such services under the Russian Federation legislation.

Therefore, should the draft law referred to above be adopted, the website of a mala fide credit or financial institution may be locked by the Bank of Russia decision in order to discontinue such institutions' abusive practices against the consumers.

Implementation of the Strategy of State Consumer Rights Protection Policy of the Russian Federation for the Period of up to 2030

Approval of the Action Plan to Implement the Strategy of State Consumer Rights Protection Policy of the Russian Federation for the Period of up to 2030 (hereinafter referred to as Action Plan to Implement the Strategy) was a landmark event for improving the Russian Federation legislation in the area of consumer protection in 2018¹⁶.

The Action Plan to Implement the Strategy covers the core areas of consumer protection. The activities provided for thereby cover the crucial areas of furthering the Russian Federation legislation in the area of consumer protection, specifically: legislation codification, protection of socially vulnerable consumers, expansion of the rights (powers) in the area of consumer protection exercised by local government authorities, settlement of disputes with consumers, including out-of-court settlement, as well as additional consumer protection measures.

Thus, Section I of the Action Plan to Implement the Strategy provides for the development of the following instruments:

¹⁴ Time Schedule for the Regulatory Legislative Effort of the Ministry of Finance of the Russian Federation for 2019// <https://www.minfin.ru/ru/om/PlanReport/plans/>.

¹⁵ Time Schedule for the Regulatory Legislative Effort of the Ministry of Finance of the Russian Federation for 2019// <https://www.minfin.ru/ru/om/PlanReport/plans/>.

¹⁶ Approved by Executive Order of the Government of the Russian Federation No. 481-r dated 23 March 2018.

Table 1.1. Instruments Supposed to be Developed pursuant to Section I of the Action Plan to Implement the Strategy

Plan Item	Content of the instrument	Scheduled date
1	Developing and approving the codification concept for the Russian Federation legislation in the area of consumer protection based on a review of the national and international legislation and legal precedents in this area	March 2019
2	Developing a regulation providing for special measures to protect socially vulnerable consumers' rights and for administrative liability for their violation	October 2018
3	Developing a regulation providing for amendments to the Russian Federation legislation regarding the rights (powers) of local government authorities in the area of consumer rights protection	June 2018
4	Developing a regulation providing for outlawing the instances of compelling consumers to disclose personal data under the threat of transaction denial when the disclosure of such data is not required by the Russian Federation legislation and is unrelated to the sale of goods (works, services) and for administrative liability for failure to comply with such a ban	April 2019
5	Developing a regulation providing for enhancing the security of electronic payments, including those that involve the bank card details	June 2019
6	Developing a regulation providing for determining the list of unacceptable and unfair agreement terms that violate the consumer rights to further the principle of protecting a weak party to the agreement in relations governed by the Russian Federation legislation in the area of consumer rights protection	April 2019
7	Developing a regulation providing for updating the scope of information about the seller (manufacturer, provider) and the goods (works, services) which must be communicated to the consumer and for posting such information on the seller's, provider's and aggregator's websites (relevant mobile apps)	November 2019
8	Developing a regulation providing for additional measures intended to expand the use of mediation to settle the disputes in the area of consumer rights protection	June 2020
9	Developing a regulation providing for creating the mechanisms to ensure the completeness and reliability of the information about the seller, provider and aggregator posted in the Internet subject to the possibility of using the Unified State Register of Legal Entities (Unified State Register of Individual Entrepreneurs)	October 2019
10	Developing a regulation providing for the creation and operation of an out-of-court dispute settlement online service	June 2019
11	Developing a regulation providing for systematising and updating the provisions of the Russian Federation legal acts as they regard the business entities' liability for violating the consumer rights and enshrining uniform approaches to fixing the sanctions for similar violations of consumer rights under sale of goods agreements and works (services) agreements, and standardising the rules of evidence under disputes in the area of consumer rights protection, as well as the provisions entitling the consumer to repudiate sale of goods agreements or works (services) agreements	October 2020
12	Developing a regulation providing for amendments to the Federal Law "On Consumer Loan (Credit)" intended to specify the rights and obligations of the parties to a consumer loan (credit) agreement	November 2019
13	Developing a regulation providing for updating the rules of selling goods, delivering works and rendering services to consumers, introducing additional measures to protect socially vulnerable consumer categories, and updating the telemarketing rules	September 2018
14	Drafting the guidelines to strengthen the preventive impact of the system of administrative and other measures in eliminating the causes, factors, and drivers of consumer rights violations	June 2019
16	Drafting a new legal act of the Russian Federation in the area of consumer rights protection	November 2023

The duty to perform the Action Plan to Implement the Strategy has been assigned to Rospotrebnadzor and the federal executive authorities involved.

In 2018, special attention was given to the development of the codification concept for the Russian Federation legislation in the area of consumer rights protection (Item 1 of the Action Plan to Implement the Strategy). This task is addressed by Rospotrebnadzor jointly with the Ministry of Justice of the Russian Federation, Ministry of Economic Development of the Russian Federation, and Institute of Legislation and Comparative Law under the Government of the Russian Federation. The concept will be developed with due regard for the best international practices, including the experience of consumer legislation codification in France, Italy, Ireland, and Brazil.

In addition, Item 15, Section I of the Action Plan to Implement the Strategy provides for an extensive public discussion of the codification concept for the Russian Federation legislation in the area of consumer rights protection involving the research and expert communities, non-governmental organisations, and business representatives.

It is noteworthy that the activities provided for by the Action Plan to Implement the Strategy are closely coordinated with the activities in the List of Instructions: to date, the regulations provided for by Items 2, 3, 4, 6 and 13 of the Action Plan to Implement the Strategy have been developed and adopted in furtherance of the List of Instructions, including Federal Law No. 244-FZ dated 29 July 2018 “On Amendments to the Federal Law “On the General Principles of Organisation of Local Government in the Russian Federation”, Draft Federal Law “On Amendments to the Code of the Russian Federation on Administrative Offenses”, and Draft Federal Law “On Amendments to Articles 16 and 40 of Law of the Russian Federation “On Consumer Rights Protection” referred to above.

In the meantime, Federal Law No. 250-FZ dated 29 July 2018 “On Amendments to the Law of the Russian Federation “On Consumer Rights Protection” (hereinafter referred to as Law No. 250-FZ) was adopted in 2018 immediately pursuant to Item 7 of the Action Plan to Implement the Strategy.

Law No. 250-FZ defines the aggregator and its owner and caps their liability to consumers (the Law is reviewed in more detail in Subsection 2.5 hereof).

The law is intended to protect consumer rights and interests when dealing with those consumer market professionals that have essentially created a new niche in the e-commerce segment (online platforms aggregating the information about the goods and services to facilitate the search, selection, comparison, and purchase thereof)¹⁷.

Implementation of the Strategy for Raising Financial Literacy in the Russian Federation for 2017-2023

On 3 December 2018, the Bank of Russia and the Ministry of Finance of the Russian Federation approved the Action Plan (“Roadmap”) to Implement the Strategy for Raising Financial Literacy in the Russian Federation for 2017-2023. In the meantime, Item 2.8. of the Roadmap provides for the development of proposals and justifications for the legislative initiatives intended to improve the legislative support of involvement in the implementation of the activities set forth in the Strategy on the part of constituent entities of the Russian Federation and municipalities by the Ministry of Finance of the Russian Federation and other agencies in Q1-Q2 2019. This activity is supposed to result in amendments to Federal Laws No. 184-FZ dated 6 October 1999 “On the General Principles of Organisation of Legislative (Representative) and Executive Public Authorities in Constituent Entities of the Russian Federation” and No. 131-FZ dated 6 October 2003 “On the General Principles of Organisation of Local Government in the Russian Federation” establishing the powers of constituent entities of the Russian Federation and municipalities as they regard implementation of the activities set forth in the Strategy¹⁸.

Individual Legislative Initiatives

In addition, major legislative initiatives in the field of consumer protection were brought up in 2018 independently from implementing the List of Instructions and the Action Plan to Implement the Strategy.

Thus, for instance, on 18 March 2019, the Federal Assembly passed Federal Law No. 38-FZ “On Amendments to the Law of the Russian Federation “On Consumer Rights Protection” as They Regard Improvements in the State Consumer Rights Protection Policy” drafted in 2018 by I. A. Yarovaya, N. V. Govorin, O. V. Okuneva, etc., deputies of the SD of the Russian Federation. The Law is intended to create additional safeguards to protect the rights of the citizens as consumers of goods, works, and services and ensure the safety of the goods (works, services) to the consumer’s life and health.

The updated version of the Law of the Russian Federation “On Consumer Rights Protection” expands the local government authorities’ rights as they regard consideration of consumer complaints. Whenever consideration of a consumer complaint reveals any substandard goods (works, services) or goods that are unsafe to consumers’ life, health, and property or to the environment, local government authorities shall immediately report this information to the federal executive authorities responsible for monitoring the quality and safety of goods (works, services). Moreover, local government authorities are empowered to develop municipal programs in the area of consumer rights protection.

In turn, the executive authorities of constituent entities of the Russian Federation develop regional programs in the area of consumer protection and assist local government authorities and non-governmental organisations of consumers (their associations, unions) with their consumer protection efforts. For this purpose, Rospotrebnadzor shall approve the guidelines for developing and implementing regional and municipal programs in the area of consumer protection.

In addition, the updated version of the Law of the Russian Federation “On Consumer Rights Protection” stipulates that multifunctional centres for provision of state and municipal services may accept consumer complaints and consult consumers in the area of consumer protection by virtue of agreements on interaction between the multifunctional centres for provision of state and municipal services and federal executive authorities, agencies of state non-budgetary funds, public authorities of constituent entities of the Russian Federation, and local government authorities.

In this context, it should be noted that subject to the instruction in Subitem “d”, Item 1 of the List of Instructions concerning the provision of state and municipal services by multifunctional centres as they regard consulting the population on consumer protection matters, including the matters concerning consumer rights in the financial markets and bankruptcy of individuals, Rospotrebnadzor has been successfully consulting individuals in the multifunctional centres for provision of state and municipal services in multiple regions under a pilot project since 2017.

On 27 June 2018, the Government of the Russian Federation brought a draft law before the SD of the Russian Federation¹⁹ providing for the borrower’s right to get a refund for a portion of the insurance premium in case of early repudiation of an insurance agreement due to a premature fulfilment of all obligations under a consumer loan (credit)

¹⁷ https://rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=11046.

¹⁸ Refer to Section 7.1 of the Report to learn more about the implementation of the Strategy for Raising Financial Literacy in the Russian Federation for 2017-2023.

¹⁹ Draft Law No. 498384-7 “On Amendments to Certain Legal Acts of the Russian Federation providing for the Individual Borrower’s Right to Get a Refund for a Portion of the Insurance Premium in Case of Early Repudiation of an Insurance Agreement Due to a Premature Fulfilment of Obligations under a Consumer Loan (Credit) Agreement”.

agreement (repayment of the entire amount under the consumer loan (credit) and fulfilment of any other obligations under the agreement). To that effect, it has been proposed to amend Article 11 of the Federal Law “On Consumer Loan (Credit)” and Article 91 of the Federal Law “On Mortgage (Real Estate Mortgage)” by establishing that if the insurer prematurely repudiates the insurance agreement securing the borrower’s obligations under a consumer loan (credit) agreement fully performed by the borrower ahead of schedule, the insurance premium paid to the insurer shall be refunded to the insurer less the portion of the insurance premium prorated to the effective validity period of the coverage.

The Draft Law passed the first reading on 19 September 2018 and is currently pending consideration by the SD of the Russian Federation²⁰.

Development of the Legislation in the Area of Consumer Protection in the context of Digital Economy

In 2018, the advance of digital economy had a major impact on the changes in the consumer protection legislation.

Thus, in furtherance of Decree of the President of the Russian Federation No. 204 dated 7 May 2018 “On the National Development Goals and Strategic Development Objectives of the Russian Federation for the Period of up to 2024”, development of the National Program “Digital Economy of the Russian Federation” (hereinafter referred to as the Program) has been launched. On 24 December 2018, the Presidium of the Presidential Council for Strategic Development and National Projects approved its datasheet. The datasheet of the Federal Project “Information Security” forming part of the Program is currently under development²¹. Due to the development of the Program and pursuant to Executive Order of the Government of the Russian Federation No. 195-r dated 12 February 2019, the program “Digital Economy” implemented previously has been terminated.

According to its datasheet, the Program, including the Federal Project “Information Security”, will incorporate multiple activities, in particular, creation of brand-new services for the citizens to ensure the security of their personal data, development of important payment systems and provision of their information security, prevention and detection of offences against the society and business community committed by means of information technologies, enhancement of personal data protection quality, provision of citizens with assistance in acquiring digital literacy and digital economy competencies (including training by means of online programs for raising digital literacy).

On 26 March 2018, the Bank of Russia Board of Directors approved the Strategy for Raising Financial Accessibility in the Russian Federation for 2018-2020 (hereinafter referred to as the Strategy for Raising Financial Accessibility). The list of the primary goals set out in the strategy includes raising the accessibility and quality of financial services for consumers in remote, underpopulated, and rural areas, as well as population categories with limited access to financial services (disabled persons, elderly people, low-income population), and raising the speed and quality of access to financial services for the population with access to the Internet. In the meantime, special attention is given to the need to protect the consumer against the potential risks associated with the use of new financial technologies. Moreover, the Program focuses on the need to remove the regulatory and legal barriers and review the legislative initiatives that could have a major impact on the accessibility of specific financial services, as well as to improve the legal framework. Special attention is given to improvement of the legal and regulatory framework for consumer protection subject to the provisions of the Strategy of State Consumer Rights Protection Policy of the Russian Federation for the Period of up to 2030 approved by Executive Order of the Government of the Russian Federation No. 1837-r dated 28 August 2017.

Establishment of the Position of Financial Ombudsman

Adoption of Federal Law No. 123-FZ dated 4 June 2018 “On Financial Ombudsman for the Rights of Consumers of Financial Services” and establishment of the position of Financial Ombudsman for the Rights of Consumers of Financial Services (Financial Ombudsman) was a landmark development in 2018. This Law determines the legal status of the Financial Ombudsman for the Rights of Consumers of Financial Services (Financial Ombudsman), the procedures for the out-of-court settlement of disputes between the consumers of financial services and financial institutions by the Financial Ombudsman, and the legal framework for the interaction between the financial institutions and the Financial Ombudsman.

The position of Financial Ombudsman is established to consider the pecuniary complaints filed by consumers of financial services against the financial institutions providing them with the relevant financial services. This sort of consumer is construed as an individual being a party to an agreement, or a beneficiary of an agreement, or a person provided with a financial service for the purposes unrelated to business.

The Law stipulates that the Chief Financial Ombudsman and Financial Ombudsmen in the segments of financial services shall serve as the Financial Ombudsman. Pursuant to the Federal Law, the Bank of Russia’s Board of Directors shall determine the segments of financial services covering the complaints to be considered by the Financial Ombudsmen.

The new Federal Law lays down the procedures for the Financial Ombudsman to consider the complaints. It provides for the mechanism of the Financial Ombudsman’s involvement in arranging a settlement prior to making the decision on the complaint, governs the decision-making procedures guiding the Financial Ombudsman, as well as the procedures for bringing the Financial Ombudsman’s decision into force, implementing the same, and appealing against this decision. Furthermore, it provides for the peculiarities of financial consumer protection through the courts²².

²⁰ Draft Law No. 498384-7 “On Amendments to Certain Legal Acts of the Russian Federation providing for the Individual Borrower’s Right to Get a Refund for a Portion of the Insurance Premium in Case of Early Repudiation of an Insurance Agreement Due to a Premature Fulfilment of Obligations under a Consumer Loan (Credit) Agreement”.

²¹ As of 4 April 2019.

²² See Section 1.2. Of the Report to learn more about the Financial Ombudsman’s activities.



The core areas for developing the legislation with regard to financial consumer protection in 2018 included protecting socially vulnerable consumers, expanding local government authorities' powers in respect of consumer protection, establishing the Financial Ombudsman institution, introducing new forms of assistance for consumers and preventing violation of their rights, improving consumer protection in the context of digital economy, and most importantly, preparing the codification of the Russian Federation legislation with regard to consumer protection.

1.2. Institutionalisation of Activities by the Financial Ombudsmen for the Rights of Consumers of Financial Services

In the context of a dynamic financial services market, it is becoming increasingly important both to improve the efficiency of the existing mechanisms intended to protect the rights and legitimate interests of financial consumers, and to introduce the new ones. The Report "On the Status of Financial Consumer Protection in 2017" thoroughly reviewed the preparations for establishment in the Russian Federation of the institution of Financial Ombudsman for the Rights of Financial Consumers as an institution for an out-of-court settlement of disputes between consumers and financial institutions, including the development and discussion of the relevant legislative initiatives.

Large-scale preparatory activities resulted in the adoption of Federal Law No. 123-FZ dated 4 June 2018 "On Financial Ombudsman for the Rights of Consumers of Financial Services" (hereinafter referred to as the Financial Ombudsman Law, Law No. 123-FZ) and establishment of the position of Financial Ombudsman. Law No. 123-FZ determines the legal status of the Financial Ombudsman for the Rights of Consumers of Financial Services, the procedures for an out-of-court settlement of disputes between the consumers of financial services and financial institutions by the Financial Ombudsman, and the legal framework for the interaction between the financial institutions and the Financial Ombudsman.

Position of Financial Ombudsman

As set forth in Law No. 123-FZ, the Chief Financial Ombudsman and Financial Ombudsmen in the segments of financial services shall serve as the Financial Ombudsmen.

The Chief Financial Ombudsman shall serve as the Financial Ombudsman in all segments of financial services, coordinate the activities of the Financial Ombudsmen considering the complaints in individual segments of financial services, supervise and monitor the activities of the Financial Ombudsman Support Service.

The position of Financial Ombudsman may be held by a Russian citizen at least 35 years of age, with university degree in law or economics (in case of the Chief Financial Ombudsman – university degree in law), possessing at least five years of work experience (in aggregate) in financial markets, regulation, supervision, and oversight in financial markets or financial consumer protection or at least ten years of work experience as a judge. The upper age limit for serving as the Financial Ombudsman is seventy years old.

The Financial Ombudsman may not serve as a member of the FC of the Russian Federation²³, a deputy of the SD of the Russian Federation, a deputy of any legislative (representative) public authority of a constituent entity of the Russian Federation, a deputy of any representative authority of a municipality, or engage in any other form of gainful employment, except for teaching, research, and other creative work.

The position of Financial Ombudsman may not be held by a Russian citizen whose appointment as a judge of a general jurisdiction court or arbitrator, umpire, attorney, notary public, criminal investigator, prosecutor, or as any other kind of law-enforcement officer was terminated in the manner provided for by the law due to actions incompatible with such citizen's occupation. In addition, the position of Financial Ombudsman may not be held by a person who has an unexpanded or unspent conviction for the commission of a premeditated crime and by a disqualified person, or by a person who contributed to harming the credit institution's financial standing or violating the Russian Federation legislation and Bank of Russia regulations entered in the relevant database of the Bank of Russia.

The Financial Ombudsman must have an impeccable business reputation and be independent from the parties when considering a specific complaint and must discontinue any activities incompatible with his/her status within thirty days from the date of appointment²⁴.

Article 4 of the Financial Ombudsman Law provides for the following appointment procedure for the position of Financial Ombudsmen:

- The Chief Financial Ombudsman shall be appointed by the Bank of Russia Board of Directors upon recommendation of the Bank of Russia Governor, approved by the President of the Russian Federation, for a five-year term. The same person may not hold the position of Chief Financial Ombudsman for more than three consecutive terms;
- The Financial Ombudsmen in the segments of financial services shall be appointed by the Bank of Russia Board of Directors upon recommendation of the Chief Financial Ombudsman for a five-year term and may not hold the same position for more than three consecutive terms.

By Resolution of the Bank of Russia Board of Directors dated 24 August 2018, Yu. V. Voronin was appointed as the Chief Financial Ombudsman. In addition, by Resolution of the Bank of Russia Board of Directors dated 16 December 2018,

²³ Federation Council of the Federal Assembly of the Russian Federation.

²⁴ Article 3 of the Financial Ombudsman Law.

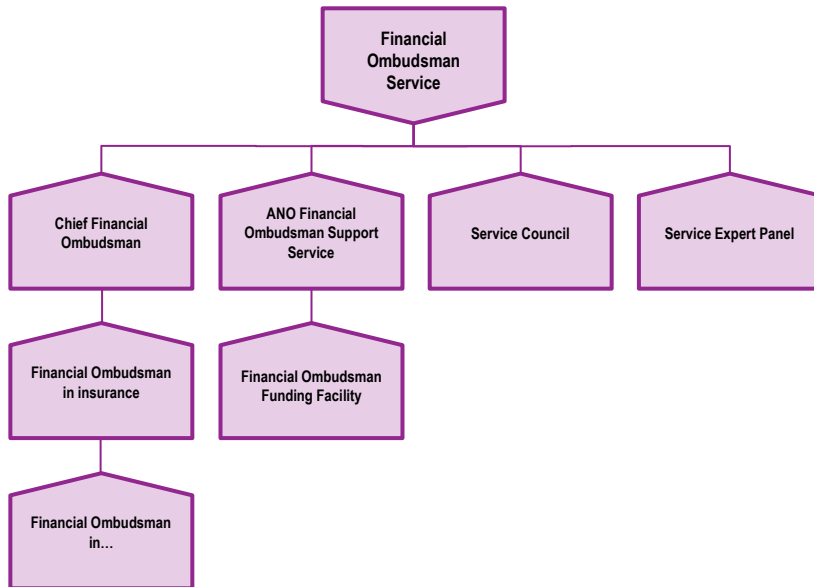
V. V. Klimov was appointed as Financial Ombudsman for the rights of consumers of financial services in insurance. Currently, the Bank of Russia is preparing the resolutions to appoint the Financial Ombudsmen in the other segments of financial services.

Financial Ombudsman Service Structure

The Financial Ombudsman’s organisational activities shall be administered by the Financial Ombudsman Service composed of the Chief Financial Ombudsman and Financial Ombudsmen in the segments of financial services; Service Council, Financial Ombudsman Support Service, and Service Expert Panel.

The structure of the Financial Ombudsman Service may be outlined as follows:

Figure 1.1. Financial Ombudsman Service Structure



Source: Federal Law No. 123-FZ dated 4 June 2018 “On Financial Ombudsman for the Rights of Consumers of Financial Institutions Services”

Pursuant to Article 7 of the Financial Ombudsman Law, the Service Council shall be composed of five representatives of the Bank of Russia, three representatives of the Government of the Russian Federation, one representative of self-regulatory organisations in the financial market sector incorporating the insurance companies, two representatives of associations (unions) of credit institutions, two representatives of other self-regulatory organisations in the financial market sector composed of financial institutions engaged to interact with the Financial Ombudsman, one representative of the Service Expert Panel, and the Chief Financial Ombudsman. The procedure for nominating the representatives of self-regulatory organisations in the financial market sector and associations (unions) of credit institutions referred to above to the Service Council shall be set forth in the Bank of Russia regulation.

The Financial Ombudsman Support Service is an autonomous non-profit association established by the Bank of Russia that manages the Financial Ombudsman funding facility, provides the Financial Ombudsman with assistance in preparing for complaint consideration, reviews the complaints for compliance with the requirements of the Financial Ombudsman Law, and if the complaint fails to comply with the requirements referred to above, notifies the financial services consumer who filed the complaint thereof and provides the necessary clarifications.

ANO (Autonomous Non-Profit Association) Financial Ombudsman Support Service (abbreviated as ANO SODFU) was established on 16 October 2018. O. A. Krainova was appointed as the Head of the Service. Currently, ANO SODFU is located at: 3 Staromonetny Per., Moscow, 119017.

Pursuant to Article 10 of the Financial Ombudsman Law, the Financial Ombudsman’s activities, including remuneration, supplementary pension coverage, life and health insurance, operation of the Financial Ombudsman Support Service, and expert review of complaints, shall be funded by the Financial Ombudsman Funding Facility fully owned by the Financial Ombudsman Support Service.

The Financial Ombudsman Funding Facility shall be funded from:

- Founder’s (Bank of Russia’s) contributions in the amount established by the Bank of Russia Board of Directors;
- Financial institutions’ contributions;
- Financial Ombudsman Support Service’s revenues from employment and investment of funds in the financial market;
- Financial Ombudsman’s fees payable for considering the complaints of third parties that the financial services consumer’s claims against the financial institution have been assigned to;
- Any other proceeds that are not prohibited under the Russian Federation legislation.

The Financial Ombudsman Funding Facility is currently in the making.

The Service Expert Panel is a collective consultative and advisory body established to develop recommendations in the area of the Financial Ombudsman's activities and financial consumer protection. The Service Expert Panel shall be composed of the Chief Financial Ombudsman, Financial Ombudsmen in the segments of financial services, and individuals possessing expertise in financial markets and/or work experience in financial markets, regulation, oversight, and supervision in financial markets or financial consumer protection, or at least a ten-year work experience as a judge. The Service Expert Panel constitution and decision-making procedures shall be established by the Service Council.

Financial Ombudsman's Activities and Consideration of Consumer Complaints Thereby

When exercising his/her powers, the Financial Ombudsman shall be independent from federal public authorities, public authorities of constituent entities of the Russian Federation, local government authorities, the Bank of Russia, and any other entities and officials. The Financial Ombudsman shall carry out his/her activities in compliance with the principles of legality, respect for human and civil rights and freedoms, integrity, and fairness.

The position of Financial Ombudsman has been established to consider the pecuniary complaints lodged by consumers of financial services against the financial institutions providing them with the relevant financial services. In the meantime, pursuant to Part 1, Article 15 of the Financial Ombudsman Law, the Financial Ombudsman may not consider the consumer complaints regarding the financial institutions, unless such financial institutions have been included in the register of financial institutions engaged to interact with the Financial Ombudsman or included in the list of financial institutions interacting with the Financial Ombudsman on a voluntary basis.

The Financial Ombudsman shall consider a complaint if the financial services consumer's claims are due to failure by the insurer to comply with the insurance compensation procedure stipulated by Federal Law No. 40-FZ dated 25 April 2002 "On Compulsory Civil Liability Insurance of Motor Vehicle Owners", or if the amount of the consumer's recovery claims does not exceed RUB 500,000 in case of other financial services and provided that the period from the date when the financial services consumer became aware or should have been aware of the violation of their right does not exceed three years.

Therefore, the range of consumer complaints filed with the Financial Ombudsman is limited: the Financial Ombudsman may not consider any complaints except for those concerning the financial institutions included in the register of financial institutions engaged to interact with the Financial Ombudsman or included in the list of financial institutions interacting with the Financial Ombudsman on a voluntary basis and containing pecuniary claims of up to RUB 500,000 at the most. The Financial Ombudsman may not consider non-pecuniary claims.

The register and list referred to above are currently in the making: they are supposed to be adopted prior to launching the interaction between the Financial Ombudsmen and financial institutions.

In this context, the Bank of Russia issued Ordinance No. 5064-U dated 21 January 2019 "On the Procedure for Striking a Financial Institution off the Register of Financial Institutions Obligated to Ensure Cooperation with the Financial Ombudsman in Financial Services Consumer Rights", and is expected to publish an ordinance on the maintenance of the register of financial institutions engaged to interact with the Financial Ombudsman on matters associated with the rights of financial services consumers²⁵.

The Financial Ombudsman Law provides for the following deadlines for launching the interaction between the Financial Ombudsmen and the institutions:

- **for insurance companies** — starting from June 2019 (insurance companies for OSAGO (Compulsory Motor TPL Insurance), DSAGO (Voluntary Motor TPL Insurance), insurance of land vehicles); for the other insurance companies — starting from 28 November 2019;
- **for microfinance institutions** – starting from January 2020;
- **for credit institutions**, pawnshops, consumer credit co-operatives, non-state pension funds – starting from January 2021.

The procedures for considering consumer complaints are set forth in Article 16 of the Financial Ombudsman Law. The procedures for the consumer to file a complaint and for the Financial Ombudsman to consider this complaint are depicted in Figure 1.2.

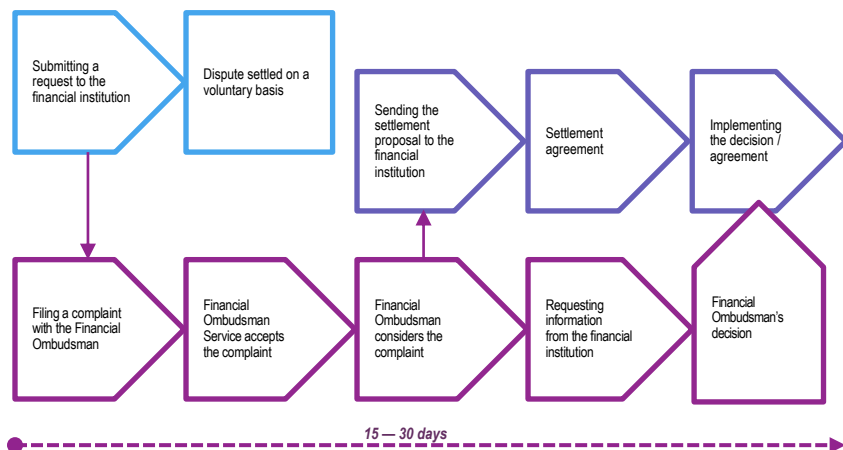
Prior to filing a complaint with the Financial Ombudsman, a consumer of financial services shall submit a request to the financial institution (either in hard copy or in electronic form). The financial institution shall consider the request submitted by the consumer of financial services within fifteen business days from the date of receiving the consumer's request, provided that the request has been submitted electronically according to the standard form approved by the Service Council and provided that the period from the date when the rights of the financial services consumer were violated does not exceed one hundred and eighty days, or within thirty days from the date of receiving the request from the financial services consumer in the other relevant instances. After considering the consumer's request, the financial institution shall send a reasoned response on the satisfaction, partial satisfaction, or dismissal of the claim thereto to the financial services consumer's email, and if none — to the consumer's mailing address.

Thus, the consumer may not file a complaint with the Financial Ombudsman prior to complying with the procedure depicted above and obtaining the financial institution's response (or in case of failure to obtain such response – prior to expiry of the relevant deadlines established for the financial institution to consider the consumer's request).

²⁵ As of 4 April 2019.

Figure 1.2. Procedure for the Consumer to File a Complaint and for the Financial Ombudsman to Consider the Complaint

Source: Federal Law No. 123-FZ dated 4 June 2018 “On Financial Ombudsman for the Rights of Consumers of Financial Institutions Services”



The Financial Ombudsman shall accept and consider complaints free of charge, except for the complaints filed by the parties that the financial services consumer’s claim against financial institution has been assigned to. In the latter case, the Financial Ombudsman shall consider the complaint for a fee established by the Service Council.

A consumer may file a complaint with the Financial Ombudsman either in hard copy or in electronic form. The consumer shall send a complaint in hard copy by mail and sign it with their handwritten signature. In the meantime, a complaint in electronic form may be filed both using the financial services consumer’s account on the Financial Ombudsman’s website (<https://finombudsman.ru>) and otherwise, including via the integrated portal for state and municipal services.

In addition, a complaint may be filed via the multifunctional centre for provision of state and municipal services that has made an agreement on interaction with the Financial Ombudsman Support Service. The information about these multifunctional centres for provision of state and municipal services shall be posted on the Financial Ombudsman’s official website.

A complaint shall be accompanied by copies of the request to the financial institution and its response (if any), alongside with copies of the agreement with the financial institution and the other documents on the merits of the dispute at the disposal of the financial services consumer. Where the complaint is filed by the legal representative of a financial services consumer enjoying this status in accordance with the civil legislation of the Russian Federation, the complaint shall be accompanied by a copy of the credentials of such legal representative of the financial services consumer²⁶.

If the complaint is accepted for consideration, the Financial Ombudsman shall send a copy thereof to the financial institution that the claims have been lodged against within two business days from the date of receiving the complaint via the financial institution’s account. Where the complaint is not accompanied by the financial institution’s response to the financial services consumer’s request, the Financial Ombudsman shall send a copy of the complaint to this financial institution alongside with a request to provide the financial institution’s reasoned decision on the merits of the dispute that was sent to the financial services consumer. In this case, the financial institution shall provide the Financial Ombudsman with the decision mentioned above within five business days from the date of receiving the Financial Ombudsman’s request.

In addition, the Financial Ombudsman may request the financial institution to provide clarifications, documents, and/or information associated with the consideration of the complaint, including the information classified as business, official, bank, insurance, or any other secret protected by the law. The financial institution shall provide the Financial Ombudsman with clarifications, documents, and/or information associated with the consideration of the complaint within five business days from the date of receiving the Financial Ombudsman’s request. In the meantime, failure to provide (untimely provision of) the clarifications, documents, and/or information associated with the consideration of the complaint shall not prevent consideration of the complaint on the merits.

The complaint shall be considered in absentia (without the presence of the consumer and representatives of the financial institution) based on available documents. At the same time, the Financial Ombudsman may choose to consider the complaint face-to-face (including by means of video teleconference systems) either at the parties’ request or at his sole discretion.

The Financial Ombudsman shall consider the complaint and make the relevant decision within the following periods:

- within fifteen business days from the day following the date when the complaint was filed with the Financial Ombudsman – if the complaint was filed by a financial services consumer;
- within thirty business days from the day following the date when the complaint was filed with the Financial Ombudsman – if the complaint was filed by the party that the financial services consumer’s claim against the financial institution was assigned to²⁷.

Under Article 21 of Law No. 123-FZ, prior to making the decision on the complaint, the Financial Ombudsman may equally send his/her settlement proposals to the financial institution that the claims have been lodged against, or to other

²⁶ Article 17 of the Financial Ombudsman Law.

²⁷ Article 20 of the Financial Ombudsman Law.

financial institutions based on the information at the Financial Ombudsman's disposal. Where the parties reach an agreement during the consideration of the dispute, the Financial Ombudsman's decision shall not be required.

Following the consideration of the complaint, the Financial Ombudsman shall make the decision to satisfy this complaint in full or in part or to dismiss it. The Financial Ombudsman's decision shall be sent to the financial services consumer within one business day from the date of such decision as an electronic document signed by the Financial Ombudsman with a qualified electronic signature as provided for by the Russian Federation legislation or handed over to the financial services consumer in hard copy if requested thereby. If it is practically impossible to send the Financial Ombudsman's decision as an electronic document and if requested by the financial services consumer, the decision mentioned above shall be handed over thereto in hard copy or sent to the mailing address specified in the complaint.

Where the Financial Ombudsman's decision concludes that the financial institution's refusal to satisfy the financial services consumer's claims is valid, the Financial Ombudsman shall additionally send a clarification on this decision and the financial services consumer's rights to the financial services consumer.

The Financial Ombudsman's decision shall be equally communicated to the financial institution within one business day from the date of the decision via the financial institution's account.

Under Article 23 of Law No. 123-FZ, the decision referred to above shall come into force upon expiry of ten business days from the date it is signed by the Financial Ombudsman and shall be complied with by the financial institution by the deadline specified therein, except when this decision has been suspended as provided for by the Financial Ombudsman Law. The deadline for complying with the Financial Ombudsman's decision shall be established by the specified decision subject to the peculiarities of the legal relations involving the financial services consumer filing the complaint. The deadline may not be under ten business days from the date when the decision comes into force and may not exceed thirty days from the date when the decision comes into force.

If the financial institution fails to comply with the Financial Ombudsman's effective decision or with the terms of the agreement, the Financial Ombudsman shall issue a certificate to the financial services consumer representing a writ of enforcement in the form established by the Government of the Russian Federation²⁸. The financial services consumer may request the certificate from the Financial Ombudsman within three months from the date when the Financial Ombudsman's decision should have been complied with or upon expiry of the deadline established by the agreement for complying with its terms. If the financial services consumer fails to meet this deadline for a good reason, the Financial Ombudsman may extend this deadline at the financial services consumer's request.

Subject to the certificate issued by the Financial Ombudsman and presented within three months from the date of receipt, the court bailiff shall enforce the Financial Ombudsman's decision or agreement in compliance with the Russian Federation legislation. If the financial services consumer fails to meet this deadline for a good reason, the Financial Ombudsman may extend this deadline at the financial services consumer's request. In the meantime, pursuant to Article 24 of Law No. 123-FZ, the financial services consumer may notify the Financial Ombudsman of compliance, refusal to comply, or partial compliance with the Financial Ombudsman's decision by the financial institution.

If the financial institution chooses not to comply with the Financial Ombudsman's decision or with the terms of the agreement at its own free will, subject to the financial services consumer's request, the court shall collect a fine equal to 50% of the amount of the financial services consumer's claim supposed to be satisfied in accordance with the Financial Ombudsman's decision or the agreement from the financial institution for choosing not to comply with the Financial Ombudsman's decision or terms of the agreement at its own free will to the benefit of the financial services consumer.

In addition, the Financial Ombudsman Law provides for additional enforcement actions against the financial institution. Thus, if a financial institution included in the register repeatedly fails to fulfil or improperly fulfils the obligations provided for by this Federal Law within a year, the Financial Ombudsman may post the information concerning this financial institution's failure to fulfil, or improper fulfilment of, the obligations provided for by this Federal Law on the Financial Ombudsman's official website and recommend that the Bank of Russia impose the sanctions provided for by the federal laws on this financial institution for failure to comply with the requirements stipulated by Law No. 123-FZ.

Financial Ombudsman's Website

The Financial Ombudsman's official website is "<https://finombudsman.ru>".

The website contains the information about the Financial Ombudsman, the Financial Ombudsman Service, a news module about this Service's and its departments' activities, a step-by-step instruction for the consumer to file a complaint with the Financial Ombudsman, and diverse materials with clarifications. A separate section of the website is dedicated to financial education of consumers.

In addition, the relevant section of the website provides the consumer with an opportunity to file complaints with the Financial Ombudsman in electronic form in accordance with the requirements set forth in Law No. 123-FZ. Moreover, in order to facilitate the filing of complaints, consumers are offered to sign up as Users and thus get access to the User account free of charge. To sign up as a User, the consumer should provide the following contact information: a valid mobile telephone number, a valid email address, and his/her first and last name in accordance with the passport.

Legal entities can sign up to interact with the Financial Ombudsman in a similar manner: to do that, they are required to specify a valid mobile telephone number, a valid email address, the company name, and the Taxpayer Identification Number in accordance with the company's constituent documents. In addition, the website contains the information clarifying the procedure for financial institutions to interact with the Financial Ombudsman, including the procedure for filing an application to be included in the list of financial institutions interacting with the Financial Ombudsman on a voluntary basis.

²⁸ The form of the certificate has not been established to date.

A larger portion of the functions provided for by the website is currently inactive, including the mechanism for consumers and financial institutions to sign up on the website and for consumers to file complaints. In the meantime, according to the information on the website, these services will become available after the financial institutions are included in the register of financial institutions engaged to interact with the Financial Ombudsman and the list of financial institutions interacting with the Financial Ombudsman on a voluntary basis, once the Financial Ombudsman is able to consider consumer complaints regarding these institutions²⁹.

Changes in the Russian Federation Legislation Due to Establishment of the Position of Financial Ombudsman

Federal Law No. 133-FZ dated 4 June 2018 “On Amendments to Certain Legal Acts of the Russian Federation and on Cancellation of Part 15, Article 5 of the Federal Law “On Amendments to the Federal Law “On Compulsory Civil Liability Insurance of Motor Vehicle Owners” and Certain Legal Acts of the Russian Federation” Due to the Adoption of the Federal Law “On Financial Ombudsman for the Rights of Financial Services Consumers” introduces the relevant amendments to the Law of the Russian Federation “On Consumer Rights Protection”, Law of the Russian Federation No. 3132-1 dated 26 June 1992 “On Status of Judges in the Russian Federation”, Federal Laws No. 395-1 dated 2 December 1990 “On Banks and Banking Activities”, No. 40-FZ dated 25 April 2002 “On Compulsory Civil Liability Insurance of Motor Vehicle Owners”, No. 229-FZ dated 2 October 2007 “On Enforcement Proceedings”, No. 273-FZ dated 25 December 2008 “On Countering Corruption”, and No. 230-FZ dated 3 December 2012 “On Control over Correspondence of Public Servants’ Expenses to their Revenues”.

In the meantime, the following significant changes made in the Russian Federation legislation due to establishment of the position of Financial Ombudsman deserve special attention:

- Parts 43 and 44 were added to Article 26 of the Federal Law “On Banks and Banking Activities” to prohibit the Financial Ombudsman to disclose the information representing bank secret that became known to the Financial Ombudsman in connection with his/her activities to any third parties and to establish the Financial Ombudsman’s liability for failure to comply with the above, including the obligation to pay damages;
- Article 16.1 of Federal Law No. 40-FZ dated 25 April 2002 “On Compulsory Civil Liability Insurance of Motor Vehicle Owners” (hereinafter referred to as the OSAGO Law) was amended. These amendments stipulate that in case of any disagreements between the wronged person being a financial services consumer and the insurer as they regard fulfilment by the latter of its obligations under the compulsory insurance agreement prior to filing a claim arising out of the insurer’s failure to fulfil, or improper fulfilment of, its obligations under the compulsory insurance agreement, or if the wronged person disagrees with the amount of the insurance compensation paid by the insurer, or if the car service centre fails to deliver a repaired vehicle to the wronged person in a timely manner or fails to fulfil any other obligations as they regard corrective maintenance of the vehicle, the wronged person shall present a written request to the insurer, and the insurer shall consider this request as provided for by the Financial Ombudsman Law. In addition, the insurer shall be released from the obligation to pay a fine for a voluntary refusal to satisfy the wronged person’s claims in case of compliance with the effective decision of the Financial Ombudsman for the rights of financial services consumers as and when provided for by the decision referred to above. Furthermore, the insurer shall be released from the obligation to pay a penalty (fee), financial sanction, and/or fine, provided that the insurer has fulfilled its obligations as and when provided for by the OSAGO Law, by the Financial Ombudsman Law, and if the insurer proves that the relevant failure to meet the deadlines was due to force majeure or the wronged person’s fault;
- Clauses 17.7 and 17.8 were added to Part 1, Article 18 of Federal Law No. 86-FZ dated 10 July 2002 “On the Central Bank of the Russian Federation (Bank of Russia)” stipulating that the Bank of Russia Board of Directors shall appoint and dismiss the Financial Ombudsman for the rights of consumers of financial services as provided for by the Financial Ombudsman Law, and establish the amount of the contributions to be made by the Bank of Russia – the founder of the Financial Ombudsman Support Service.

In addition, Clauses 5.1-5.3 were added to Article 20 of the Law referred to above to empower the Bank of Russia Governor to present the proposals on the appointment of the Chief Financial Ombudsman and proposals on the dismissal of the Chief Financial Ombudsman approved by the President of the Russian Federation, as well as the Chief Financial Ombudsman’s proposals on the appointment and dismissal of the Head of the Financial Ombudsman Support Service to the Bank of Russia Board of Directors.

- Chapter XI.1. was added to Federal Law No. 86-FZ dated 10 July 2002 “On the Central Bank of the Russian Federation (Bank of Russia)” to govern the interaction between the Bank of Russia and the Financial Ombudsman Service, including as it regards the maintenance of the register of financial institutions engaged to interact with the Financial Ombudsman and financial institutions interacting with the Financial Ombudsman as provided for by the Financial Ombudsman Law;
- Clause 4.2. was added to Part 1, Article 12 of Federal Law No. 229-FZ dated 2 October 2007 “On Enforcement Proceedings” to incorporate the certificates issued by the Financial Ombudsmen in the list of the writs of enforcement to be sent (presented) to the court bailiff.

²⁹ As of 4 April 2019.



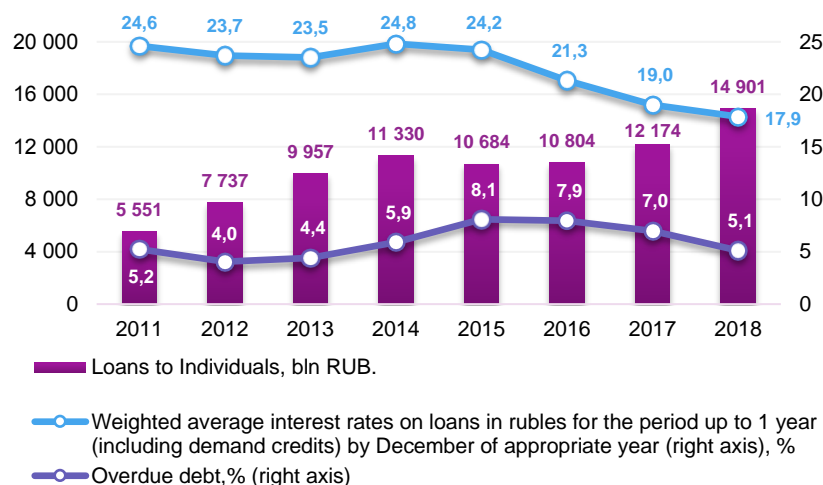
Adoption of the Financial Ombudsman Law and establishment of this position in 2018 was yet another step forward to using the new mechanisms to protect the rights and legitimate interests of financial services consumers in the Russian Federation. A mandatory out-of-court dispute settlement involving the right to take legal action thereafter has been effectively introduced in the sector of financial services. Currently, the Financial Ombudsman institution is in the making – the first improvements are expected once the interaction between the Financial Ombudsman and insurance companies is launched in June 2019.

1.3. Consumer Lending Regulation

In 2018, consumer lending continuously grew.

Summary information on changes in the volumes of loans issued to individuals, share of individuals' overdue debt, and average weighted loan rates in 2011-2018 is depicted in Figure 1.3.

Figure 1.3. Movements in the volume of loans to individuals, share of overdue debts of individuals and average weighted interest rates in 2011–2018



Source: Bank of Russia

As compared to 2017, 2018 saw a decline in the maximum TIC values for the institutions issuing consumer loans to individuals (Table 1.3.)³⁰.

Table 1.2. TIC for institutions issuing consumer loans (credits) to individuals, Q1-4 2016-2017

Year	Range of maximum TIC values, %			
	Q1	Q2	Q3	Q4
Credit institutions (banks)				
2017	21.6-41.8	20.7-39.5	20.6-39.4	19.6-35.7
2018	18.2-35.7	18.5-38.2	17.2-39.3	15.9-36.9
Microfinance institutions				
2017	45.3-795.2	44.7-799.2	45.5-799.1	44.7-795.6
2018	43.4-819.4	42.9-820.0	42.5-817.2	41.9-841.8
Pawn shops				
2017	94.5-163.1	89.4-166.2	89.2-163.1	89.1-165.3
2018	87.1-162.7	90.1-162.5	90.5-160.0	94.5-157.7
Consumer credit co-operatives				
2017	31.0-255.1	30.8-259.2	28.4-256.4	30.3-256.0
2018	28.9-265.2	27.5-262.4	29.2-265.8	27.6-266.2

³⁰ Information concerning the market averages for the true interest cost of a consumer loan (credit) // Bank of Russia official website (www.cbr.ru).

Year	Range of maximum TIC values, %			
	Q1	Q2	Q3	Q4
Agricultural consumer credit co-operatives				
2017	23.2-54.5	24.0-50.8	22.6-51.9	20.9-50.4
2018	20.6-48.6	18.9-47.6	21.4-47.9	25.3-49.0

FOR REFERENCE

At the time of entry into a consumer loan (credit) agreement, the true interest cost of the consumer loan (credit) may not exceed the market average true interest cost of the consumer loan (credit) of the relevant consumer loan (credit) category applicable in the relevant quarter calculated by the Bank of Russia by over a third. The TIC is calculated for consumer loan (credit) categories broken up by institution type. The loan (credit) categories are classified by maturity, security, purpose (special-purpose loan (credit), general-purpose loan (credit)), loan (credit) amount.

An upsurge in the popularity of consumer lending with consumers and financial institutions in 2018 coincided with the introduction of amendments to the Russian Federation legislation intended to strengthen regulation of financial institutions' activities and implement additional measures to protect the rights of individual borrowers.

Thus, the amendments provided for by Federal Law of the Russian Federation No. 212-FZ dated 26 July 2017 "On Amendments to Parts One and Two of the Civil Code of the Russian Federation and Certain Legal Acts of the Russian Federation" came into force on 1 June 2018, specifically:

- Article 807 of the Civil Code of the Russian Federation³¹ was amended to enable conclusion of a consensual loan agreement, i.e. an agreement whereby the lender undertakes to transfer funds to the borrower in the future. In the meantime, as the loan agreement date may differ from the loan issue date, the parties to the agreement are provided with additional protections. Thus, where the lender under the loan agreement undertakes to issue a loan, it may repudiate the agreement in full or in part in case of the obvious signs that the loan will not be repaid in time. In the meantime, the borrower under the loan agreement may also refuse to take out the loan in full or in part by notifying the lender thereof prior to the loan delivery date stipulated by the agreement, and where no such date is fixed in the agreement — at any time prior to receiving the loan, except as required otherwise by the law, legal acts, or loan agreement.

However, as far as consumer relations are concerned, it should be borne in mind that amended Article 807 still stipulates that if the lender under a loan agreement is an individual, the agreement shall not be deemed concluded until the loan amount or any other relevant loan asset is delivered to the borrower or person designated thereby.

- Article 810 of the Civil Code of the Russian Federation introduced a new rule stipulating (except as provided otherwise by the law or loan agreement) that the loan shall be deemed repaid at the time of delivery to the lender, including at the time when the relevant amount is transferred to the bank of the lender's bank account.

This rule makes it possible to avoid one of the borrower's problems — a protracted period when the funds have been transferred to the bank but not credited to the lender's account that is why interest and other mandatory payments continue to be charged on the loan amount.

- The bank's liability for substandard quality of bank account transactions was strengthened – pursuant to amended Article 856 of the Civil Code of the Russian Federation, if the bank fails to timely credit the funds transferred to the client to the client's account or debits the client's account for no good reason, or if the bank fails to execute the client's instruction to transfer the funds from the account or give out funds from the account or delays the execution of such instruction, the bank shall pay interest on this amount in the manner and at the rate provided for by Article 395 of the Civil Code of the Russian Federation, irrespective of paying the interest stipulated by Clause 1, Article 852 of the Civil Code of the Russian Federation.
- Amended Article 819 of the Civil Code of the Russian Federation incorporates the payments, including those associated with the loan issue, in the subject matter of the loan agreement. In the meantime, this requirement does not apply to consumer loan agreements: in case of a loan issued to an individual for purposes unrelated to business (including the loan secured by mortgage), the restrictions, instances, and peculiarities of collecting any other charges shall be specified by the consumer loan (credit) law that does not currently provide for such charges (e.g. loan account opening and maintenance fee).

This innovation is intended to ensure legal certainty concerning the admissibility of additional charges in case of entry into a loan agreement (loan account opening fee, etc.). In the meantime, minding the applicable consumer lending legislation, it can be stated that the legislator consistently holds to a stand, under which incorporation of such charges in a consumer loan agreement is inadmissible.

- Article 821.1. was introduced to the Civil Code of the Russian Federation stipulating that the creditor may call in a loan ahead of schedule in the instances established by the Civil Code and other laws, and in case of a loan issued to a legal entity or individual entrepreneur — in the instances established by the loan agreement as well. This innovation is supposed to benefit the quality of financial institutions' loan portfolios and simplify the procurement of loans by high-risk borrowers, as financial institutions are now able to provide for additional loan repayment guarantees in the loan

³¹ Civil Code of the Russian Federation.

agreement.

- A new concept — usurious interest — was incorporated in the Civil Code of the Russian Federation. Under amended Article 809 of the Civil Code of the Russian Federation, a loan interest rate under a loan agreement made between individuals or between a legal entity not being a professional consumer lender and an individual borrower which is two or more times as high as the interest rate that is customary for the circumstances, and therefore, represents an interest rate that is excessively onerous for the debtor (usurious interest) may be reduced by the court to an interest rate normally charged in comparable circumstances.

FOR REFERENCE

This approach to establishing the commensurability of pecuniary obligations has been consistently used in legal precedents before: as early as in Resolution of the Plenum of the Supreme Arbitration Court of the Russian Federation No. 81 dated 22 December 2011, it was clarified that when considering the commensurability of the penalty to the consequences of failure to fulfil a pecuniary obligation and establishing an adequate amount of damages payable to the creditor, the courts may rely on a double discount rate (rates) of the Bank of Russia in effect during the period of such failure. A similar stand concerning the unacceptability of an interest rate incommensurate to the loan amount and the need for a reasonable approach to establishing such a rate has been expressed by the Supreme Court of the Russian Federation in Decisions No. 83-KG16-2 dated 29 March 2016, No. 16-KG17-1 dated 28 February 2017 and No. 7-KG17-4 dated 22 August 2017.

In addition, the amendments provided for by Federal Law No. 378-FZ dated 5 December 2017 “On Amendments to Article 9.1 of the Federal Law “On Mortgage (Real Estate Mortgage)” and Federal Law “On Consumer Loan (Credit)” came into force on 24 June 2018.

Thus, Federal Law No. 353-FZ dated 21 December 2013 “On Consumer Loan (Credit)” (hereinafter referred to as Law No. 253-FZ) was amended as follows:

- Article 5 puts the creditor under an obligation to post the information on the issue, use, and repayment terms of a consumer loan (credit) in the service locations (wherever the applications for consumer loan (credit) are accepted, including on the website). This information shall comprise: the starting date for charging the interest on the consumer loan (credit) or methods to establish this date, information on the substandard risks of the borrower earning income in a currency that is different from the loan (credit) currency and potential risks of increase in the borrower’s expenses as compared to the borrower’s expected expenses in Russian rubles, including in case of a variable rate, information stating that foreign exchange fluctuations in the past are not indicative of foreign exchange fluctuations in the future, and information on the substandard risks of the borrower earning income in a currency that is different from the loan (credit) currency.

In addition, individual terms of a consumer loan (credit) agreement shall specify the interest rate as of the date of providing the borrower with the individual terms, as well as changes in the borrower’s expenses in case of a 1 pp increase in the variable interest rate under the consumer loan (credit) used in the consumer loan (credit) agreement starting from the second regular payment on the nearest date after the expected date of the consumer loan (credit) agreement;

- Article 6 was amended to specify that the true interest cost of a consumer loan (credit) should be denominated both in percent per annum and in monetary terms. Thereat, the true interest cost of a consumer loan (credit) in monetary terms shall be placed to the right of the true interest cost of the consumer loan (credit) denominated in percent per annum. In addition, Part 4.1. was added to Article 6 stipulating that the true interest cost of a consumer loan (credit) in percent per annum shall be calculated by including the borrower’s payments mentioned in Parts 3 and 4 of this Article (amounts payable prior to the date when the funds are transferred to the borrower, payments of the principal debt and interest under a consumer loan agreement, etc.). In this context, the true interest cost of a consumer loan (credit) in monetary terms shall be construed as the total of the borrower’s payments referred to in Part 3 and Clauses 2 — 7, Part 4 of the above Article.

Special attention should be given to the addition of Article 6.1 to Law No. 353-FZ. “Peculiarities of the terms of a credit agreement or loan agreement made with an individual for purposes unrelated to business and secured by mortgage” providing for the following rules of establishing the terms of the loans referred to above:

- A credit agreement or loan agreement made with an individual for purposes unrelated to business and secured by mortgage shall specify the true interest cost of the credit (loan) secured by mortgage in accordance with the requirements provided for by this law;
- A credit agreement or loan agreement made with an individual for purposes unrelated to business and secured by mortgage shall be subject to the requirements of Law No. 353-FZ as they regard:
 - provision of the information concerning the true interest cost of the credit (loan) on the front page of the credit agreement or loan agreement;
 - Prohibiting charging by the lender of remuneration for performance of the obligations assigned to it by the legal acts of the Russian Federation, as well as for services rendering which the lender acts solely in its own interests and which do not create separate material benefits for the borrower.
 - Publishing of information on the terms and conditions for provision, use and repayment of a loan (credit) in the places of rendering of services (places of acceptance of applications for a loan (credit), including on the Internet), as well as

with regard to supplying the borrower with other prescribed information.

- Providing the borrower with a repayment schedule.
- Performing by the lender free of charge operations with the bank account of the borrower, if the terms of the agreement provide for opening thereof.
- The true interest cost of a consumer loan (credit) under a credit agreement or loan agreement made with an individual for purposes unrelated to business and secured by mortgage shall be calculated by including both the borrower's payments mentioned in Parts 3 and 4, Article 6 of Law No. 353-FZ (in case of the true interest cost of a consumer loan (credit) denominated in percent per annum) and the borrower's payments mentioned in Part 3 and Clauses 2-7, Part 4, Article 6 of Law No. 353-FZ (in case of the true interest cost of a consumer loan (credit) in monetary terms), on the one hand, and the amount of the insurance premium payable by the borrower under the insurance agreement for the collateral securing the claims against the borrower under the consumer loan (credit) agreement, on the other;
- In case of a credit agreement or loan agreement made with an individual for purposes unrelated to business and secured by mortgage, the amount of the borrower's approximate monthly payment shall be established using the calculation procedure set by the Bank of Russia to be used for reference. The amount of the borrower's approximate monthly payment shall be placed in a square box to the right of the information concerning the true interest cost of the consumer loan (credit) in monetary terms and shall be typed both in figures and in upper-case letters. The area of the square box shall amount to at least 5% of the area of the front page in the credit agreement or loan agreement made with an individual for purposes unrelated to business and secured by mortgage;
- The penalty (fine, fee) for the borrower's failure to fulfil or improper fulfilment of obligations to repay the credit (loan) and/or pay interest on the credit (loan) under a credit agreement or loan agreement made with an individual for purposes unrelated to business and secured by mortgage may not exceed the key rate of the Bank of Russia as of the date of the relevant agreement, provided that under the terms of the credit agreement or loan agreement, interest is accrued for the relevant period of failure to fulfil the obligations, or 0.06 of the overdue amount per each day of failure to fulfil the obligations, provided that under the terms of the credit agreement or loan agreement, no interest on the credit (loan) is accrued for the relevant period of failure to fulfil the obligations.

Due to the amendments referred to above, Article 9.1. of Federal Law No. 102-FZ dated 16 July 1998 "On Mortgage (Real Estate Mortgage)" was amended so as to provide that the peculiarities of the terms of a credit agreement or loan agreement made with an individual for purposes unrelated to business and secured by mortgage shall be established by the very provisions of Law No. 353-FZ.

In addition, the amendments introduced by Article 4 of Federal Law No. 53-FZ dated 7 March 2018 "On Amendments to Certain Legal Acts of the Russian Federation" to Article 10 of Federal Law No. 353-FZ dated 21 December 2013 "On Consumer Loan (Credit)" deserve attention.

Thus, Part 5 was added to the Article mentioned above reading as follows: "The creditor that is a credit institution, pursuant to the consumer loan (credit) agreement, following each operation by the borrower involving an electronic payment instrument that was used to issue the consumer loan (credit) to the borrower, shall notify the borrower of the borrower's current debt to the creditor under the consumer loan (credit) agreement and of the available amount under the consumer loan (credit) with a credit ceiling under the consumer loan (credit) agreement by including this information in the notice referred to in Part 4, Article 9 of Federal Law No. 161-FZ dated 27 June 2011 "On the National Payment System".

Another landmark development in consumer lending that took place in 2018 was adoption of Federal Law No. 554-FZ dated 27 December 2018 "On Amendments to the Federal Law "On Consumer Loan (Credit)" and Federal Law "On Microfinancing and Microfinance Institutions" reviewed in Section 1.1. of the Report. Besides, Section 1.1. of the Report reviews the legislative initiatives (draft federal laws) in consumer lending.

FOR REFERENCE

The Bank of Russia equally adopts new measures to protect consumer rights in the area of microfinancing services. Thus, on 22 June 2017, the Bank of Russia approved the Basic Standard on Protection of Rights and Interests of Individuals and Legal Entities — Recipients of Financial Services Provided by Members of Self-Regulatory Organisations in the Financial Market Sector Involving Microfinance Institutions (in effect since 1 July 2017). The Standard was adopted to secure the rights and legitimate interests of the recipients of financial services provided by microfinance institutions, prevent unfair practices on the part of microfinance institutions as they deal with the financial services recipients, improve the transparency of microfinancing in the Russian Federation, and raise financial services recipients' financial literacy and awareness of the microfinance institutions' activities, as well as quality of financial services provided by microfinance institutions, and create a favourable environment for self-regulatory organisations in the financial market sector to monitor microfinance institutions' activities. The Standard defines the basic principles for protecting the rights and interests of financial services recipients and establishes the requirements to guide microfinance institutions' business activities.

In addition, the Basic Standard on Microfinance Institutions' Risk Management was adopted on 31 July 2017 (in effect since 1 July 2018) to improve such institutions' financial stability.

On 27 April 2018, the Bank of Russia approved the Basic Standard on Microfinance Institution's Operations in the Financial Market binding on all microfinance institutions starting from 1 July 2018, notwithstanding membership in a self-regulatory organisation in the financial market sector involving microfinance institutions. The Standard is supposed to enhance the quality of financial services provided by microfinance institutions and raise the transparency of their activities, including their transparency to consumers, establishes the requirements and procedures for issuing microloans and raising funds from individuals, rules of information exchange with financial services recipients, and requirements to their solvency

evaluation.

Furthermore, basic standards were approved for consumer credit co-operatives: on 27 July 2017 – Basic Standard on Consumer Credit Co-operative's Operations in the Financial Market (in effect since 27 January 2018), on 14 December 2017 – Basic Standard on Consumer Credit Co-operative's Corporate Management (in effect since 21 January 2018) and Basic Standard on Protection of Rights and Interests of Individuals and Legal Entities – Recipients of Financial Services Provided by Members of Self-Regulatory Organisations in the Financial Market Sector Involving Consumer Credit Co-operatives (in effect since 1 January 2018), and on 17 April 2018 – Basic Standard on Consumer Credit Co-operative's Risk Management (in effect since 1 July 2018).

In addition, 2018 was marked by the emergence of new legal precedents involving the application of the legislation governing consumer lending: the measures for financial consumer protection were adopted both by the legislator and by the Supreme Court of the Russian Federation (hereinafter referred to as the SC of the Russian Federation).

Thus, Decision of the SC of the Russian Federation No. 81-KG17-25 dated 6 February 2018 stipulates that the freedom-of-contract doctrine combined with the principle of integrity of the parties to civil-law relations does not rule out the court's responsibility to evaluate the terms of a specific agreement for reasonableness and fairness minding that the terms of the loan agreement shall not be excessively onerous for the borrower, on the one hand, and they shall take into account the interests of the creditor as the party whose rights have been violated by failure to fulfil the obligations, on the other. This provision is particularly salient when the dispute concerns the activities of microfinance institutions who issue minor loans with short maturities, which justifies the possibility of increased interest rates on the loan. Otherwise (i.e. in case of setting an ultra-high interest rate for a long period on a microloan with a short maturity), the mission of microfinance institutions would have been distorted.

A similar stand was expressed by the SC of the Russian Federation in Decisions No. 45-KG17-24 dated 13 March 2018 and No. 41-KG18-3 dated 15 May 2018.

As it has been mentioned above, this approach to establishing the commensurability of pecuniary obligations has been consistently used in the Russian legal precedents and has been enshrined in Article 809 of the Civil Code of the Russian Federation as amended by Federal Law No. 53-FZ dated 7 March 2018 "On Amendments to Certain Legal Acts of the Russian Federation" with regard to Article 10 of Federal Law No. 353-FZ dated 21 December 2013 "On Consumer Loan (Credit)".

The stand expressed by the SC of the Russian Federation in Decision No. 67-KG18-10 dated 5 June 2018 is noteworthy. According to the court, in case of imbalance of the parties' considerations as of the date of terminating a paid fringe services agreement, when entering into a consumer loan agreement, the party contributing cash in compliance with the paid fringe services agreement may request a refund to be made by the other party to the extent of the imbalance between the considerations, except as provided otherwise by the law or agreement or is required otherwise by the nature of the obligation. Therefore, where a paid fringe services agreement is terminated early, either due to the consumer's refusal to continue using such services or due to a premature termination of the consumer loan agreement resulting from an early fulfilment of loan obligations by the borrower, except as the parties have agreed to preserve the relations involving the provision of fringe services outside the loan agreement, the fact that the bank keeps the value of the fringe services that have been paid for by the consumer but have not been actually provided thereto exceeding the actual expenses incurred by the bank to implement the fringe services agreement attests to the bank's unreasonable gains.

Special attention should be given to the stand of the SC of the Russian Federation on the essence of the loan agreement and voluntary insurance agreement stated in Resolution of the Plenum of the SC of the Russian Federation No. 49 dated 25 December 2018 "On Certain Aspects of Applying the General Provisions of the Civil Code of the Russian Federation as They Regard Conclusion and Interpretation of the Agreement". According to the clarifications by the SC of the Russian Federation, a loan agreement (Clause 1, Article 819 of the Civil Code of the Russian Federation) and voluntary property insurance agreement (Clause 1, Article 927 of the Civil Code of the Russian Federation) are not classified as public agreements.

Under Article 426 of the Civil Code of the Russian Federation, a public agreement is an agreement entered into by a business entity and providing for its obligations to sell goods, perform works, or provide services that such entity is supposed to deliver to any party seeking such goods, works, or services subject to its business profile (retail trade, public transport services, communication services, power supply, health, hotel services, etc.). A party engaged in business or any other income-bearing activities may not prefer a certain party over any other party when it comes to entering into a public agreement, except as otherwise provided for by the law or other relevant legal acts.

The price of goods, works, or services in a public agreement shall be the same for consumers of the relevant category. No different terms of a public agreement may be set based on privileges of, or preferences for, specific consumers, except as the law or other relevant legal acts provide for granting benefits to individual categories of consumers. A party engaged in business or any other income-bearing activities is not allowed to refuse to enter into a public agreement, if his is able to deliver the relevant goods, services or works to the consumer.

Therefore, the Plenum mentioned above has confirmed the stand of the supreme courts of the Russian Federation referred to above stipulating that the provisions of Article 426 of the Civil Code of the Russian Federation do not apply to such agreements. Therefore, a credit institution or insurance company may refuse to enter into a loan or insurance agreement, and the terms of such agreements may be set based on privileges of, or preferences for, specific consumers.

In addition, special attention should be given to the stand of the SC of the Russian Federation on the refund of the insurance premium in case of an early repayment of the loan, including when the amount covered depends on the outstanding loan balance according to the provisions of the loan agreement.

Thus, Decision of the SC of the Russian Federation No. 78-KG18-18 dated 22 May 2018 stipulates that the list of grounds for an early termination of an insurance agreement provided in Clause 1, Article 958 of the Civil Code of the Russian Federation is not exhaustive. If the insurance compensation in case of the insured event under the agreement is equal to zero, and therefore, it is impossible to put the insurer under an obligation to pay the insurance compensation, then the accident insurance agreement shall be terminated early, as in this situation, the insurance risks provided for by the agreement as the likely events to be covered by the insurance, cease to exist, and the occurrence of the insured event in the absence of the insurer's obligation to pay the insurance compensation becomes impossible. In this case, the insurer may claim just a portion of the insurance premium prorated to the time when the insurance was actually in effect.

In the meantime, where the amount covered does not depend on the outstanding loan balance, the insurance agreement shall not be terminated upon performance of the loan agreement and the insurance premium shall not be refunded (Decision of the SC of the Russian Federation No. 44-KG18-8 dated 28 August 2018).



2018 saw major changes in the Russian Federation legislation on consumer lending regulation intended to adopt additional measures for financial consumer protection, enhance the transparency of the procedure for entering into loan agreements, and raise consumers' awareness of their terms. Individual legislative innovations are intended to raise consumers' financial literacy and awareness as they choose the loan facilities, especially those in the form of currency and mortgage loans.

1.4. Development of the Personal Bankruptcy Institution

The personal bankruptcy institution introduced starting from 1 October 2015³² has significantly expanded the range of methods to protect the rights of financial services consumers unable to fulfil the loan obligations assumed thereby. In the period from 2015 until today, such individuals have increasingly used the opportunity to get free of bad debts.

According to the Information Website for the Unified Federal Register of Legally Relevant Information (Fedresurs), at year-end 2018, out of 56.7 mln borrowers, around 748,200 borrowers or 1.3% of the total number of borrowers with existing accounts³³ could be qualified as potential bankrupts (individuals with a debt over RUB 500,000 and an arrear of 90 or more days at least under one loan). The average debt of such borrowers to creditors amounted to RUB 1.68 mln. As compared to 2017, the number of potential bankrupts rose by 6%³⁴.

Moreover, as early as within 9 months of 2018, the bankruptcy procedure was launched by 30,368 Russian citizens, 47% more than in the same period of 2017³⁵.

In this respect, similar to 2017, the bulk of potential bankrupts was accounted for by the unsecured lending segment in 2018 with consumer loans amounting to 68%. In the meantime, the share of microfinance institutions borrowers rose (4.3% as compared to 3%), while the share of new holders of credit cards (7% as compared to 8%) and borrowers with multiple loans of diverse types (10.5% as compared to 12%) declined.

The ratios of mortgage borrowers (2%) and borrowers that took a car loan (8%) remained unchanged³⁶ (Figure 1.4).

Total number of bankrupt individuals rose significantly: while in the year when the personal bankruptcy institution was introduced (2015), the number of insolvent individuals amounted only to 870, in 2018, the number of such individuals reached 43,984 (1.5 times more compared to 2017)³⁷.

The annual growth rates for the number of bankrupt individuals in 2015-2018 are depicted on Figure 1.5 below.

As early as by 30 September 2018, the total number of individuals recognised as bankrupts by the court over the effective period of the personal bankruptcy institution reached 80,640 and the total number of such individuals as of 1 January 2019 reached 94,255 or 13% potential bankrupts. Out of 100,000 of the Russian population, 64 are bankrupts³⁸.

In the meantime, 86% of all bankrupts actually initiated their own bankruptcy, 4% more than in 2017. Creditors acted as initiators in a mere 13% of cases (as compared to 17% in 2017), while the share of bankruptcy proceedings initiated by the Federal Tax Service was 1% (as compared to 2% in 2017)³⁹.

In addition, it is noteworthy that the number of completed sales of bankrupts' property grew 1.7 times in 2018 as compared to 2017 and reached 21,358. The bankruptcy procedure was characterised by the value of individual debtors' property revealed by the official receiver during the inventory process: over the course of the year, the total value tripled to reach RUB 5.14 bln, while the value of the property per one bankrupt doubled reaching RUB 511,800. This increase is

³² Federal Law No. 154-FZ dated 29 June 2015 "On Settling the Peculiarities of Insolvency (Bankruptcy) in the Republic of Crimea and the Federal City of Sevastopol, and on Amendments to Certain Legal Acts of the Russian Federation".

³³ According to the Bankruptcy Law criteria.

³⁴ Fedresurs and UCB: Debtors Resort to the Bankruptcy Procedure 1.5 Times More Frequently in 2018 // <https://www.fedresurs.ru/news/bd001305-7a34-467e-96e4-7a0a66116e03>.

³⁵ Number of Potential Bankrupts Grows by 7.5% over the Course of the Year // <https://fedresurs.ru/news/b66c8ee5-7517-4463-8e99-e0af307fcb1a?attempt=1>.

³⁶ NCRA: Major Slowdown in the Growth of the Number of Potential Bankrupts under Loans in H1 2018 // <https://www.nbki.ru/company/news/?id=21770>.

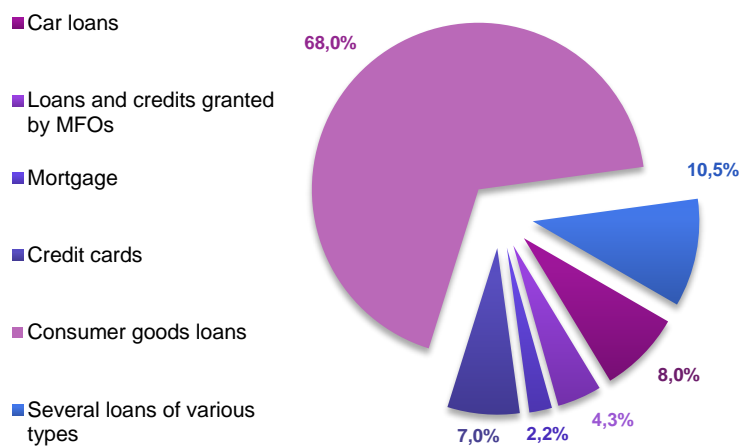
³⁷ UFRBI Statistical Bulletin as of 31 December 2018 // <https://fedresurs.ru/news?classifier=7>.

³⁸ Number of Potential Bankrupts Grows by 7.5% over the Course of the Year // <https://fedresurs.ru/news/b66c8ee5-7517-4463-8e99-e0af307fcb1a?attempt=1>.

³⁹ Bankruptcies Reach the Russian Middle Class // <http://eslibankrot.ru/page/bankrotstva-prishli-v-srednii-klass-rossiiian/>.

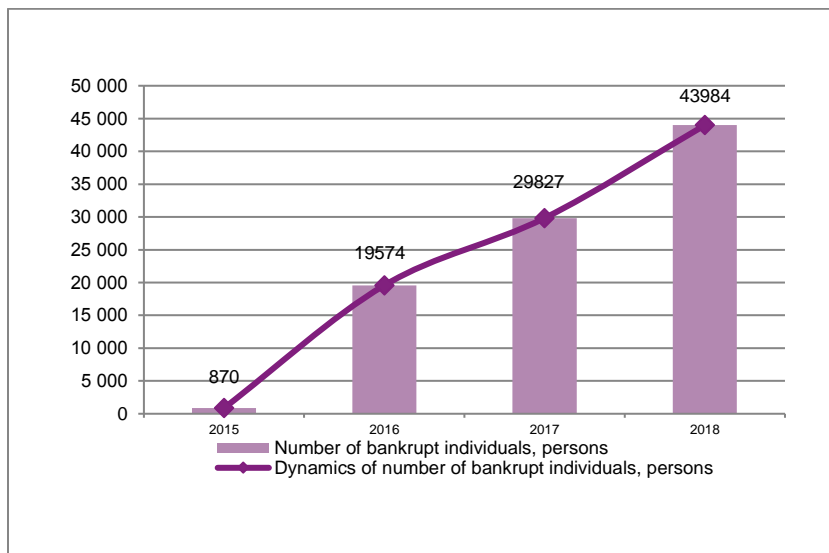
primarily due to a higher popularity of bankrupt individuals' property sales with well-to-do persons.

Figure 1.4. The structure of potential bankrupt individuals by types of loans, %



Source: NBKI

Figure 1.5. Annual Growth Rates for the Number of Bankrupt Individuals in 2015-2018



Source: Unified Federal Register of Bankruptcy Information

As for restructuring, these proceedings are persistently in disfavour: at year-end 2018, the courts made just 107 rulings on individuals' debt restructuring⁴⁰. This is predominantly due to the fact that restructuring is a more time-consuming, cumbersome and expensive process for individuals that requires a certain level of income.

The uptrend in the number of citizens interested in the bankruptcy procedure coincided with the pilot project involving consulting of financial services consumers in the multifunctional centres, including on bankruptcy-related matters, launched by Rospotrebnadzor as part of the Project "On Raising Public Financial Literacy and Development of Financial Education in the Russian Federation". In addition, all regional offices of Rospotrebnadzor – community liaison offices and counselling centres – were equipped with 170 information booths with interactive content and information booklets.

As for the matters concerning legal regulation of personal bankruptcy in 2018, it is worth mentioning the enactment of amendments that are common for the bankruptcy institution and provided for by Federal Law No. 281-FZ dated 29 July 2017 "On Amendments to Certain Legal Acts of the Russian Federation Regarding the Improvement of Mandatory Requirements to Founders (Participants), Management Bodies and Officials of Financial Institutions": starting from 28 January 2018, the position of credit institution director may not be sought by the persons held administratively liable for wrongdoing during a legal entity's bankruptcy, or premeditated and/or fraudulent bankruptcy of a legal entity under an enforceable court ruling two or more times within three years preceding the date of appointment (election) or the date of receiving the documents required for the state registration of the credit institution by the Bank of Russia (except as this administrative offense resulted in an administrative sanction in the form of warning).

⁴⁰ UFRBI Statistical Bulletin as of 31 December 2018// <https://fedresurs.ru/news?classifier=7>.

In addition, the relevant time restrictions on holding such a position were established for the persons previously recognised as bankrupts. Moreover, the persons held criminally liable for an offence associated with a credit institution's bankruptcy, or premeditated and/or fraudulent bankruptcy of a credit institution under an enforceable court ruling are subject to a "life-long" ban on holding positions and shares (interests) and exercising control over the shareholders (participants).

In the meantime, the subjects of legislative initiative consistently focused on the personal bankruptcy institution over the course of 2018.

Thus, they continuously elaborated Draft Law No. 295382-7⁴¹ (to enhance administrative liability of bankruptcy managers) brought before the SD of the Russian Federation on 24 October 2017. The Draft Law passed the first reading on 11 July 2018 and is currently pending the second reading.

The current version of the Draft Law provides for amending Article 14.13 of the Code of the Russian Federation on Administrative Offenses to remove the bankruptcy manager from the list of administrative offenders set forth in Part 3 of this Article. In addition, it is proposed to add Parts 32 and 33 to this Article stipulating that failure by the bankruptcy manager to fulfil the duties provided for by the insolvency (bankruptcy) legislation, where such action (omission) does not constitute a criminal offence, shall be punishable by a warning or administrative fine in the range from RUB 5,000 to RUB 15,000, and repeat failure – by an administrative fine in the range from RUB 15,000 to RUB 25,000 or disqualification for a period from six months up to 3 years.

According to the drafters, the proposed differentiation of bankruptcy managers' and official receivers' liability will eliminate the demotivating factors that discourage bankruptcy managers from getting involved in personal bankruptcy proceedings and thus enhance the availability of the bankruptcy institution to debtors who are actually in trouble.

Draft Law No. 307663-7 brought before the SD of the Russian Federation on 8 November 2017 was continuously elaborated⁴². However, the name, concept, and text of the Draft Law underwent major changes during this process.

Thus, the original version of the Draft Law stipulated for expanding the concept of individual's property sale in Article 2 of the Law "On Insolvency (Bankruptcy)" by specifying that this procedure is intended, inter alia, to provide individuals with debt relief and institute the rule establishing that if an individual has no property that could be used to satisfy the creditors' claims after covering the costs of the personal bankruptcy procedure, this will not be treated as an obstacle to implementing this procedure and recognising the individual as a bankrupt.

However, the current version of the Draft Law passed by the SD of the Russian Federation in the third reading on 19 December 2018 contains no such provisions, while the name of the Draft Law was changed from "On Amendments to the Federal Law "On Insolvency (Bankruptcy)" and Certain Legal Acts of the Russian Federation" to "On Amendments to Certain Legal Acts of the Russian Federation". In the meantime, the current version of the Draft Law is primarily intended to specify the regulation procedures for registration acts and information exchange in the area of individual entrepreneurship, including as they regard entry of information about such persons' bankruptcy in the Unified Federal Register. However, as for personal bankruptcy, the Draft Law does introduce certain innovations.

Thus, the Draft Law proposes to revise Clause 6.7., Article 28 of Federal Law No. 127-FZ dated 26 October 2002 "On Insolvency (Bankruptcy)" (hereinafter referred to as the Bankruptcy Law) by providing that the operator of the Unified Federal Register of Bankruptcy Information shall equally submit the information concerning individual debtors, including individual entrepreneurs, to the federal executive authority responsible for registering legal entities and individual entrepreneurs.

In addition, it is proposed to amend Article 9 of Federal Law No. 230-FZ dated 3 July 2016 "On Protection of Rights and Legitimate Interests of Individuals in Recovery of Overdue Debts and on Amendments to the Federal Law "On Microfinancing and Microfinance Institutions" so as to put the creditor under an obligation to notify the debtor within thirty business days from the date of engaging a third party to deal with the debtor for the sake of overdue debt collection and post a relevant notice in the Unified Federal Register of Information about the activities of legal entities, individual entrepreneurs, and other business entities. Besides, it is proposed to add Parts 1¹ and 1² to Article 9 of the Law establishing the requirements to such notices and fees for posting such notices.

The Draft Law was rejected by the FC of the Russian Federation on 16 January 2019 and is currently pending conciliation⁴³.

When talking about the transparency and disclosure of bankruptcy-related information and provision of bankruptcy-related services in electronic form, it is worth mentioning the Draft Federal Law "On Amendments to the Federal Law "On Insurance of Deposits with Banks of the Russian Federation" and Federal Law "On Insolvency (Bankruptcy)", developed by the Ministry of Finance of the Russian Federation (posted for public discussion on 16 February 2018).

As it follows from the explanatory note to the Draft Law, to ensure electronic interaction between the Deposit Insurance System participants and as the Deposit Insurance Agency State Corporation (hereinafter referred to as the Agency) acts as a receiver (liquidator) in bankruptcy cases involving financial institutions, the Draft Law provides for amending the Federal Laws referred to above so as to cancel the requirements of mandatory identification of the claimant using the passport (or another identity document), including those that expressly provide for using the identification potential of the Federal State Information System "Integrated System of Identification and Authentication in Infrastructure Ensuring Information and Technology Interaction between the Information Systems Used to Provide State and Municipal Services in Electronic Form.

According to the drafters, these amendments will make it possible to render the services popular with individuals and institutions in electronic form via the Agency's official website and to render certain services offered by the Agency in the

⁴¹ Draft Law No. 295382-7 "On Amendments to Article 14.13 of the Code of the Russian Federation on Administrative Offenses".

⁴² Draft Law No. 307663-7 "On Amendments to Certain Legal Acts of the Russian Federation".

⁴³ As of 4 April 2019.

instances established by the Government of the Russian Federation via the Federal State Information System “Integrated Portal for State and Municipal Services (Functions)”, which will improve their accessibility to the population and enable the Agency to render the services popular with the citizens⁴⁴.

In 2018, the effort to introduce a simplified bankruptcy procedure for individuals was continued as well. The need for a simplified procedure has long since been recognised both by experts and by the population.

As it was mentioned earlier in the Report “On the Status of Consumer Rights Protection in the Financial Sector in 2017”, the Ministry of Economic Development of the Russian Federation designed a simplified bankruptcy procedure for individuals as early as in 2015. The relevant Draft Law has been posted on the Federal portal of draft regulations. In the autumn of 2016, the Ministry of Economic Development of the Russian Federation drafted the relevant amendments to the Bankruptcy Law providing for adding a new paragraph (“Simplified Personal Bankruptcy Procedure”) to Chapter 10 of the Law (“Personal Bankruptcy”). The proposed regulation concept provided for cancelling the requirement concerning mandatory engagement of a bankruptcy manager and for independent legal management of the bankruptcy procedure by the individual with a view to minimising the individual debtors’ costs.

The Draft Law mentioned above was brought before the Government of the Russian Federation on multiple occasions, but was repeatedly returned for follow-up revision. The latest version of the Draft Law brought before the Government entitles individuals with a debt amounting to RUB 50,000 — RUB 700,000 RUB, including individual entrepreneurs, to use a simplified procedure, provided that the individual’s income for the last 6 months does not exceed RUB 50,000 per month.

In all other respects, the conditions have not changed: no more than 25% of the debt shall occur within the last 6 months, the individual may not sale the property for more than 2 mln RUB during the year (save for the sale of collateral with the consent or at the request of the bank) and gratuitous transactions on sale of the property for more than 200,000 RUB. However, 10 years must expire since the last procedure for the sale of property under a simplified procedure and not less than 5 years after debt restructuring; the debtor may not have more than 10 creditors and criminal records for intentional financial crimes. Only the debtor may apply for the simplified procedure.

In 2018, the revision of the Draft Law was continued – on 28 December 2018, the Ministry of Economic Development of the Russian Federation posted a notice concerning the launch of an independent anti-corruption expert review of the Draft Federal Law “On Amendments to the Federal Law “On Insolvency (Bankruptcy)” Introducing a Simplified Personal Bankruptcy Procedure” on the official portal “regulation.gov.ru”⁴⁵.

As in the past, the current version of the Draft Law provides for applying this procedure to individuals with a total debt amounting to RUB 50,000 – RUB 700,000 RUB, while the legal action to recognize an individual as a bankrupt according to the simplified procedure may be taken both by the debtor and the creditor. The arbitration court may rule to recognize an individual as a bankrupt and order the sale of property under a simplified procedure without summoning the parties and without holding a court session within five business days from the date of accepting the relevant request from the citizen. Under the simplified bankruptcy procedure, the meeting of creditors is not mandatory and may be held at the initiative of the parties involved in the bankruptcy case. In addition, the procedure does not require a review of the individual’s financial standing and identification of the marks of premeditated and/or fraudulent bankruptcy⁴⁶.

It is expected that after the Draft Law is adopted, the bankruptcy procedure will become available to the most financially disadvantaged citizens whose debts are minor in monetary terms and yet fail to match their earnings.

As for the clarifications of certain matters concerning the personal bankruptcy procedure, the Plenum of the SC of the Russian Federation passed Resolution No. 48 “On Certain Matters Concerning the Peculiarities of Forming and Allocating the Bankruptcy Estate in Personal Bankruptcy Cases” on 25 December 2018 that is critically important.

Thus, to ensure uniform enforcement of personal bankruptcy legislation by the courts, the Plenum of the SC of the Russian Federation issued the following clarifications:

- The debtor’s bankruptcy estate shall not include the debtor’s receipts intended to support any other persons (e.g. child maintenance payments; survivor’s pension awarded to a child; child allowance; social pensions, allowances, and social benefits for disabled children, etc.) and exempt property in accordance with the civil procedural legislation, including cash in the minimum subsistence amount at the disposal of both the individual debtor and his/her dependants.

Upon a reasoned request of the individual and the other persons involved in the bankruptcy case, the court may additionally exempt the individual’s assets worth of RUB 10,000 at the most in total from the bankruptcy estate in exceptional instances in order to provide the debtor and his/her dependants with the funds necessary for normal living. Upon a reasoned request of the individual, the court may additionally exempt the property of a higher value from the bankruptcy estate (e.g. when the debtor or his/her dependants objectively need expensive drugs or health services and the amount exempt from the bankruptcy estate is insufficient to cover the relevant expenses). In this case, a balance between the interests of the debtor and his/her dependants, on the one hand, and of the creditors entitled to receive satisfaction at the expense of the bankruptcy estate, on the other, shall be maintained.

- Immunity of the only habitable unmortgaged accommodation from enforcement equally applies to the instances of debtor’s bankruptcy. If the debtor has several accommodation facilities fully owned thereby, the accommodation covered by immunity from enforcement shall be established by the court adjudicating the bankruptcy case based on the need of both satisfying the creditors’ claims and protecting the constitutional right to housing of the individual debtor and his/her family members, including the minor children, elderly people and disable persons supported thereby, as well as providing them with normal living conditions and guarantees of their social and economic rights;

⁴⁴ Federal Portal of Draft Regulations // <https://regulation.gov.ru/p/78389>.

⁴⁵ Federal Portal of Draft Regulations // <https://regulation.gov.ru/p/87396>.

⁴⁶ <https://www.pnp.ru/social/minekonomrazvitiya-predlagaet-uprostit-proceduru-bankrotstva-grazhdan.html>

- The purpose of contesting a transaction under a bankruptcy case is to restore the property that can be sold to satisfy the creditors' claims to the bankruptcy estate, and this is the reason why a transaction involving a disposal of an accommodation by the debtor may not be declared invalid, provided that during the proceedings on the dispute, the relevant facility is continuously occupied jointly by the debtor and his/her family members and if the accommodation is restored to the bankruptcy estate, it will be covered by immunity from enforcement;
- Under a personal bankruptcy case, both the creditors' claims on the debtor's personal liabilities and claims on the spouses' common liabilities shall be taken into consideration. The bankruptcy estate shall be used to discharge these claims as follows. In the first place, the claims of all creditors, including those of the creditors under current liabilities, shall be discharged from the value of the debtor's personal property and from the value of the spouses' community property accounted for by the debtor. This is followed by allocating the funds accounted for by the debtor's spouse to satisfy the creditors' claims under community debts (to the extent of the outstanding amount), and the balance accounted for by the debtor's spouse shall be handed over to the relevant spouse;
- Generally, under a personal bankruptcy case, the relevant debtor's property is subject to sale alongside with the property owned thereby and the spouse (former spouse) as community property. In the meantime, the spouse (former spouse) who believes that the sale of community property under a bankruptcy case disregards the legitimate interests of such spouse and/or interests of his/her dependants, including minor children, may take legal action to request division of the spouses' community property prior to the sale thereof under a bankruptcy procedure;
- Except as the spouses have made an out-of-court settlement on the division of community property, a marital contract, or except as the court has divided the spouses' community property, the process of establishing the spouses' shares in this property shall be based on the assumption that the spouses' shares in their community property are equal, and in the absence of the spouses' community debts, the debtor's spouse shall receive half of the money from the sale of the spouses' community property (prior to discharging current liabilities). The debtor's spouse (former spouse) who disagrees with the principle of spouses' equal shares in their community property may take legal action and request that a different method to establish the shares be used;
- If the property has been divided and the spouses' shares in the community property have been established by the court, the bankruptcy manager, the creditors of the debtor may appeal against the relevant judicial act under a standard procedure set forth in the procedural legislation as it regards the division of the property and establishment of the shares, provided that such judicial act has violated their rights and legitimate interests. The bankruptcy manager, the creditors of the debtor whose claims have been recognised by the arbitration court considering the bankruptcy case as valid and meet the criterion referred to in Clause 1, Article 213.32 of the Bankruptcy Law in terms of their amount may contest the spouses' out-of-court settlement on the division of community property under the bankruptcy case on the grounds associated with the violation of the creditors' rights and legitimate interests by such settlement;
- Clause 7, Article 213.26 of the Bankruptcy Law implies that in order to include the community property that has been transferred to the debtor's spouse due to changes in the ownership regime resulting from an out-of-court settlement on the division of property to the bankruptcy estate, the latter shall hand over the entire community property acquired thereby to the bankruptcy manager of the debtor. If the spouse evades handing over such property, the bankruptcy manager may request confiscation of such property from the spouse.

If the spouse disposes of the property supposed to be handed over to the bankruptcy manager, the former shall hand over the money equivalent of its full value (where the register of the debtor creditors' claims includes, inter alia, the spouses' community debts) or an amount exceeding the spouse's share prior to the changes in the ownership regime (where the register of the debtor creditors' claims includes the debtor's personal debts only) to the bankruptcy estate. In this case, the surplus of the funds delivered by the spouse following the discharge of the creditors' claims shall be returned to the spouse;

- When the insolvency procedures are initiated against both spouses, their community property shall be subject to sale under the bankruptcy case of the spouse indicated as the owner in the public register or possessing the property when the title to such property is not recorded in the public registers. The proceeds from the sale of the spouses' community property shall be divided between the bankruptcy estates prorated to their shares in the community property.

For the sake of procedural economy and simplification of the property sale procedure, to satisfy the creditors' claims, the court may consider the possibility of consolidating two spouses' insolvency cases and appoint the bankruptcy manager from the earlier case. In the event of consolidating two cases, the bankruptcy manager shall maintain a separate register of creditors' claims on the spouses' community debts and separate registers of creditors' claims on each spouse's personal liabilities. The proceeds from the sale of either spouse's personal property may not be used to discharge the other spouse's personal liabilities;

- The bankruptcy manager, the creditors of the debtor whose claims have been recognised by the arbitration court considering the bankruptcy case as valid and meet the criterion referred to in Clause 1, Article 213.32 of the Bankruptcy Law in terms of their amount may contest, under the bankruptcy case, the transactions involving the disposal of the debtor's and his/her spouse's community property made by the debtor's spouse on the grounds associated with the violation of the creditors' rights and legitimate interests by such transactions;
- A bankruptcy case against an individual under a simplified procedure (in the absence of the court ruling (court order) confirming the debt — Clause 2, Article 213.5 of the Bankruptcy Law) shall be initiated with due regard for the child maintenance arrears arising out of a notarised written maintenance payment agreement uncontested by the debtor. If the debtor's child maintenance liabilities have been established by the court, the bankruptcy manager, the creditors of the debtor may appeal against the relevant judicial act under a standard procedure set forth in the procedural legislation, if such judicial act has violated their rights and legitimate interests. When resolving the issue concerning invalidity of the maintenance payment agreement on the grounds associated with the violation of the creditors' rights and legitimate

interests by such agreement, the court shall check whether the transaction pursued illegal purposes when it was made.

Therefore, the Resolution of the SC of the Russian Federation referred to above focuses on the purposes of contesting transactions under personal bankruptcy cases, peculiarities of enforcing spouses' community property in case of either spouse's bankruptcy, and consideration of bankruptcy cases against both spouses, as well as peculiarities of considering the creditors' claims on the debtor's child maintenance liabilities, which effectively closes multiple legal gaps.

In this context, special attention should be given to the clarifications issued by the SC of the Russian Federation concerning the types of the individual's property not subject to inclusion in the bankruptcy estate in bankruptcy cases, including the debtor's and his/her family members' only accommodation, and minimum subsistence earnings and social payments — child maintenance payments, survivor's pension payments awarded to a child, etc.

FOR REFERENCE

Previously, in its Decision No. 305-ES18-15724 dated 29 November 2018 on the Cassation Appeal by A. L. Kuznetsov Against the Decision of the Moscow Arbitration Court dated 20 February 2018, the SC of the Russian Federation admitted the possibility of including the debtor's only accommodation in the bankruptcy estate by emphasising that the debtor had abused his right, deliberately impaired his housing situation, and committed fraud to obstruct the sale of the accommodation to repay his debt to the creditor established by the court, including by way of gifting his apartment to his former spouse.

In addition, the following important rulings of the SC of the Russian Federation defining the general approach that can be used to consider personal bankruptcy cases should be mentioned:

Table 1.3. Rulings of the Supreme Court of the Russian Federation

Decision of the Supreme Court of the Russian Federation	Clarification of the Supreme Court of the Russian Federation
Decision No. 305-ES17-2344(13) dated 27 April 2018 on the Cassation Appeal by the Receiver of NOTA-Bank Public Joint-Stock Company Against the Decision of the Moscow Arbitration Court dated 31 March 2017	The consequences of declaring the transaction enforcement invalid on bankruptcy grounds include, without limitation, restoration of the obligations securing the transaction enforcement. Once the secured liability has been restored, the claimant may request enforcement of the security obligations. In this case, the court shall check whether there are any grounds for the conclusion to restore security obligations.
Decision No. 305-ES18-8007 dated 27 September 2018 on the Cassation Appeal by Bashneft-Stroy Limited Liability Company Against the Decision of the Moscow Arbitration Court dated 14 September 2017	Where a transaction with a debtor has been invalidated during the bankruptcy process, the counterparty under such a transaction may include its claim in the register, even after the deadline for doing so has expired, if it has acted fairly and submitted its request within a month after the decision invalidating the transaction came into force. If the creditor fails to present its claims within two months, the priority of delayed claims shall be downgraded. This is a rule of thumb. In case of a claim restored after the transaction has been invalidated due to the marks of a one-sided or preference transaction, the two-month period shall be counted from the date when the judicial act invalidating the transaction came into force. The prerequisite is the creditor's integrity, i.e. unawareness of the grounds for invalidating the transaction. If this creditor meets the deadline, the priority of the restored claim shall not be downgraded.
Decision No. 305-ES18-9344 dated 15 November 2018 on the Cassation Appeal by High Media-Region Closed Joint-Stock Company Against the Ruling of the Moscow Arbitration Court dated 29 December 2016	The overall interpretation of the applicable legal provisions, subject to the clarifications given, suggests that a judicial act invalidating a transaction under a bankruptcy case shall be equally valid even when the bankruptcy proceedings have been discontinued.
Decision No. 307-ES17-18665 dated 29 March 2018 on the Cassation Appeal by A. Yu. Kulikova Against the Decision of the Arbitration Court of St. Petersburg and the Leningrad Region dated 02 March 2017.	The creditors' requests to initiate bankruptcy procedures against a debtor shall be considered jointly in the circumstances attesting to the debtor's insolvency and manifested by the fact that the creditors' claims are being partly discharged over a protracted period so as to ensure that the outstanding balance under each claim does not exceed the threshold for initiating a bankruptcy procedure against the debtor.
Decision No. 301-ES17-22652(1) dated 28 May 2018 on the Cassation Appeal by Invest-Proekt Limited Liability Company Against the Decision of the Arbitration Court of the Nizhny Novgorod Region dated 05 May 2017.	The lender shall be denied inclusion of its claim in the register of guarantor creditors' claims, unless the affiliated lender, borrower, and guarantor disclose a sound economic rationale for the security transaction.
Decision No. 305-ES17-6779(2) dated 23 April 2018 on the Cassation Appeal by Mosvodostok State Unitary Enterprise Against the Decision of the Moscow Arbitration Court dated 3 February 2017	The bankruptcy creditor may appeal against the receiver's decision to include another bankruptcy creditor's claims in the register of the debtor creditors' claims. The deadline for appealing against this decision shall be counted from the date when the relevant bankruptcy creditor became aware or should have become aware of the illegitimate inclusion of the claim in the register.

Decision of the Supreme Court of the Russian Federation	Clarification of the Supreme Court of the Russian Federation
Decision No. 305-ES15-10675 dated 19 April 2018 on the Cassation Appeal by Vodoley Limited Liability Company Against the Resolution of the Tenth Arbitration Court of Appeal dated 24 August 2017	When selling pledged property by public offer in bankruptcy proceedings, the secured creditor failing to exercise its right to keep the property after a failed repeat auction shall preserve its priority over the other creditors.
Decision No. 308-ES17-19467 dated 22 March 2018 on the Cassation Appeal by DiPOS-Kuban Limited Liability Company Against the Resolution of the Fifteenth Arbitration Court of Appeal dated 13 June 2017	<p>Upon expiry of a 30-day period provided for by Clause 4.1, Article 138 of the Bankruptcy Law, the secured creditor shall not lose its right to keep the collateral, except as the sale has been completed. The survival of the secured creditor's right to take part in establishing the market value of the property by keeping it at the stage when there are no bids from the bidders does not violate the rights and legitimate interests of the other creditors and persons claiming the property, as it is consistent with the purposes of the bankruptcy proceedings.</p> <p>An auction may be declared invalid where the possibility to take part was restricted by unfair practices on the part of one of the bidders who submitted multiple bids that raised the price offered thereby in the absence of successive bids with a higher price from the other bidders.</p>
Decision No. 305-ES16-10864(5) dated 14 May 2018 on the Cassation Appeal by SMP Bank Joint-Stock Company Against the Decision of the Arbitration Court of the Moscow Region dated 20 April 2017.	<p>When a construction participant legitimately repudiates a shared construction participation agreement followed by entry into a new agreement for the same apartment with another person, the rule of thumb is that the transfer of the apartment to the second construction participant gives rise to the actual owner's title unencumbered by mortgage to the benefit of the first construction participant.</p> <p>In case of the developer's bankruptcy, the construction in progress shall not be enforced as provided for by Article 13 of Law No. 214-FZ, and the apartments shall not be handed over in the manner established by Article 8 of this Law. The claims of the construction participants referred to above, including former participants, shall be satisfied in accordance with the dedicated provisions of Articles 201.10, 201.11, 201.14, etc. of the Bankruptcy Law that do not require an independent legal action requesting to establish the secured creditor's status under the general rule. To that effect, it is enough that the construction participant (either current or former) that has made an agreement in compliance with the Law on shared construction participation presents a claim for the accommodation or a monetary claim to the developer (Article 201.4 of the Bankruptcy Law) and the relevant court recognizes this claim as a valid claim.</p>



Due to the growth of debt in the sector of consumer lending in 2018 and the rising popularity of the personal bankruptcy procedure with the population, improving the personal bankruptcy institution is becoming increasingly important. The new Resolution of the Plenum of the Supreme Court of the Russian Federation clarifies a number of important issues, including those concerning the sale of the only accommodation, inclusion of social payments in the bankruptcy estate, and implementation of the bankruptcy procedure subject to the spouses' ownership regime. In the meantime, the clarifications of the Supreme Court of the Russian Federation have to be enshrined in the laws.

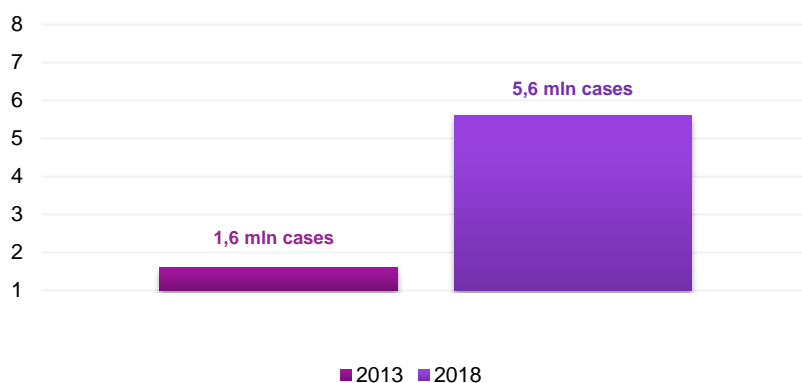
1.5. Consumer Protection in the Process of Debt Collection

Consumers are making an increasing use of the loan products to meet their needs (purchase goods, works, and services), while preserving their status of a weaker party to the credit relations, especially when they are unable to fulfil their loan obligations in full.

The number of debt collection cases on credit agreements and loan agreements is continuously on the rise: in 2013, the courts considered 1.359 mln cases of this sort, while in 2018, this number was 4 times as high and reached 5.6 mln cases (Figure 1.6). The total amount of claims satisfied under such cases by the courts equalled around RUB 830 bln — an average of RUB 164,000 per case⁴⁷.

⁴⁷ The Supreme Court Sums up Performance by the Courts in 2018// <https://pravo.ru/story/209019/>.

Figure 1.6. Number of Debt Collection Cases on Credit Agreements and Loan Agreements



Source: The Supreme Court of the Russian Federation

In the meantime, as compared to debt collection through the courts that has a long history and provides individuals with a wide range of effective remedies against an unfair recoveree, the new out-of-court debt collection mechanisms are persistently fraught with multiple hazards for the consumer. This is particularly relevant for debt collection agencies, including the illegal ones.

New Measures of Consumer Rights Protection in the Process of Debt Collection

The rising debt burden of the population requires a straightforward and understandable regulation of the matters concerning collection of overdue debt and proper protection of the rights and interests of individual debtors.

It is becoming increasingly important to address the issues concerning a practicable allocation of the payments to repay the debt and reduce the additional financial burden of such debtors arising during enforcement and court proceedings (e.g. payment of the enforcement fee, fines, reimbursement of property transportation, storage, and sale costs, litigation costs).

In this context, an important development in 2018 was the finalisation and adoption of Federal Law No. 24-FZ dated 6 March 2019 “On Amendments to the Federal Law “On Enforcement Proceedings” that releases the individuals participating in the government borrower assistance programs from the obligation to pay the enforcement fee.

The Law stipulates that the enforcement fee shall not be payable when the enforcement proceedings have been initiated under the writs of enforcement against an individual debtor undergoing restructuring of a residential mortgage loan in accordance with the assistance programs for individual categories of borrowers approved by the Government of the Russian Federation as part of enforcement proceedings to collect the residential mortgage loan under restructuring. In the meantime, the Law specifies that in case of multiple debtors under a joint collection to the benefit of a single recoveree, the enforcement fee shall be payable jointly (previously, the enforcement fee used to be payable by each debtor).

In addition, the Law stipulates that the enforcement proceedings shall be terminated by the court bailiff if the individual borrower’s obligations to the pledgee creditor are terminated pursuant to Clause 5, Article 61 of Federal Law No. 102-FZ dated 16 June 1998 “On Mortgage (Real Estate Mortgage)”, i.e. where the proceeds from the sale of the mortgaged property or value of the mortgaged property kept by the pledgee are insufficient to satisfy all monetary claims lodged by the pledgee creditor.

FOR REFERENCE

The enforcement fee represents a monetary sanction imposed on the debtor for failure to comply with a writ of enforcement by the relevant deadline for voluntary compliance and for failure to comply with a writ of enforcement subject to immediate compliance within twenty-four hours from the time of receiving a copy of the court bailiff’s resolution to initiate enforcement proceedings. The enforcement fee shall be set at seven percent of the amount to be collected or value of the property to be enforced, but in any case, it cannot be less than RUB 1,000 per individual debtor. The enforcement fee shall be transferred to the federal budget.

Considering the customary debt amounts under mortgage loans, the enforcement fee may reach the amounts comparable to the amount of the very debt. E.g., according to Kommersant FM, court bailiffs tried to collect an enforcement fee of RUB 700,000 from a borrower failing to repay a loan while the bank client had already lost his apartment for debts⁴⁸.

An important development in 2018 was the adoption by the SD of the Russian Federation of Draft Law No. 287844-7 in the first reading on 14 February 2018⁴⁹. This Draft Law provides for revising Part 20, Article 5 of Federal Law No. 353-FZ dated 21 December 2013 “On Consumer Loan (Credit)” so as to stipulate that the amount paid by the borrower under a consumer loan (credit) agreement, provided that it is insufficient to cover the borrower’s liabilities in full, shall be used to repay the borrower’s debt in the following order:

⁴⁸ <https://www.kommersant.ru/doc/3779025>.

⁴⁹ Draft Law No. 287844-7 “On Amendments to Article 5 of the Federal Law “On Consumer Loan (Credit)”.

1. interest;
2. principal;
3. penalties (fines, fees);
4. other charges provided for by the Russian Federation legislation on consumer loan (credit) or by the consumer loan (credit) agreement.

In the meantime, the Draft Law further stipulates that the order established thereby may not be changed by agreement of the parties.

Currently, the debt repayment order is as follows:

1. interest debt;
2. principal debt;
3. penalties (fines, fees);
4. interest charged for the current payment period;
5. principal debt for the current payment period;
6. other charges provided for by the Russian Federation legislation on consumer loan (credit) or by the consumer loan (credit) agreement.

Therefore, under the applicable rule, the claims for penalties (fines, fees) arising under the relations associated with holding the debtor liable for failure to fulfil an obligation shall be payable prior to paying the interest for the current payment period and the principal for the current payment period.

As rightly mentioned by the drafters, the adoption of the Draft Law will prevent the enslavement of the borrower who is interested in repaying the principal debt as soon as possible, as this reduces the interest payable on the loan, including the situations when due to a decline in the borrowing consumer's earnings, the amounts paid thereby are not sufficient to cover anything except for the forfeit (fines, fees) and interest for using the funds, and the principal debt remains unchanged.

In the meantime, ambivalent amendments were introduced to the Civil Code of the Russian Federation as part of the overall amendment package intended to improve the stability of the market of claim assignment agreements and protect creditors' rights, as well as to Federal Law No. 229-FZ dated 2 October 2007 "On Enforcement Proceedings".

Thus, Federal Law of the Russian Federation No. 212-FZ dated 26 July 2017 "On Amendments to Parts One and Two of the Civil Code of the Russian Federation and Certain Legal Acts of the Russian Federation" supplements Article 386 of the Civil Code of the Russian Federation so as to stipulate that the debtor shall notify the new creditor on any new grounds for objections known thereto and provide it with an opportunity to review them within a reasonable time upon receipt of the notice on the assignment of rights under an obligation to the new creditor. Otherwise, the debtor may not refer to such grounds. These amendments came into force on 1 June 2018.

In the meantime, amended Article 386 of the Civil Code of the Russian Federation does not provide any additional clarifications or references to any other provision establishing the "reasonable time" mentioned above, and there are no sufficient legal precedents on the matter to date. In this context, it is not clear what time should be considered "reasonable".

According to Clause 2, Article 314 of the Civil Code of the Russian Federation, when the obligation does not establish a deadline and does not contain the provisions that make it possible to establish this deadline, as well as when the deadline for the obligation is made dependent on the time of the call, the obligation shall be fulfilled within seven days from the date when the relevant call is given by the creditor, except as a different deadline for the obligation is provided for by the law, other legal acts, terms of the obligation, or follows from the custom or nature of the obligation. Therefore, these general rules suggest that a reasonable time for the consumer to send a response to the new creditor will be seven days.

In case of legal entities, this rule may be justified; however, in case of an individual, it may provoke substantial difficulties: the consumer will have just seven days to collect the necessary documents and prepare reasoned objections. In the meantime, if the consumer makes no objection by this time, this may be treated as his/her tacit consent both with the transfer of the debt to the new creditor and with the relevant claims under the amended Article referred to above.

In this context, it is noteworthy that the currently observed consistent downtrend in the number of grounds and methods for the consumer to contest the claim assignment agreements gives rise to certain concerns. The striving to protect the creditors and improve the stability of the assignment market, including in terms of consumer loans, is understandable and natural. However, the relevant changes should not prejudice the rights of the least protected party to such relations — consumers in debt. As a rule, the party that the consumer chooses for the loan relations (bank or any other credit institution) is of paramount importance to the consumer: the very situation when another party takes the side or place of the creditor that has never had any relations with the consumer, leads to discontent, confusion, and major moral discomfort experienced by most of consumers, which ultimately results in a further increase in the debt.

The unacceptability of reducing protection of the consumer (borrower) in the process of debt collection under claim assignment agreements was mentioned by Rospotrebnadzor as early as in 2013⁵⁰.

In the meantime, this position of an individual debtor may potentially be eliminated by the relevant legal precedents or by the very legislator in the future.

Pursuant to Federal Law No. 539-FZ dated 27 December 2018 "On Amendments to Article 9 of the Federal Law "On Enforcement Proceedings", Part 1, Article 9 of Federal Law No. 229-FZ dated 2 October 2007 "On Enforcement Proceedings" was amended to stipulate that the maximum amount of debt for which the recoveree may independently send

⁵⁰ https://rospotrebnadzor.ru/deyatelnost/zpp/?ELEMENT_ID=1019.

a writ of enforcement for the sake of collection to a company or any other entity paying a salary, pension, stipend, and any other regular payments to the debtor was increased from RUB 25,000 to RUB 100,000.

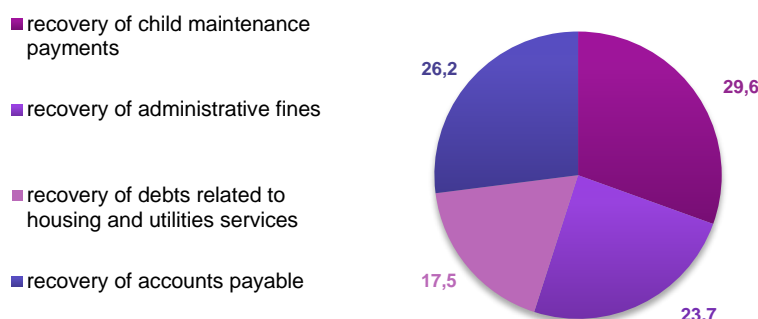
On the one hand, these amendments enable the debtor not to take part in the enforcement proceedings, and therefore, to avoid the additional expenses associated therewith, including the enforcement fee. However, this deprives the debtor of the opportunity to be practically involved in the enforcement proceedings, interact with the recoveree, and use diverse debt repayment mechanisms under the enforcement proceedings. It is quite common when the indebted consumer remains unaware of the debt until an unexpected deduction of a portion of his/her salary by the employer.

To eliminate the causes and factors driving up the frequency of individuals' complaints, provide for an effective exercise of their rights during the enforcement proceedings, and enhance the transparency and availability of information about its activities, the Federal Bailiffs Service of Russia (the FBS of Russia) held Uniform Reception Days in April, July, and October 2018.

They involved members of community councils under the FBS of Russia territorial bodies and regional human rights ombudsmen, children's rights ombudsmen, and business rights ombudsmen. Over the course of these activities, 177,000 citizens submitted requests to the FBS of Russia. Most of them (around 94,500) were debtors under enforcement proceedings who repaid over RUB 150 mln in total. During the Uniform Reception Days, the FBS of Russia took immediate steps to restore the requesters' violated rights and provided clarifications.

Most often, individuals' requests concerned the recovery of child maintenance payments (29,600 individuals), administrative fines (23,700), debts related to housing and utilities services (17,500), and accounts payable (26,200).

Figure 1.7. Individuals' Complaints Filed With the FBS of Russia in 2018



Source: The FBS of Russia

On the All-Russia Reception Day held on 12 December 2018, 19,300 individuals submitted requests to the FBS of Russia. In addition, for the sake of legal education of the citizens, the territorial bodies of the FBS of Russia launched the Free Legal Assistance Days. In 2018, 19,300 individuals received free legal assistance⁵¹.

The Supreme Court of the Russian Federation equally took steps to protect the rights of individual debtors in order to prevent an excessive debt burden.

Thus, the Plenum of the SC of the Russian Federation adopted Resolution No. 48 dated 25 December 2018 "On Certain Matters Concerning the Peculiarities of Forming and Allocating the Bankruptcy Estate in Personal Bankruptcy Cases" containing clarifications on the enforcement of individuals' property under the bankruptcy procedure, including the individual's only accommodation.

When addressing the matter concerning commensurability of the liabilities to be enforced under loan agreements: in its Decisions No. 81-KG17-25 dated 6 February 2018, No. 45-KG17-24 dated 13 March 2018, and No. 41-KG18-3 dated 15 May 2018, the SC of the Russian Federation stated it unacceptable to set (and therefore, enforce through the courts) an ultra-high interest rate for a long period on a microloan with a short maturity⁵².

In addition, the Decision of the Judicial Board on Civil Cases of the SC of the Russian Federation No. 16-KG18-32 dated 18 September 2018 specifies that the limitation period for overdue regular payments shall be counted separately for each overdue payment, and therefore, as they adjudicate the issue concerning the enforcement of the consequences of failure to meet the limitation period, the courts should establish the regular payments where the limitation period has not been missed. This Decision is important from the standpoint of releasing the individual from debt in case of the creditor's failure to present the claim for repayment in a timely manner: consumers should defend their rights in cases on debt collection under loan agreements with due regard for the possibility that the court will enforce the limitation period consequences for the claims presented by the creditor with account of payment periods, as well as reduction of interest charged due to their incommensurability to the principal obligation.

Debt Collection by Virtue of Enforcement Inscription by a Notary

The discussion concerning simplified debt collection from individuals by virtue of an enforcement inscription by a notary continued in 2018.

⁵¹ Final Report on the FBS of Russia Performance in 2018, p. 10// http://fssprus.ru/files/fssp/db/files/02019/itogovj_doklad_za_2018_god_20193181711.pdf.

⁵² This Resolution is reviewed in more detail in Section 1.4. of the Report.

As early as in 2016, Rospotrebnadzor published its stand concerning the procedure and grounds for collecting debt according to this procedure. Specifically, it emphasised the unacceptability of consumer rights violations and the credit institution's obligation to prepare the documents that both confirm the incontestability of the recoveree's claims to the debtor and the fact of the creditor's prior notification of the borrower (given at least 14 days prior to contacting the notary public) in the form of a debt notice when requesting a notary public to make an enforcement inscription. In case of failure to present the documents confirming the incontestability of the credit institution's claims and in case of any doubts concerning the incontestability, the notary public shall refuse to make an enforcement inscription⁵³.

The same stand was upheld by Thirteenth Arbitration Court of Appeal in Resolution No. 13AP-355/2018 dated 23 March 2018 on case No. A26-9416/2017.

However, a different stand was presented by the Federal Notarial Chamber in the information letter dated 30 May 2018 referring to the Fundamental Principles of the Legislation of the Russian Federation on Notarial Services⁵⁴. In the opinion of the Federal Notarial Chamber, when making an enforcement inscription on the enforcement of pledged assets, the creditor is not required to give a debt notice to the debtor at least fourteen days prior to requesting a notary public to make an enforcement inscription or present a documentary proof of such notice in this case.

Indeed, the Fundamental Principles of the Legislation of the Russian Federation on Notarial Services do not contain the requirements to present the documents referred to above. However, such amendments do seem necessary both for the sake of consumer protection and in order to eliminate the conflict between this regulation and the consumer protection legislation. Otherwise, the risk that recoverees will abuse this simplified debt collection procedure will remain unacceptability high.

Debt Collection Agencies' Activities

In 2018, special attention was given to the activities of professional recoverees, predominantly due to the implementation of the provisions of Federal Law No. 230-FZ dated 3 July 2016 "On Protection of Rights and Legitimate Interests of Individuals in Recovery of Overdue Debts" (hereinafter referred to as Law No. 230-FZ) and a major growth of the overdue debt market.

According to the information provided by the National Association of Professional Collection Agencies, at year-end 2018, the assignment market volume in terms of the debt to microfinance institutions reached RUB 14—15 bln, and in terms of the debt to banks — over RUB 300 bln. In the meantime, 86% of the assignment market was accounted for by banks and only 4% — by MFIs in 2018. Most frequently, these were unsecured cash loans and POS loans (62%) that were offered in the bad debt market⁵⁵. In the meantime, over three quarters of 2018, debt collectors received over RUB 410 bln in overdue debt for work under the agency scheme from the banks. Over this period, the banks transferred RUB 4.2 mln debts worth of RUB 410 bln in total to the recoverees as initial offer (first-transferred overdue bank debt). This is 10% (in quantitative terms) and 37% (in monetary terms) more than in the same period of 2017. This is the first increase in the volumes of initial debt transfers to debt collector since 2015 when they amounted to RUB 541 bln. Thereafter, these figures have been continuously declining: in 2016, debt collectors received RUB 408 bln of overdue bank debt and at year-end 2017 – a mere RUB 390 bln.⁵⁶

The Report on the Status of Financial Consumer Protection in 2017 stressed that adoption of the 230-FZ as well as a number of associated laws drew a line under the public discussion on the legitimacy of professional debt collectors' activities (the so-called "debt collectors") and ensured the debtor protection from illegal recovery practices by setting out the legal basis for recovery of debts arising out of monetary liabilities, as well as mechanisms for protecting the rights and legitimate interests of individuals in the debt recovery process.

Furthermore, adoption of this Law helped improve the situation with the use of debtors' personal data attested to by a lower number of complaints about debt collection agencies submitted to Roskomnadzor (Federal Service for Supervision of Communications, Information Technology and Mass Media): as early as in Q1 2018, Roskomnadzor received just 557 complaints about debt collection agencies, 26.7% less compared to the previous year and 37.3% less compared to Q1 2016⁵⁷.

Nevertheless, the Law referred to above failed to address all the issues concerning the interaction between individual debtors and debt collection agencies, which explains why the legislation in this area were continuously developed in 2018.

Thus, Federal Law No. 416-FZ dated 12 November 2018 "On Amendments to Article 7 of the Federal Law "On Protection of Rights and Legitimate Interests of Individuals in Recovery of Overdue Debts and on Amendments to the Federal Law "On Microfinancing and Microfinance Institutions" changes the list of data to be included in the wire, text, voice, and other messages transmitted by telecommunication systems, including mobile wireless communication systems, for the sake of overdue debt collection. In the past, the creditor or its representative could communicate to the debtor only the fact of overdue debt (without specifying the debt size and structure), while the amendments helped make this information better available: the recoveree may provide the other details of the debt as well, including the debt size and structure.

In addition, Federal Law No. 554-FZ dated 27 December 2018 "On Amendments to the Federal Law "On Consumer Loan (Credit)" and Federal Law "On Microfinancing and Microfinance Institutions" was adopted to limit the interest rate under a consumer loan (credit) agreement and the creditor's rights. Following the adoption of this Law, the claim under the loan may not be assigned to any institutions except for professional lenders: debt collection agencies; special-purpose financial companies; individuals specified in the borrower's written consent. In the meantime, the Law prohibits any claims to service

⁵³ https://rospotrebnadzor.ru/deyatelnost/zpp/?ELEMENT_ID=7400.

⁵⁴ http://www.consultant.ru/document/cons_doc_LAW_299098/.

⁵⁵ <http://www.napca.ru/press-tsentr/news/6616/>.

⁵⁶ <http://www.napca.ru/publishing/4783/>.

⁵⁷ <https://iz.ru/746363/tatiana-gladysheva/chislo-zhalob-na-kollektorov-vyroslo-na-74>.

the loan against the borrower where the claims have been assigned to third parties and the original creditor is not a professional lender.

Thus, Rospotrebnadzor's consistent stand on the unacceptability of entitling the creditor to assign claims under a consumer loan (credit) agreement to any third parties was finally enshrined in the Russian legislation⁵⁸.

It is equally important to note lawmakers' proposals to increase the transparency of activities of debt collection agencies engaged by the creditor.

Draft Law No. 307663-7⁵⁹ provided for placing the creditor under an obligation to notify the debtor on the engagement of a different party to interact with the debtor with a view to recovering the overdue debt by registered mail and post a relevant notice in the Unified Federal Register of Information on Activities of legal Entities, Individual Entrepreneurs and Other Business Entities within 30 days from the date of the relevant engagement.

The Draft Law was rejected by the Federation Council of the Russian Federation on 16 January 2019 and is currently pending conciliation. However, should this rule be enacted, individual debtors will effectively obtain an opportunity to learn promptly about the engagement of third parties by the creditor to collect their debts and identify such party, as well as to verify its credentials in case of actual interaction therewith.

A symptomatic judgment was made by the SC of the Russian Federation in the Decision dated 27 February 2018 on case No. 5-KG17-256 stipulating that excessive and unjustified calls, as well as text messages sent to the individual's telephone number to request the repayment of non-existent debts infringe upon human dignity and invade the individual's privacy. In this context, a claim to pay damages associated with the moral injury caused by such actions is justified by invasion of personal privacy through unjustified and importune phone calls and text messages (the claimant received phone calls and text messages urging to repay a debt from Sentinel Credit Management LLC debt collection agency).

Therefore, the judgment enshrines the consumer's extra opportunity to be compensated for the trouble caused by the recoveree's unlawful actions by claiming compensation for moral injury through the courts.

It is noteworthy that the activities of debt collectors are supervised by the Federal Bailiffs Service (the FBS of Russia) in accordance with the Administrative Regulation on the exercise of the relevant public function by the FBS of Russia⁶⁰. The FBS of Russia declared the key goal for 2018: "Ensuring protection of the rights and legitimate interests of citizens in the area of overdue debt collection".

According to the Final Report on the FBS of Russia Performance in 2018, the implementation of the oversight and supervisory function in 2018 involved 12 unscheduled inspections of legal entities included in the state register. The inspections resulted in the issue of 53 orders to eliminate the offenses revealed and 377 administrative offence reports provided for by Article 14.57 of the Code of the Russian Federation on Administrative Offenses. Three institutions (Konstanta LLC, Finkollekt LLC, Sequoia Credit Consolidation JSC) were removed from the state register. The FBS of Russia officials accepted about 22,000 complaints, including 7,100 complaints concerning the legal entities included in the state register, 14,700 complaints concerning the entities not included in the state register (10,100 complaints concerning microfinance institutions, 2,600 complaints concerning credit institutions, 330 complaints concerning individuals, 1,700 complaints concerning other parties), and 156 complaints concerning other issues. Following the consideration, 1,600 complaints out of 20,500 were declared valid (including 851 complaints concerning the legal entities included in the state register and 772 complaints concerning the legal entities not included in the state register). The requesters were provided with clarifications under 6,500 complaints. In the exercise of the administrative jurisdiction function, officials of the FBS of Russia territorial bodies initiated 1,800 administrative offence cases provided for by Article 14.57 of the Code of the Russian Federation on Administrative Offenses. The courts considered around 1,500 cases. Under 1,300 cases, administrative sanctions were imposed in the form a fine worth of RUB 60.7 mln in total, under 11 cases — a verbal reprimand was made, under 25 cases — warnings were issued, and 146 cases were dismissed. In addition, Order of the FBS of Russia No. 20 dated 18 January 2018 approved a new form of the debtor's request to interact with the creditor and/or party acting in its name and/or on its behalf exclusively through a representative or to refuse to interact.

Federal Law No. 241-FZ dated 29 July 2018 "On Amendments to Article 28.7 of the Code of the Russian Federation on Administrative Offenses" revised Part 1, Article 28.7 of the Code of the Russian Federation on Administrative Offenses so as to empower the FBS of Russia to provide for an administrative investigation due to revealing offences in the area of protection of the rights and legitimate interests of individuals during collection of overdue debt prior to submitting materials on an administrative case to the court.

In the meantime, according to the drafters, collection of evidence is the primary problem associated with the imposition of administrative sanctions on the wrongdoers. Collection of evidence for initiating administrative offence cases is a difficult task. Implementation of this Law will enable a more thorough investigation of the instance of an administrative offense and identification of all circumstances that are relevant for a proper and comprehensive consideration thereof in the court, which in turn is supposed to reduce the number of cancelled or dismissed administrative offence cases and create additional drivers for ensuring the inevitability of administrative punishment for the category of administrative offenses under review⁶¹.

In addition, the Ministry of Justice of the Russian Federation is currently drafting the Law "On Amendments to Article 4.5

⁵⁸ https://rospotrebnadzor.ru/deyatelnost/zpp/?ELEMENT_ID=1019.

⁵⁹ Draft Law No. 307663-7 "On Amendments to Certain Legal Acts of the Russian Federation".

⁶⁰ Order of the Ministry of Justice of the Russian Federation No. 332 dated 30 December 2016 "On Approval of the Administrative Regulation on the Federal Bailiffs Service's Exercise of the Public Function to Oversee (Supervise) the Activities of Legal Entities Included in the State Register of Legal Entities Engaged in Collection of Overdue Debt as Their Core Business".

⁶¹ Explanatory Note to Draft Federal Law No. 371567-7 "On Amendments to Article 28.7 of the Code of the Russian Federation on Administrative Offenses".

of the Code of the Russian Federation on Administrative Offenses Increasing the Limitation Period for Imposing Administrative Sanctions for Failure to Comply with the Requirements of the Legislation on the Protection of Rights and Legitimate Interests of Individuals in Recovery of Overdue Debts”.

This Draft Law provides for amendments to Part 1, Article 4.5 of the Code of the Russian Federation on Administrative Offenses so as to increase the limitation period for imposing administrative sanctions for failure to comply with the requirements of the legislation on protection of the rights and legitimate interests of individuals during collection of overdue debt from three months to three years⁶².

Moreover, the Ministry of Justice of the Russian Federation is drafting the Law “On Amendments to the Federal Law “On Protection of Rights and Legitimate Interests of Individuals in Recovery of Overdue Debts and on Amendments to the Federal Law “On Microfinancing and Microfinance Institutions”⁶³ intended to improve the procedures for considering the individuals’ complaints concerning debt collectors’ unlawful actions. The Draft Law provides for empowering the FBS of Russia officials to demand and obtain the information and documents that are necessary for an objective, comprehensive, and all-out consideration of arguments in the individuals’ complaints about the violation of the requirements laid down in Law No. 230-FZ and on amendments to Federal Law No. 151-FZ dated 2 June 2010 “On Microfinancing and Microfinance Institutions”.

At the same time, the Draft Law “On Amendments to the Code of the Russian Federation on Administrative Offenses Regarding Establishment of Administrative Responsibility for Non-Submission or Late Submission of Information, Documents, Data or Submission of Deliberately Misleading Information, Documents, Data to the Federal Executive Authority in Charge of Control (Supervision) Over Activities of Legal Entities Included in the State Register of Legal Entities Engaged in Collection of Overdue Debts as Their Principal Activity” suggests introducing administrative responsibility for debt collectors in case of non-submission, late submission or submission of deliberately misleading information, documents, or data to the FBS of Russia⁶⁴.

In spite of the set of measures taken earlier to terminate the activities of illegal debt collection agencies, this problem remained unsolved in 2018.

As it appears from the State Register of Legal Entities Engaged in Collection of Overdue Debts as Their Principal Activity, at present, there are only 252 legalised debt collection agencies⁶⁵.

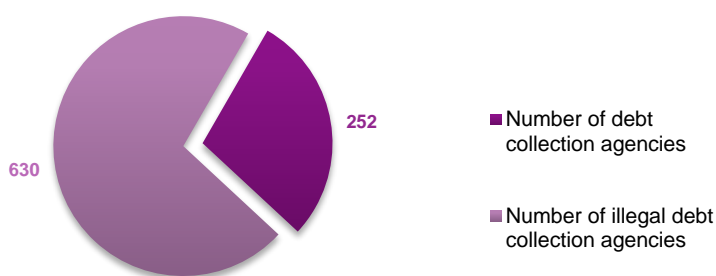
However, according to experts, the number of illegal debt collection agencies in Russia in 2018 was 2.5 times higher (ed. note: namely, 630). As TASS notes, this Register comprised about 700-800 Russian debt collection agencies before entry of Law No. 230-FZ in force. All companies that were not included in the Register became a part of unofficial grey market of debt collection services.

Together with this, approximately 500 active illegal companies are known at the moment, about 100 of them are the most active players. Most claims of debtors relate to activities of such grey debt collectors. Debt collection agencies Kavkaz, Strela, Garant, and RusInfo take the lead in terms of debtors’ claims⁶⁶. Estimated number of illegal debt collection agencies is shown in Figure 1.8.

Upon acceptance of Federal Law No. 554-FZ dated 27 December 2018 “On Amendments to Federal Law “On Consumer Loan (Credit)” and Federal Law “On Microfinancing and Microfinance Institutions”, assignment of loan claims became possible only to professional debt collection agencies making illegal similar activities of the rest entities.

However, the persisting number of illegal debt collection agencies makes it clear that the existing measures are not enough for suppression of their activities; some tougher, more comprehensive and more precisely oriented measures are needed.

Figure 1.8. Number of Debt Collection Agencies



Sources: The FBS Russia, TASS

⁶² Federal Portal of Draft Regulations // <https://regulation.gov.ru/p/82308>.

⁶³ Federal Portal of Draft Regulations // <https://regulation.gov.ru/p/82303>.

⁶⁴ Federal Portal of Draft Regulations // <https://regulation.gov.ru/projects#search=01/05/07-18/00082305&npa=82305>.

⁶⁵ http://fssprus.ru/gosreestr_jurlic/, as of 4 April 2019

⁶⁶ <https://tass.ru/ekonomika/5400981>.



In 2018, cession market continued to evolve, and some measures were developed for protection of individuals when collecting overdue debts. Amendments were introduced to the legislation of the Russian Federation aimed at decrease of debt burden of consumers as well as improvement of regulation of debt collection agencies' activities. Counteracting illegal debt collection agencies and decrease of cost of the private bankruptcy procedure were still the most acute topics in 2018.

2. Development of the Retail Financial Market and Risk Assessment for Consumers of Financial Services

2.1. General Overview of Financial Market and Financial Activity of the Population

In spite of complex geopolitical environment, growth of the Russian economy in 2018 strengthened and amounted to 102.3% (in 2017 – 101.6%)⁶⁷.

Situation in the internal financial markets stabilised after an episode of substantial volatility increase in August - first half of September. Further tightening of money and credit conditions was observed. According to the Bank of Russia, increase of the key interest rate will facilitate keeping positive real interest rates on deposits, thus making savings attractive and supporting balanced growth of consumption⁶⁸.

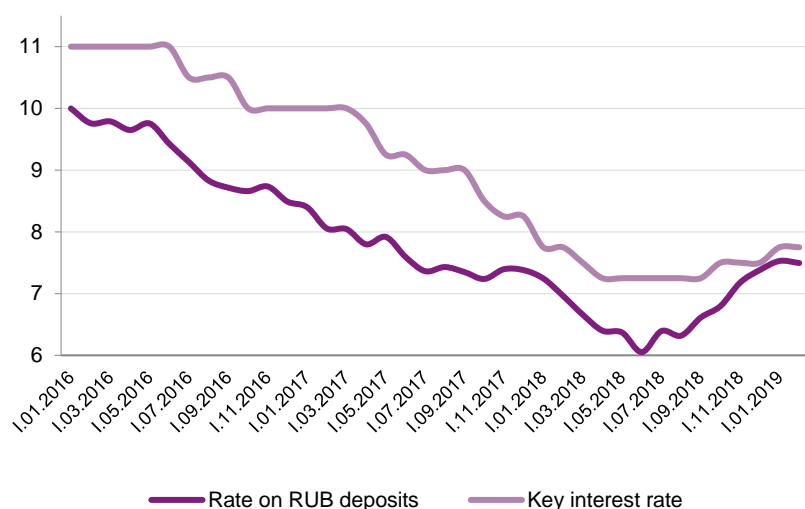
The inflation rate has increased but remained low: the consumer price index in 2018 was 104.3% against 102.5% in 2017⁶⁹.

The transition from high to low inflation rate contributed to the growth in demand for fixed-income financial instruments, such as bonds and deposits, thereby reducing their yield. At the same time, the key rate of the Bank of Russia ceased to have a significant impact on yield on deposits in credit institutions. Thus, as of the first ten days of February 2019, the key rate and the maximum rate on deposits in RUB in 10 credit institutions that attracted the largest volume of individuals deposits were practically equal - 7.75% and 7.495%, respectively (Figure 2.1).

Until mid-2018, a steady trend of reducing the cost of funds was observed in the financial market. However, in the second half of 2018, the cost of funds was increasing gradually. Consequently, the level of real interest rates stayed attractive for depositors and promoted growth of retail deposits.

Throughout 2018, there was also an increase in retail bank deposits in RUB, while a similar figure in foreign currency and precious metals grew at an outperforming rate.

Figure 2.1. Movements of the maximum interest rate on deposits in Russian RUB in 10 credit institutions that attracted the largest volume of individuals' deposits and the key rate for 2016-2018 and January 2019⁷⁰, %



Source: Bank of Russia

In 2018, one of the trend-setting drivers for development of the financial services market was a decrease in consumer confidence of the population by six pp. (Figure 2.2)⁷¹.

The decrease of the consumer confidence index was due to negative movements of all its components. Together with this, deterioration of subjective opinion of the population concerning the occurred and expected changes in the Russian economy exerted a maximum impact.

⁶⁷ On Production and Use of the Gross Domestic Product (GDP) in 2018 (First Assessment) // Website of the Federal State Statistics Agency http://www.gks.ru/bgd/free/b04_03/lsswww.exe/Stg/d04/21.htm.

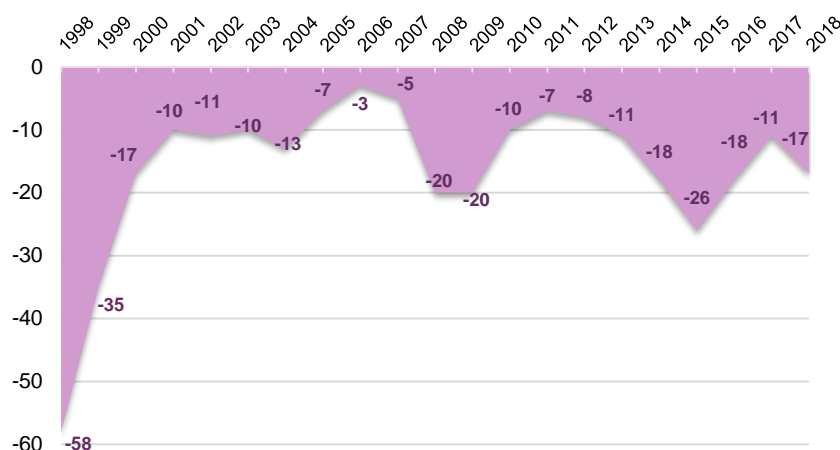
⁶⁸ Credit and Monetary Policy Report (No. 4, December 2018) http://www.cbr.ru/Collection/Collection/File/14169/2018_04_ddcp.pdf.

⁶⁹ Consumer price index in Russia Federation in 1991-2019 // Website of the Federal State Statistics Agency http://www.gks.ru/free_doc/new_site/prices/potr/tab-potr1.htm.

⁷⁰ Indicators are up to the first decade of the appropriate month and year.

⁷¹ The consumer confidence index is calculated as an arithmetic mean of five particular indices: occurred and expected changes in personal financial standing (1-2), occurred and expected changes in the economic situation in Russia (3-4), favourable conditions for major purchases (5). The diagram shows data of IV quarters of the respective years.

Figure 2.2. Dynamics of consumer confidence, %



Source: Rosstat

According to the Federal State Statistics Service, in 2018, real disposable income has not changed for the first time over the last five years. For example, during 2018, growth rate of the indicator⁷² amounted to 100.1%⁷³, while following the results of 2017, real income of the population decreased by 1.6%⁷⁴.

Stabilisation of real income improved slightly the evaluation by households of their financial situation.

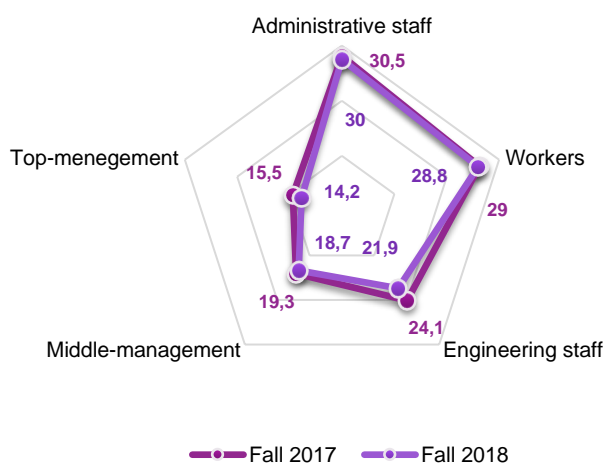
Therefore, for example, in Q3 2018, 16.1%⁷⁵ (18.1%)⁷⁶ of households experienced difficulties in purchasing clothes and paying for housing and utility services, other 50% (50.1%) could not afford buying durable goods. Together with this, 29.5% (27.2%) of households had enough money to buy foodstuffs, clothes, durable goods, however, they could not purchase a car, an apartment or a country house. Only 3.1% (2.7%) of respondents had sufficient funds to buy whatever was required.

At the same time, a share of households not having sufficient funds even to buy food stayed unchanged — 0.9% (0.9%).

The sharpest decline in income is evident for consumers who have obligations on loans and borrowings. Among households that had fixed payments, according to the results of Q3 2018, 11.8% (+ 2.1% compared to the same period in 2017) of households had financial difficulties, which made it impossible to make payments for using consumer bank loans.

At the same time, the statistics of NBKI shows deterioration of debt burden of borrowers in 2018 against 2017 (Figure 2.3)⁷⁷.

Figure 2.3. Ratio of monthly payments on all loans to monthly income depending on personnel structure of enterprises, %



Source: NBKI

⁷² Indicators are calculated without one-off payment to persons receiving a pension made in January 2017 in the amount of RUB 5,000 according to Federal Law No. 385-FZ dated 22 November 2016.

⁷³ The Standard of Living and Income of the Population in January 2019 // Website of the Federal State Statistics Agency http://www.gks.ru/bgd/free/B19_00/IssWWW.exe/Stg/dk01/5-0.doc.

⁷⁴ The Standard of Living and Income of the Population in December 2018 // Website of the Federal State Statistics Agency http://www.gks.ru/bgd/free/B18_00/IssWWW.exe/Stg/dk12/6-0.doc.

⁷⁵ Income, Expenditures, and Consumption of Households in 2018 (Following the Sample Survey of Household Budgets) // Website of the Federal State Statistics Agency http://www.gks.ru/bgd/regl/b18_102/Main.htm.

⁷⁶ From this point onward, figures for Q3 2017 are indicated within brackets.

⁷⁷ NBKI: The debt burden of employees in most fields of the Russian economy continues decreasing, 12.11.2018 // Website of the National Credit Reporting Agency <https://www.nbki.ru/press/pressrelease/?id=21851>.

It should be noted that the highest level of debt burden in October 2018 compared to October 2017 was reported by employees of guard service companies (32.7%), transport and logistics (28.4%), and in education sector (28.1%). In turn, the lowest debt burden was seen in the following sectors: information technologies (12.9%), communications and data transmission (15.2%), and marketing, advertising and PR (18.4%).

Within a year, debt burden fell most of all with regard to individuals engaged in tourism and hotel business, personnel management as well as in marketing, advertising and PR. At the same time, employees engaged in sales, communications and data transmission, and education reported increase of debt burden.

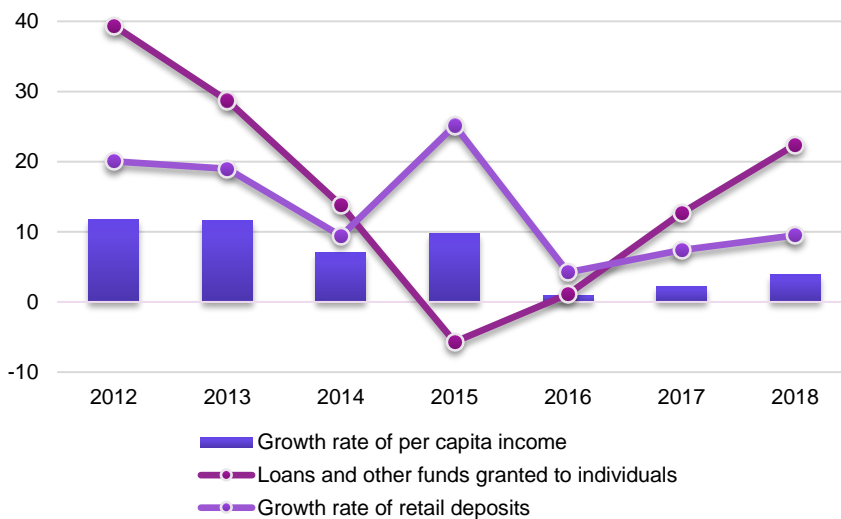
Thus, employment of borrowers in certain industries affects the risk of non-payment under their obligations. This circumstance should be taken into account when preparing financial literacy programs for the population.

FOR REFERENCE

If compared to the fall of 2017, citizens of the Russian Federation began to save less: A share of those people who cannot complain about lack of money grew by 12 pp and reached 31%. However, many people are still forced to refuse buying some goods or services due to insufficient funds. For example, in the first place, people skimp on vacation (43%) and entertainment (24%). 22% of Russian nationals cut their expenses on medical treatment, 20% of respondents reported skimping on clothes, and other 20% – on household necessities. In this context, price growth is quite predictable and logically justifiable. If the economic situation sees no improvements, there is a high risk of increasing the number of low-income people⁷⁸.

Due to shift of the population financial behaviour from a saving model to a consumptive one in 2018, retail lending continued to grow at an accelerating pace with simultaneous lower growth rates of savings and monetary income (Figure 2.4).

Figure 2.4. Movements of annual growth rates of per capita cash income, loans and other funds provided to individuals, individuals deposits during 2012—2018⁷⁹, %



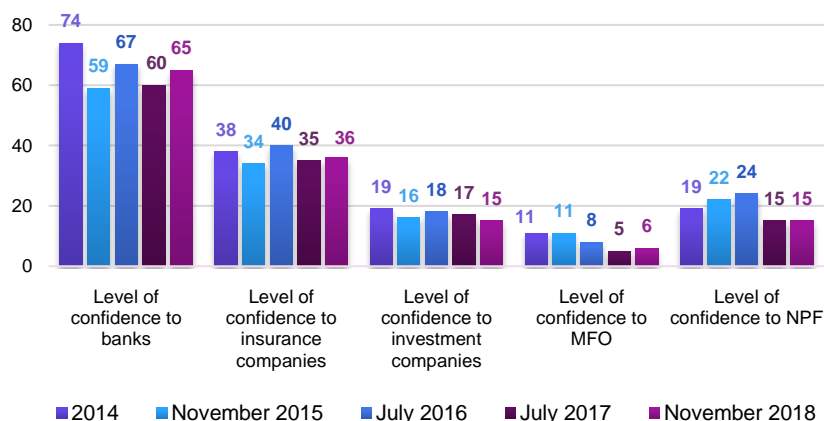
Source: Bank of Russia, Rosstat, FBK Grant Thornton's estimates

In spite of consumer confidence index decrease in 2018, people's trust in financial institutions grew slightly in general (Figure 2.5).

⁷⁸The Results of the All-Russian Survey Conducted by NAFI Research Centre in May 2018, 20 July 2018 // Website of NAFI Research Centre <https://nafi.ru/en/analytics/rossiyane-stali-menshe-ekonomit/>.

⁷⁹ Assessment of the annual per capita cash income for 2018.

Figure 2.5. Level of public confidence in financial institutions, %



Sources: NAFI

65% of Russian nationals trust banks (16% trust completely and 49% more likely trust than not), that is 5% higher than in 2017. In 2017, media coverage of banking activities was quite stressful – 3 large bank groups underwent a recovery procedure, which did not go unnoticed by the population. In this context, there was a decline of trust in banks, however, it was insignificant – actions of the regulator are still understood as a cleanup in the banking market. In 2018, there were no such high profile events, and news on rehabilitation of banks ceased to be a kind of emotional trigger for the population. Growing trust in banks can be caused by this stabilisation of the information environment.

Movements of the level of trust in insurance and investment companies, microfinance institutions and non-state pension funds in 2017-2018 remained within a statistical error⁸⁰.

It should be noted that 87% of the population in Russia make use of various financial services⁸¹.

In order to reduce the risks of financial services consumers, governmental institutions take certain measures, the results whereof are given below.

In particular, the Bank of Russia has been implementing a mechanism of the so-called “behavioural supervision”. Mikhail Mamuta, Head of the Service of Consumer Rights Protection and Ensuring Accessibility of Financial Services of the Bank of Russia defined the behavioural supervision as supervising to what extent in terms of quality an entity interacts with a consumer of its services at all lifecycle stages starting from pre-contract relations and ending with contract relations completion⁸².

The behavioural supervision consists of reactive and preventive components. The reactive component means responding to complaints while the preventive component is aimed at prevention of violations through the system of interaction with entities where some problems are identified. The preventive behavioural supervision is mostly associated with recommendations of the Bank of Russia aimed at suggesting best practices to the market and warning against use of practices leading to high consumer risk.

In particular, within the framework of the behavioural supervision the Bank of Russia advised non-credit financial institutions and credit ones not to engage unlicensed intermediaries as agents for sales of financial products⁸³.

Moreover, the Bank of Russia suggested self-regulatory organisations (hereinafter referred to as SROs) to develop standard scripts (instructions) for interaction with individuals on sale of financial products (hereinafter referred to as standards sales scripts) with regard to each type of financial products being sold by SRO members.

In doing this, it is recommended that SROs should ensure compliance of the standard sales scripts with the general principles of protection of individuals’ rights and legitimate interests as well as with provisions of the Basic Standards on Protection of Rights and Interests of Individuals and Legal Entities which are the recipients of financial services provided by SRO members, including the following aspects:

- Absence of the signs of hard selling of financial products;
- Providing the citizens with proper information on the financial product being offered, including informing on:
 - Characteristics of the financial product;
 - Expenses on acquisition, possession, and sale of the financial product (types of expenses, how they are formed);
 - Terms of validity of the financial product;

⁸⁰ The Russians’ Trust in Banks Is Growing, 17 January 2019 // Website of NAFI Research Centre <https://nafi.ru/analytics/doverie-rossiyan-k-bankam-rastet>.

⁸¹ The Russians Started to Use Credit Cards More Frequently, 25 December 2018 // Website of NAFI Research Centre <https://nafi.ru/analytics/rossiyane-stali-chashche-polzovatsya-kreditnymi-kartami>.

⁸² Warning before punishment. Mikhail Mamuta, Head of the Service of Consumer Rights Protection of the Central Bank Speaks About Complaints, Misselling, and OSAGO, 20 December 2018 // Website of Delovoy Peterburg Newspaper https://www.dp.ru/a/2018/12/19/Predosterech_prezhde_chem.

⁸³ Information Letter of the Bank of Russia No. IN-01-59/69 dated 28 November 2018 “On Sale of Financial Products”.

- Possibility, terms and procedure of early sale of the financial product (termination of the respective contract), including the procedure for return of funds (property), compensation for expenses incurred upon acquisition of the financial product, all related costs;
- All material risks associated with the financial product.

In the course of implementation by the Bank of Russia together with the Government of the Russian Federation of the Strategy of Development of Financial Market of the Russian Federation for the Period Until 2020⁸⁴ (ceased to be in force on 17 September 2018⁸⁵), Action Plan (Roadmap) “Key Activities on Development of Financial Market of the Russian Federation for the Period of 2016-2018” was developed⁸⁶.

According to the stated Plan, in 2018, the following activities were performed.

In addition, the Strategy for Improving Financial Accessibility in the Russian Federation for the Period 2018-2020⁸⁷ was adopted in early 2018, the main objectives of which are the following:

1) Increasing the accessibility and quality of financial services for consumers in remote, low populated or hard-to-access territories, small and medium-sized businesses and groups of people with limited access to financial services (people with low income, other socially vulnerable groups of the population);

2) Increasing speed and quality of financial services for the population with access to the Internet.

Together with this, values of financial inclusion indicators are calculated and published annually⁸⁸.

Activities of crowdfunding platforms are monitored, and proposals on the forms of further interaction of the stated platforms with the Bank of Russia are being developed. So, for example, in 2016, the volume of crowdfunding market amounted to RUB 6.2 bln, according to the Bank of Russia, in 2017 – RUB 11.33 bln, and following 9 months of 2018 the volume has already reached RUB 11.14 bln.

At the same time, legal framework has been established for activities of financial advisors⁸⁹.

To ensure prompt transfer and consideration of materials on prevention and suppression of any misconduct in the financial market, the Centre of Competence for Combating Financial Investment Pyramids was established in Khabarovsk, and on 06 November 2018, a cooperation agreement was entered into by the Federal Security Service of the Russian Federation and the Bank of Russia.

In the course of developing a system of automated search for illegal participants based on Big Data technology, functional requirements were elaborated for integrating the developed test models of automated search for persons engaged in illegal granting of consumer loans (illegal creditors), illegal forex dealers and entities the activities whereof have the signs of a financial investment pyramid, into the existing software complex detecting illegal activities in the Internet-based financial market.

Further development of such technologies as Big Data as a malpractice counteraction tool is stipulated by the project of the Action plan (Roadmap) on Key Growth Areas of Financial Market of the Russian Federation for the Period of 2019-2021⁹⁰.



In 2018, there were signs of stabilisation of development indicators of economic and social fields in Russia. However, a shift of the population financial behaviour from a saving model to a consumptive one resulting in continued growth of the retail lending at an accelerating pace with simultaneous lower growth rates of savings and monetary income, as well as stagnation of real disposable income became a source of various significant risks for consumers of financial services, which are to be considered in the current activities of Rospotrebnadzor and other participants of the national system of consumer protection.

2.2. Banking Market Changes and Risks for Consumers

Trends of the Banking Market Development

According to the Bank of Russia, in 2018, the Russian banks' assets grew by 10.4% (+6.4% in 2017) while the banking sector's aggregate annual profit grew by 70.3% (-15.1% in 2017).

⁸⁴Executive Order of the Government of the Russian Federation No. 2043-r dated 29 December 2008 “On Approval of the Strategy for Financial Market Development in the Russian Federation for the Period of up to 2020”.

⁸⁵ Executive Order of the Government of the Russian Federation No. 1963-r dated 17 September 2018 “On Annuling Executive Order of the Government of the Russian Federation No. 2043-r dated 29 December 2008”.

⁸⁶ Approved by I. I. Shuvalov, First Deputy Chairman of the Government of the Russian Federation on 28 June 2016, No. ISh-P13-3745.

⁸⁷ The strategy of increasing financial accessibility in the Russian Federation for 2018-2020 (approved by the Board of Directors of the Bank of Russia on 26 March 2018).

⁸⁸ Financial Inclusion Indicators// Official website of the Bank of Russia https://www.cbr.ru/finmarket/development/development_affor/indicators.

⁸⁹ Federal Law No. 397-FZ dated 20 December 2017 “On Amendments to Federal Law “On Securities Market” and Article 3 of Federal Law “On Self-Regulatory Organisations in the Financial Market”, and a number of subordinate legal acts were adopted.

⁹⁰ Project of Key Growth Areas of Financial Market of the Russian Federation for the Period of 2019-2021 // Official website of the Bank of Russia https://www.cbr.ru/Content/Document/File/44185/onfr_2019-21 (draft).pdf.

Banking sector capital grew at a pace compared to the growth of assets (+9.3% in 2018 after +0.1% in 2017).

FOR REFERENCE

The Russians remain cautiously optimistic with regard to stability of the banking sector: 41% of the Russians believe that the Russian banking system will be stable, and only individual small and medium banks will go bankrupt. Together with this, 29% of respondents believe that bankruptcy of 1 or 2 big banks is possible. 14% of respondents feel more pessimistic and expect bankruptcy of the leading banks⁹¹.

The role of households in creating assets of the banking system decreased slightly, however, it is still significant: in 2018, they accounted for 30.2% of all assets of credit institutions (30.5% as of early 2018, 30.2% as of early 2017).

By early 2019, the number of banking system institutions reduced by 3,206 entities compared to that on 1 January 2018 and comprised 30,850 institutions, including 157 Bank of Russia's organizations (- 37), 484 lending organizations (-77), 709 branches of lending organizations (-181), and 29,500 (-3,511) business units of lending organizations. At the same time, the number of banking institutions per 1,000,000 citizens reduced from 237 to 211⁹².

According to the Deposit Insurance Agency ("DIA"), as of early 2018, there were 466 banks operating in the deposit insurance system licensed to work with individuals⁹³, and there were already 398⁹⁴ banks as of the year-end. In addition, as of the end of 2018, measures to prevent bankruptcy were applied to 28 credit institutions (29 credit institutions as of the beginning of the year)⁹⁵.

FOR REFERENCE

According to the estimates of Expert RA, in 2019, at least 50 banks may lose a license also due to voluntary license surrender and new M&A transactions⁹⁶.

The Bank of Russia's efforts to rehabilitate banking sector accelerated the process of clients' migration from small and medium-sized banks to major banks and publicly-owned banks. While at the beginning of 2018, the Top 5 banks accounted for 55.8% of the banking sector assets, at the end of the year their share was 60.4%. The Top 50 banks account for more than 91.4% of all assets (90% as of the early 2018).

In the Report on Priority Activities of Constituent Entities of the Russian Federation on Promoting Competition in the Russian Federation, presented at the State Council meeting on priority areas of activity of constituent entities of the Russian Federation to promote competition in the country, which was held on 5 April 2018, and chaired by the President of the Russian Federation, it was proposed to focus on deterioration of the competitive environment and non-market tendencies to strengthen positions of major credit institutions in the banking market with the prevailing participation of the State and Bank of Russia in the authorized capital.

In this situation, major publicly owned banks are able to significantly reduce interest rates on household deposits while maintaining relatively high interest rates on loans⁹⁷.

In 2017, Limited liability company «Fund of Banking Sector Consolidation Asset Management Company» («FBSC AMC» Ltd.)⁹⁸ was established with the aim to implement a recapitalisation tool for banks undergoing financial restructuring on the part of the Bank of Russia via «FBSC AMC» Ltd.⁹⁹ instead of the previously used mechanism of privileged loans of Deposit Insurance Agency. In fact, the new scheme provides for state ownership of the problematic banks, and there is a chance of improving the protection of consumers of such credit institutions.

In addition, in 2017, a Law¹⁰⁰ was adopted to reduce the risks of small credit institutions. As of 1 January 2018, the minimum capital of a bank with a general license shall be 1,000,000,000 RUB, and that of a bank with a basic license - 300,000,000 RUB. It is expected that this law will increase competition in consumer lending and retail deposit markets, since some transactions of banks with a basic license with legal entities will be restricted, and reducing their costs will improve the terms of banking products.

Despite the outstripping growth in the retail loan portfolio (compared to deposits), the amount of household deposits still significantly exceeds the amount of retail loans provided by banks (Figure 2.6).

However, in 2018 the portfolio of loans and other funds provided to individuals increased by 22.4% (+ 12.7% in 2017) and the amount of deposits - by 9.5% (+7.4% in 2017).

Despite the efforts of the Bank of Russia to restrict unsecured consumer lending, this type of lending grew by 22.7% (+11% in 2017), almost corresponding to the growth rate of the loan portfolio as a whole.

⁹¹ The Russians' Trust in Banks Is Growing, 17 January 2019 // Website of NAFI Research Centre <https://nafi.ru/analytcs/doverie-rossiyan-k-bankam-rastet>.

⁹² Institutional availability of payment services for the population // The Bank of Russia's Website http://www.cbr.ru/statistics/p_sys/print.aspx?file=sheet002.htm&pid=psrf&sid=ITM_7605.

⁹³ Changes in the Register of Members of the Deposit Insurance System, 12 January 2018 // Deposit Insurance Agency https://www.asv.org.ru/agency/for_press/pr/509556.

⁹⁴ Changes in the Register of Members of the Deposit Insurance System, 12 January 2018 // Deposit Insurance Agency https://www.asv.org.ru/agency/for_press/pr/509556.

⁹⁵ Overview of the banking sector of the Russian Federation // The Bank of Russia's Website <http://www.cbr.ru>.

⁹⁶ Mergers and acquisitions (M&A).

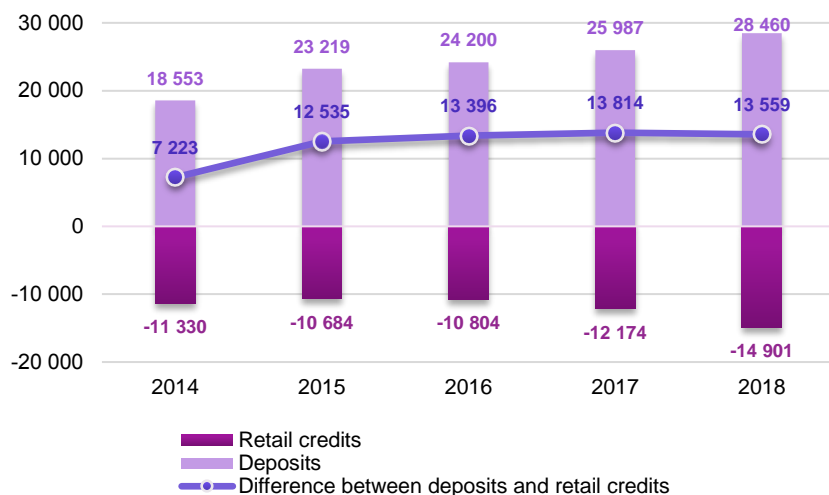
⁹⁷ State Council of the Russian Federation, Report on priority areas of activity of the Russian regions to promote competition in the Russian Federation // Website of the FAS of Russia <https://fas.gov.ru/documents/622661>.

⁹⁸ Federal Law No. 84-FZ dated 1 May 2017 "On Amendments to Certain Legal Acts of the Russian Federation".

⁹⁹ Official website of «FBSC AMC» Ltd. <http://amfbc.ru>.

¹⁰⁰ Federal Law No. 92-FZ, dated 1 May 2017, "On Amendments to Certain Legal Acts of the Russian Federation".

Figure 2.6. Dynamics of household deposits and retail loans in 2014—2018, bln RUB



Source: Bank of Russia, FBK Grant Thornton's estimates

In 2018, the quality of the retail loan portfolio improved significantly. The proportion of bad debts overdue for more than 90 days in the total loans was 5.4% as of 1 January 2018 (7.5% as of 1 January 2018).

The Bank of Russia continues to implement proportional regulation of credit institutions taking into account risks assumed and their business scale¹⁰¹. Further activities in this area are stipulated by Key Growth Areas of Financial Market of the Russian Federation for the Period of 2019-2021¹⁰².

After an extended discussion, a single calculation procedure for a borrower's debt burden indicator was adopted¹⁰³ (effective since 01 October 2019). The borrower's debt burden indicator (hereinafter referred to as the DBI) is calculated as a ratio of the amount of average monthly payments on all loans (credits) granted to an individual to its average monthly income. A credit institution shall calculate the said indicator on the credit (loan) granted to an individual with regard to each borrower when taking a decision on granting a loan in the amount (with a credit limit) of RUB 10,000 and more or equivalent in foreign currency as well as when taking a decision on increase of the credit limit on credit card loans prior to the date of such decision. The DBI is also used for calculating mark-ups to risk coefficients with regard to certain types of assets.

According to news reports, during a closed meeting, the Bank of Russia approved a new strategy on combating mala fide market players and "shady" deposit rates. Supervisors in charge of credit institutions will call to call centres and banking branches representing themselves as prospecting clients in order to reveal non-standard terms and financial products¹⁰⁴.

On 26 September 2018, a Law¹⁰⁵ became effective which established a right of a credit institution to suspend performance of a transaction order if such transaction has signs of money transfer without a client's consent.

On 28 September 2018, the Bank of Russia made available to public the following signs of doubtful transactions¹⁰⁶:

- Coincidence of information on funds recipient with the information on funds recipient with regard to money transfers without the client's consent obtained from database of cases and attempts of money transfers without the client's consent which is maintained by the Bank of Russia;
- Coincidence of information on parameters of devices used for getting access to an automated system and software for the purpose of money transfer with the information on parameters of devices used for getting access to the automated system and software for the purpose of money transfer without the client's consent obtained from the database;
- Non-conformance of the nature and/or parameters and/or scope of the transaction being performed (transaction performance time (days), transaction performance place, device used for transaction performance and its operation parameters, transaction amount, frequency of transactions, funds recipient) to the transactions relating to money transfers (client's business) usually performed by the operator's client.

In 2018, a problem of unjustified service denial to law-abiding persons became more acute, since banks acted in

¹⁰¹Report on Implementation by the Bank of Russia of Action Plan (Roadmap) "Key Activities on Development of Financial Market of the Russian Federation for the Period of 2016-2018", 2019 // Official website of the Bank of Russia https://www.cbr.ru/Content/Document/File/65343/onfr_2016-2018.pdf.

¹⁰²Key Growth Areas of Financial Market of the Russian Federation for the Period of 2019-2021 // Official website of the Bank of Russia https://www.cbr.ru/Content/Document/File/71220/main_directions.pdf.

¹⁰³Ordinance of the Bank of Russia No. 4892-U dated 31 August 2018 "On Types of Assets, Characteristics of Asset Types to Which Mark-Ups to Risk Coefficients Are Applied, and Methodology of Mark-Up Application to the Stated Types of Assets for the Purpose of Calculation of Capital Adequacy Ratios by Credit Institutions".

¹⁰⁴The Central Bank Will Send a Secret Shopper // Kommersant FM, dated 08 May 2018, 03:32 pm.

¹⁰⁵Federal Law No. 167-FZ dated 27 June 2018 "On Amendments to Certain Legal Acts of the Russian Federation With Regard to Counteracting Theft of Funds".

¹⁰⁶Signs of Making Money Transfer Without Client's Consent (approved by Bank of Russia Order No. OD-2525 dated 27 September 2018).

pursuance of Federal Law No. 115-FZ dated 07 August 2001 “On Combating Legalisation (Money Laundering) of Proceeds of Crime and Financing of Terrorism”.

For example, in early 2019, the Bank of Russia issued Methodical Guidelines¹⁰⁷ stating that if a person applies for clarification of the reasons for service denial, the credit institution shall provide the client with relevant information, which is sufficient to make rehabilitation of the client possible.

Moreover, credit institutions are not allowed to take a decision on service denial solely on the grounds of available information on denial from other credit institutions.

Together with this, the Bank of Russia informs that inquiries concerning restrictions on remote banking (RB) services for credit institutions’ clients are systemic. Analysis of the information obtained shows that restrictions are applied to remote banking services without requesting any documents and/or information from the client as well as without explaining to the client legal consequences of the applied restrictions on RB services, in particular, no explanations are given on the difference between such restrictions and transaction order denials.

In this situation, the regulator recommends credit institutions both to inform clients on the reasons for RB service restrictions and to create conditions for submission by the clients of necessary clarifications, information and/or documents in order to exercise their rights and protect them.

FOR REFERENCE

The Bank of Russia will assume the role of a supplier of information on potentially defaulting clients for the banking sector. This statement was made by Vasily Pozdyshev, Deputy Chairman of the Bank of Russia on 21 February 2019 during XI Ural Forum “Information Security of Financial Sector”. The statement refers to creation of an automated database of legal entities (and individuals in the future) of “higher risk type” – those who were denied services due within the framework of combating legalisation (money laundering) of proceeds of crime and financing of terrorism, defaulters on bank loans with payment delay exceeding 1 year, and tax debtors. It is also planned to include a special section for all pledges to the stated database¹⁰⁸.

It is to be noted that banks should provide notice on suspicious clients to the Federal Financial Monitoring Service of the Russian Federation which maintains a “black list”¹⁰⁹. A client may be removed from the black list only upon the respective decision of the inter-departmental commission of the Bank of Russia. Together with this, a person is not able to contest a remote banking denial since it does not result in the automatic inclusion in the black list. If a person has faced a bank denial once, it will increase risks similar to a bad credit record.

To apply to the commission, a person must obtain a rehabilitation denial from the bank. However, the banks not always provide a confirmation of the service denial that is why one should apply for clarifications in writing.

The mechanism for removal of a person from the black list is as follows. Representatives of the Bank of Russia prepare a draft and forward it to the Federal Financial Monitoring Service of the Russian Federation, and if the latter does not agree to remove the person from the black list, a review during an attendee meeting shall take place within 20 days. The review results shall be brought to the applicant’s notice within 3 days. The citizen may also appeal in court their inclusion in the black list, however, a litigation will take from 6 to 12 months on the average¹¹⁰.

In 2018, an issue of funds debiting from accounts without an account holder’s order (direct debit) was raised again. At the moment of executing a loan agreement banks actually force on clients a standard clause on direct debiting from the client accounts with those banks. At the same time, after signing a loan agreement and submitting an application for revocation of a previously issued consent to debit funds from all accounts of an individual, banks continue to debit funds towards repayment of loans.

Prohibition of direct debit may increase the borrower’s protection against the bank’s actions, as well as it may increase the frequency of non-payments under loans and the cost of consumer loans.

FOR REFERENCE

Upon independent monitoring (public inspection) on issues of financial consumer protection,¹¹¹ the Confederation of Consumer Societies (KonfOP) issued recommendations on reforms in the lending sector. A number of proposed reforms is given below.

Ensuring proper informing of a consumer on bank products: on annual credit interest rate; individual contract terms; consumer’s right to refuse the loan and on the term within which such refusal may be declared; consumer’s right to inform the creditor of his/her consent to receiving a loan on conditions stated in the individual contract terms within 5 business days (or more) from the date of informing the borrower of the right to repay the loan in advance in whole or in part; right to the “cooling period” at executing a loan agreement; procedure of the consumer’s refusal of additional services upon

¹⁰⁷ Methodical Guidelines on Informing Clients by Credit Institutions on the Reasons for Taking Decisions on Transaction Denial or Denial of Concluding Bank Account (Deposit) Agreement and on Issues of Interaction With Remote Banking Clients (approved by the Bank of Russia on 22 February 2019, No. 5-MR).

¹⁰⁸ Once a Debtor Always a Debtor? // Kommersant Newspaper No. 33 dated 22 February 2019, p. 1.

¹⁰⁹ The List of Entities and Individuals Recorded as Involved in Extremist Activities or Terrorism.

¹¹⁰ Banks vs Clients: Why Banks Block Accounts and How to Avoid This, 31 October 2018 // Portal of Pravo.ru <https://pravo.ru/story/206440>.

¹¹¹ Report on the Ninth Wave of Independent Monitoring “The State of Consumer Protection and Interests in the Russian Credit Market” (May 2018) // International Confederation of Consumer Societies: <http://konfop.ru/мониторинг-рынка-финансовых-услуг>.

entering into the loan agreement.

At executing an agreement, it is required to issue a document for a consumer containing general terms of financial service agreement as of the date of execution (at present, such requirement applies only to individual contract terms while general terms may be subject to change, and finding their previous version may be difficult) as well as other documents to which the consumer has given his/her consent when signing individual contract terms.

Reliable evaluations by the creditors of affordability of a credit/loan/credit card for a client to ensure consumers' ability to repay. Such evaluations should be more imperative requiring from consumers a certain level of income for loan repayment or restricting payments by a certain share of the consumer's income.

Inclusion of certain provisions in the list of unfair contract terms infringing the consumer rights in order to protect the weaker party to the contract. The following provisions should be considered for the said list:

Providing consumer loans solely in non-cash form, regular payments, and providing any other assistance in case of early loan repayment by the borrower;

Transfer of the loan amount to the borrower's account with the lending bank. Introducing the requirement on opening of such account if it is absent, and consequently the requirement of preliminary conclusion by the borrower of a general bank service agreement;

Absence in the agreement of a statement of the bank's duty to notify the borrower at no cost to the latter of crediting loan amounts to the borrower's account while there is an indication to the total (quite long) term of crediting of the loan amounts (7 to 30 days);

Stating the possibility to refuse to take a loan upon the agreement conclusion only till the moment of crediting funds to the bank card account/current account of the borrower (and not till the moment of receipt by the borrower of notification on such crediting, for instance);

Application within the period of TIC calculation of differentiated credit/loan interest rates depending on the day of the validity term of the loan agreement, period and way of the credit utilisation, etc.;

Possibility of providing the borrower with information on the amount for early loan repayment in verbal form;

Absence in the agreement of a statement of the bank's duty to inform the borrower of crediting to the borrower's account intended for loan repayment of amounts substantially exceeding the regular payment amount, and providing any other assistance in case of early loan repayment by the borrower;

Absence of procedures for loan agreement closure and receipt by the borrower of a document confirming absence of outstanding liabilities to the bank;

Automatic increase of the credit card limit without a consumer's prior consent.

Control over debt collection abuses including restrictions on access of creditors to consumers' bank accounts for debt collection. It is necessary to elaborate a mechanism preventing mandatory direct debit from debtors' accounts of income not exceeding a minimum subsistence amount and to introduce the respective amendments to the legal acts. It is also expedient to introduce restrictions on the possibility of sequestration of funds of individuals on bank accounts where social allowances, pensions, and other similar payments are accumulated ensuring a minimum standard of living.

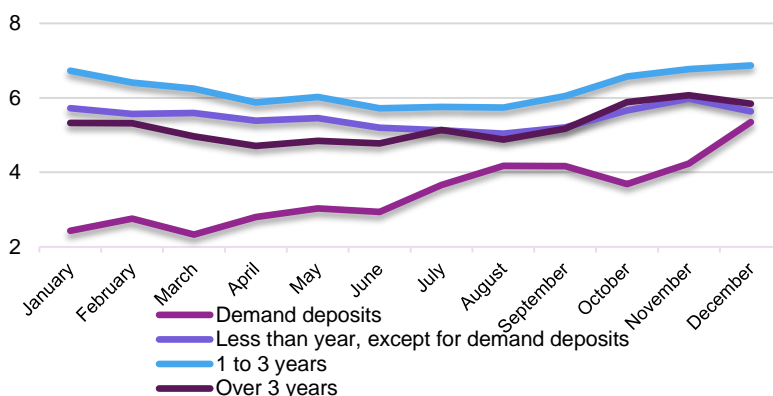
Based on the risk assessment, the main areas for protecting the consumers of banking services in 2019 may be the following: eliminating the existing gaps and bottlenecks in the applicable laws related to interpretation of certain standards, increasing the information transparency of banking services, limiting the possibility of abuse by banks, responding to cyber threats, encouraging the competition of credit institutions and improving the legal support of financial consumers.

To cover trends in the development of the market for selected banking services in more detail, the most popular and therefore the most risky banking products for consumers are reviewed below.

Deposits

In 2018, the deposit market showed a variety of deposit yield trends depending on the deposit term. In this context, one should note a tendency of increase in interest rates on call deposits throughout 2018 (Figure 2.7).

Figure 2.7. Weighted average annual interest rates on RUB deposits in credit institutions in 2018, (% per annum)

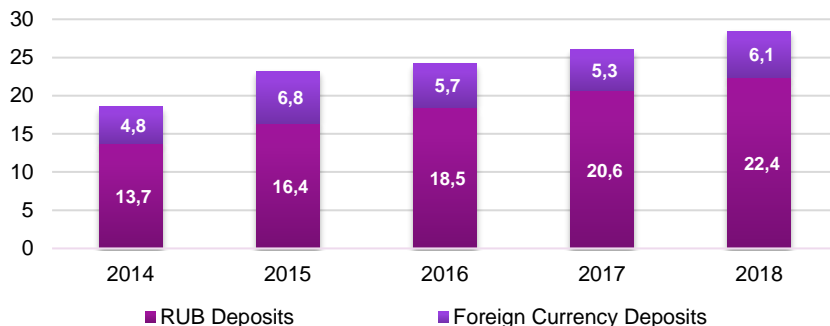


Source: Bank of Russia

In 2018, weighted average annual interest rates on US dollar deposits raised by credit institutions did not exceed 3.7% (2.5% in 2017), on rates on EUR deposits did not exceed 0,8% (1% in 2017), while the highest annual interest rates on RUB deposits were more than 6,9% (8.25 in 2017).

Taking into account the rouble's decline against main currencies as well as decrease of deposit interest rates in RUB, the share of currency deposits in the structure of funds attracted by credit institutions from individuals grew by 0.9 pp in 2018 (to 21.5%) (Figure 2.8).

Figure 2.8. Deposits in credit institutions by currencies, trln RUB

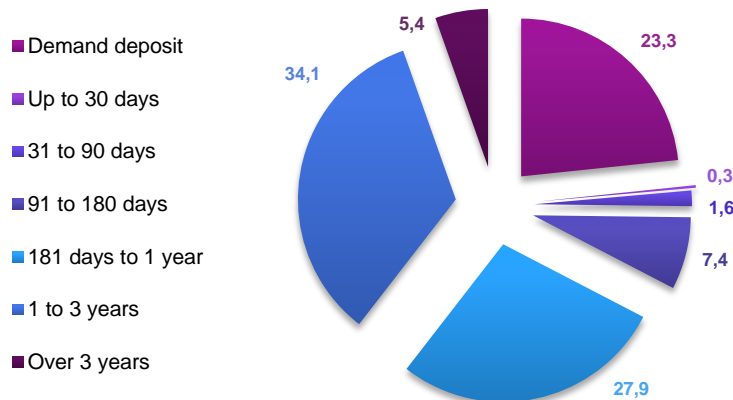


Source: Bank of Russia

More than a third of deposits in the retail deposit structure is represented by funds raised for a period of 1 to 3 years (Figure 2.9). Approximately the same share of deposits is raised for a period of 91 days to 1 year. In 2018, the share of funds on call deposits (23.3%) increased by 2.5 pp, such deposits offer relatively low interest rates, thus entailing the risk of gradual devaluation of such funds.

In 2018, 57 insured events occurred with regard to banks-participants of the Deposit Insurance System (DIS) (2017: 41), the amount of insurance payments fell by half compared to 2017 and was equal to RUB 188.3 bln. The number of depositors who applied for compensation dropped by 44% from 637,800 to 356,800 persons. Over 15 years of DIS performance, 481 insured events have occurred with the total insured liability amount of RUB 1.92 trillion to 9.3 mln depositors¹¹².

Figure 2.9. Retail deposits in credit institutions by maturity (as of the end of 2018), %



Source: Bank of Russia

There are multiple problems and conflicts in relations of DIA securing the DIS operations and financial consumers of banks. For example, in 2017, the DIA started to extensively challenge the withdrawal of money by depositors of bankrupt banks and recover funds from them. Depositor good faith rule is often ignored, the court is satisfied by availability of a default payment file in the bank at the time of deposit withdrawal. According to experts, most banks have such files prior to revocation of their licenses. Then, the DIA returns to individuals a part of funds recovered from them by court order in the form of deposit insurance (up to 1,400,000 RUB). Such practices result in social tension and lead to an unreasonable increase in court expenses of the DIA, experts say¹¹³.

In this regard, the Russian Union of Depositors collected 25,000 signatures under a petition calling for the Bank of Russia and the DIA to inspect the banks with revoked licenses. Signatories of the petition request President Vladimir Putin to take in the situation. In turn, the DIA asserts that judicial actions cover only clients of the banks performing transactions that go

¹¹² Meeting of DIA Board of Directors Approved Annual Report 2018, 06 March 2019 // Official website of DIA https://www.asv.org.ru/agency/for_press/pr/568917.

¹¹³ DIA Makes Claims on Deposits // Kommersant, No. 18, 1 February 2018, p. 1.

“beyond normal business activities”¹¹⁴.

FOR REFERENCE

Since the beginning of 2018, DIA has recovered and included in the register off-balance-sheet liabilities to depositors for the total amount exceeding RUB 2.3 bln on the basis of application of 2,098 depositors (including those of the banks with insured events occurred in the previous years).

In 2018, DIA received in total 8,000 applications on disagreement on the insurance compensation amount and about 1,000 applications of individuals involved in illegal creation of deposits who submitted declarations on rejection of fictitious receipt and issue transactions that led to illegal increase of insurance liability of DIA. If compared to 2017, values of both figures decreased 6 times.

It should be noted that these actions bear the risk of decreasing citizens' confidence in the banking system and seeking alternative ways to deposit the funds, and they are often more risky than bank deposits (financial instruments of the securities market, investment life insurance, crypto-currencies, pyramid schemes, etc.).

DIA offers two options of statutory solutions: either to prohibit to contest such situations at all, or to limit the disputed amount of transactions of individuals. However, according to experts, in the first case, there is a risk of satisfaction of VIP clients' claims only in the pre-bankruptcy period. In the second case, the so-called “income qualification, separation to the rich and the poor” occurs and “it is unclear how to set the respective bar”. At the same time, there is a risk of establishing an exhaustive list of criteria in the law that can be contested¹¹⁵.

In early 2018, it was reported that deputies of the State Duma Committee on the Financial Market together with the Bank of Russia, DIA and the Ministry of Finance of Russia were preparing a draft law that would protect depositors from DIA's claims. The purpose of the draft law is to separate *bona fide* depositors of banks from lending institutions associated with the bank that have insider information on the bank's activities. Experts are sure that to solve the problem, strict control of the Bank of Russia is vital, as well as making bank employees granting a preferential loan personally liable for such actions¹¹⁶.

FOR REFERENCE

In February 2016, Rashit Sayfutdinov, a depositor of Unifin Bank, took money from the account 4 days before withdrawal of license of the credit institution. DIA once again contested the client's transaction. This scenario is quite old – the amount is returned to the bankruptcy estate, and the depositor receives an insurance payment not exceeding RUB 1.4 mln. Sayfutdinov received much more over the counter, namely, USD 39,850, EUR 25,350 and RUB 2.6 mln. DIA assumed that the bank had a lack of funds to perform its obligations to other creditors, meaning, Sayfutdinov was given preference in that situation. Once again courts took the side of DIA (Case No. A40-35812/2016). However, the Supreme Court of the Russian Federation discharged these decisions and stated that availability of outstanding payments file in the bank at the moment when funds were withdrawn could not be a single argument of DIA to contest the transaction of funds withdrawal. The Supreme Court of the Russian Federation specified: “This circumstance is taken into consideration by the court together with other aspects when considering whether a transaction is typical for a certain credit institution.” It is possible to prove invalidity of the transaction if the bank made a doubtful payment through a correspondent account with the breach of established ranking of creditors and in the presence of other orders nominated in the same currency and outstanding due to a lack of funds on the account (Subclause 1, Clause 5, Article 189.40 of the Law “On Bankruptcy”). However, this provision applies solely to challenging settlement payments and other payments, according to guidelines of the Supreme Court of the Russian Federation. Together with this, the Supreme Court of the Russian Federation accused the inferior courts of not estimating if Sayfutdinov acted in good faith. Resisting arguments of DIA, Sayfutdinov stated that acquisition of the apartment was the reason to withdraw cash from the bank. Funds received over the counter were placed to the bank safe on the same day to pay for the apartment. The remaining funds in the amount of RUB 600,000 were deposited by Sayfutdinov back to the settlement account. This transaction gives evidence of bone fide actions of the depositor not supposing any financial hardships of the bank. “However, the first instance court did not give any legal assessment of the counterparts' arguments concerning the issue of whether the defendant acted in good faith during money withdrawal, and this gives evidence of failure to identify all circumstances essential for the case”, the court determined.

Therefore, the position of the Supreme Court of the Russian Federation reduces to two principal provisions:

Availability of outstanding payments file in the bank at the moment when funds in cash are issued to the depositor cannot be a single argument to charge these funds from the depositor;

Courts should estimate whether depositors whose transactions are contested by DIA acted in good faith¹¹⁷.

According to the DIA data, in 2018, over 1,000 transactions of artificial deposit formation were revealed for the total amount of RUB 1.5 bln by means of the so-called splitting, i.e. introduction into the bank's accounting documents of technical records on funds crediting from accounts of legal entities and individuals-major depositors to the accounts of designated

¹¹⁴ Russian Union of Depositors collected 25,000 signatures under a request to inspect the Bank of Russia and DIA, 12.03.2018 // Gazeta.Ru https://www.gazeta.ru/business/news/2018/03/12/n_11274121.shtml.

¹¹⁵ Depositors Will Reap Profits // Kommersant Newspaper No. 27 dated 14 February 2018, p. 7.

¹¹⁶ Deputies Stood Up For Depositors // Kommersant, No. 52, 28 March 2018, p. 8.

¹¹⁷ Clear Conscience File: Supreme Court Explains Why DIA Cannot Withdraw Depositors' Funds, 04 April 2018 // Portal of Pravo.ru <https://pravo.ru/news/201540>.

individuals with the purpose of illegal receipt of insurance compensation by the latter. The number of such transactions decreased 4.7 times compared to 2017, and the volume thereof decreased three times.

When preparing for and performing insurance payments, the Agency also revealed cases of fraud using the so-called "off-balance-sheet" accounting. In such schemes, open retail accounts (deposits) were not recognised in the bank's formal accounting or were recorded only in part. For example, in ELBIN Joint-Stock Commercial Bank JSC, Taata Bank JSC, and BTF Commercial Bank JSC, fraudulent transactions were revealed aimed at embezzlement by employees of the stated banks of funds of 753 depositors for the total amount of RUB 816 mln (if compared to 2017, the volume of funds concealed by the banks is 13.3 times less while the number of affected depositors is 16 times less).

To prevent any illegal disbursements, all deposits having signs of artificial formation (splitting) and not recorded in the official accounting statements were not included by the provisional administrators in the register under which payments were made.

Recovery by DIA of the off-balance-sheet liabilities in the accounting and restoration of depositors' rights impaired by former bank management were performed in the absolute majority of cases without resort to courts based on confirming documents submitted by depositors as well as documents and data found in the bank. In certain cases, when it was fairly impossible to restore the rights of depositors solely by DIA, this was done based on court decisions or information obtained from law enforcement authorities.

It should be noted that since 2012, DIA has revealed and suppressed a number of attempts of illegal receipt of insurance compensation by means of fictitious deposits (formation of primary bank documents on bank deposits and/or recognition thereof in the bank accounting in the absence of actual depositing of funds to the accounts (deposits) of the depositors) in 16 banks for the total amount of about RUB 15 bln, including attempts of illegal receipt of disbursements in 3 banks for the total amount of RUB 762 mln which were suppressed in 2018¹¹⁸.

FOR REFERENCE

List of active banks being DIS participants entitled to attract deposits of individuals in which accounts of small entities are subject to insurance (400 banks as of 28. December 2018) is available on the DIA website in the section "Deposit Insurance/Lists of Banks" (https://www.asv.org.ru/insurance/banks_list/).

To mitigate risks of "off-balance-sheet" deposits, consumers are encouraged to follow some rules:

- the bank deposit agreement shall be signed only in the official premises of the bank;
- the bank deposit agreement shall specify the full name of the bank's employee and details of the document authorizing such employee;
- upon signing the agreement, it is required to receive its copy with the original signature of the bank's employee, seal (a passbook may be issued), as well as the cash receipt when depositing cash;
- it is required to regularly request the account statement. if the bank refuses to do so, file a complaint with the Bank of Russia;
- bank deposits shall not be converted to other types of financial services¹¹⁹.

As one of the mechanisms of counteracting off-balance-sheet deposits, criminal liability is introduced for failure to include in financial accounting and reporting documents of a credit institution data on funds placed by private persons and individual entrepreneurs in a large amount¹²⁰ (Article 172.3 of the Criminal Code of the Russian Federation¹²¹). For instance, criminal liability stipulates deprivation of liberty for a term of up to four years and if the same crime is committed by an organised group – for the term of up to seven years¹²².

One should note that DIA frequently refuses to make payments if financial problems of the bank were known at the moment of deposit opening. At the same time, availability of such information has always been a key issue. To this end, the Bank of Russia has elaborated the procedure of posting of the respective information¹²³.

However, according to the experts, the stated procedure does not resolve the problem since a person having no special skills is practically unable to find necessary data on the website of the regulator¹²⁴.

FOR REFERENCE

According to Yury Isaev, DIA General Director, Deposit Insurance Agency plans to decline the services of agent banks when paying insurance compensations and to make direct payments from the Agency's fund to the accounts designated

¹¹⁸ Annual Report 2018 of Deposit Insurance Agency State Corporation // Official website of Deposit Insurance Agency State Corporation https://www.asv.org.ru/agency/annual/2018/2018_year.doc.

¹¹⁹ At Stake // Kommersant, No. 81, 11 May 2017, p. 13.

¹²⁰ A large amount means an amount of concealed funds in aggregate exceeding RUB 3 mln for the period within one financial year.

¹²¹ The Criminal Code of the Russian Federation.

¹²² Federal Law No. 530-FZ dated 27 December 2018 "On Amendments to the Criminal Code of the Russian Federation and the Criminal Procedure Code of the Russian Federation".

¹²³ Ordinance of the Bank of Russia No. 4951-U dated 29 October 2018 "On Procedure for Posting on and Removal From the Bank of Russia Official Website in the Internet Information and Telecommunication Network of Information on Applying by the Bank of Russia to a Bank of Prohibition Against Attracting Deposits of Individuals and Opening of Bank Accounts for Individuals."

¹²⁴ Prohibition Against Deposits Is Concealed on the Website // Kommersant Newspaper No. 143 dated 13 August 2018, p. 1.

by depositors. This issue is to be resolved within 1-1.5 years. This will allow for making payments in a shorter period, namely, 2-3 days, and not 12 days as it is at present¹²⁵.

To counteract off-balance-sheet deposits, the Bank of Russia plans to launch a single register of deposits of individuals¹²⁶.

Since 01 January 2019, small businesses have been classified as depositors whose funds on the bank accounts (deposits) are insured in the Deposit Insurance System together with private persons and individual entrepreneurs¹²⁷.

The amount of insurance compensation for a depositor-small enterprise in case of occurrence of an insured event with the bank after 01 January 2019 shall be determined in RUB according to the same rules as for an individual: in the amount of 100% of all insured liabilities of the bank to such depositor (less the amount of counterclaims of the bank to the depositor) but not exceeding RUB 1.4 mln in aggregate.

At present, in case of the bank license withdrawal, its depositors are entitled to an insurance compensation in the amount not exceeding RUB 1.4 mln. In this situation, there can be some persons among the affected depositors who could not for various reasons make a deposit not exceeding the guaranteed compensation amount to exclude the risk of funds loss. For example, this is the case when selling an apartment and preparing for buying a new one, collecting funds for medical treatment, receiving inheritance and in similar situations. The State Duma of the Russian Federation suggests providing for additional measures of support for such individuals. In early 2019, a package of respective legislative proposals was introduced to the Lower House of the Russian Parliament¹²⁸.

According to one of the amendments¹²⁹, depositors who found themselves in a similar situation will receive the entire amount of lost funds at the DIA's expense, however, not more than RUB 10 mln.

One more draft law¹³⁰ changes the ranking of claims in case of bankruptcy of banks. It is suggested to give priority to the depositors with the amount of claims higher than the guaranteed compensation (but not more than RUB 10 mln). They should be included in the first (senior) debt category, and claims of DIA and the Bank of Russia – in the second debt category.

In 2018, Russian authorities suggested initiatives on confiscation of unclaimed bank deposits to the profit of the state. To this end, in 2019, a law may appear concerning confiscation of unclaimed bank deposits and securities to the profit of the state. Probably, a specialised fund will be established. At present, a deposit not claimed by heirs is retained by the bank. The range of amount of unclaimed bank deposits, experts say, is roughly billions of rubles¹³¹.

Since 01 June 2018, the bank's liability for improper performance of bank account transactions has been raised. For example, pursuant to amended Article 856 of the Civil Code of the Russian Federation (as per Law No. 212-FZ132), if the bank fails to credit the funds transferred to the client to the client's account or debits the client's account without a valid reason, or in case of non-performance or delayed performance of the client's instruction to transfer the funds from the account or give out funds from the account, the bank must pay interest on this amount in the manner and at the rate provided by Article 395 of the Civil Code of the Russian Federation, irrespective of payment of interest stipulated by Clause 1, Article 852 of the Civil Code of the Russian Federation.

In addition, new types of agreements between the credit institution and individuals are introduced into the civil law practice, i.e. precious metal bank account agreement, precious metal bank deposit agreement.

An important novelty of Law No. 212-FZ is the opportunity to sign a joint account agreement. If a bank account agreement is signed by several clients, such clients may only be individuals subject to restrictions established by the currency laws of the Russian Federation. The funds on the account are deemed to be owned by such persons proportionally to amounts of funds deposited by each client or third parties in favour of each client, if the agreement provides for a disproportionate share. If the agreement is signed by spouses, the title to such money shall be the common title of the spouses, unless otherwise agreed in the marriage contract communicated to the bank by such spouses.

Thus, depositors of credit institutions are exposed to the following risks undermining the confidence in the bank deposit institution¹³³:

- provision of unreliable information on features of the deposit due to the lack of a single standard for provision of such information;
- no opportunities for the client to consider the agreement prior to signing it;
- financial losses due to additional paid services;
- failure to receive the insurance coverage in case of loss events due to off-balance-sheet deposits.

¹²⁵ DIA to Make Direct Payments to Depositors in 2-3 Days, 31 January 2019 // Internet portal of Rossiyskaya Gazeta <https://rg.ru/2019/01/31/asv-budet-napriamui-vyplachivat-vozmeshchenia-vkladchikam-za-2-3-dnia.html>.

¹²⁶ The Central Bank to Launch Single Register of Retail Deposits, 31 May 2018 // Internet portal of Rossiyskaya Gazeta <https://rg.ru/2018/05/31/cb-zapustit-edinyj-reestr-vkladov-fizlic.html>.

¹²⁷ Federal Law No. 322-FZ dated 03 August 2018 "On Amendments to Federal Law "On Insurance of Deposits of Individuals With Banks of the Russian Federation" and Certain Legal Acts of the Russian Federation".

¹²⁸ Insurance Payments to Depositors of Bankrupt Banks Are Proposed to Be Increased, 04 April 2019 // Portal of Pravo.ru <https://pravo.ru/news/210530>

¹²⁹ Draft Law No. 680980-7 "On Amendments to Federal Law "On Insurance of Deposits With Banks of the Russian Federation".

¹³⁰ Draft Law No. 680935-7 "On Amendments to Federal Law "On Insolvency (Bankruptcy)" and Federal Law "On Insurance of Deposits With Banks of the Russian Federation".

¹³¹ Unclaimed Money: What Deposits Will Be Taken by the State, 13 November 2018 // Gazeta.ru

<https://www.gazeta.ru/business/2018/11/13/12056677.shtml>

¹³² Federal Law No. 212-FZ dated 26 July 2017 "On Amendments to Parts One and Two of the Civil Code of the Russian Federation and Certain Legal Acts of the Russian Federation".

¹³³ The first four risks are specified in the Third Interim Report on Contract No. FEFLP/QCBS-1.43 "Examining the Extent of Compliance of Applicable Standards and Established Disclosure Practices (Including the Terminology Used by Financial Institutions in the Consumer Market) with the Level of Preparedness and Needs of Russian Financial Services Consumers with the Drafting of Practical Proposals for Improving Regulation and Business Practices in this Field".

- risk of obtaining insurance compensation on the deposit not in full (up to RUB 1.4 mln);
- failure to return / untimely return of the deposit;
- risk of confiscation of a bank deposit considered unclaimed to the profit of the state;
- purchase of a more risky financial product than the deposit due to the unfair conduct of a bank employee;
- amendment of deposit terms and conditions due to amendment of deposit insurance conditions and/or taxation of income on deposits;
- claims on the depositor's funds previously withdrawn from the bank, and the bank's license is later revoked;
- low interest rates due to deterioration of the competitive environment and non-market trends to strengthen positions of major credit institutions in the banking market in some regions.

Loans: Main Trends

Following rapid growth in consumer loans in 2013-2014, a decline in lending in 2015, stagnation in 2016, and recovery in 2017, the consumer lending market in 2018 showed substantial growth (+ 22.4%), accompanied by a trend of a declining share of foreign currency loans (from 0.8% to 0.7%).

Growth was observed in the context of gradual transition of households from the saving behavioural model to expansion of consumption. Portfolio growth was to a large degree associated with increase of mortgage loans and unsecured consumer loans (Figure 2.10). Growth was also supported by decrease of interest rates: an average weighted interest rate on RUB loans to individuals for the term exceeding one year in December 2018 amounted to 12.5% p.a. (in January 2018 – 13.5%).

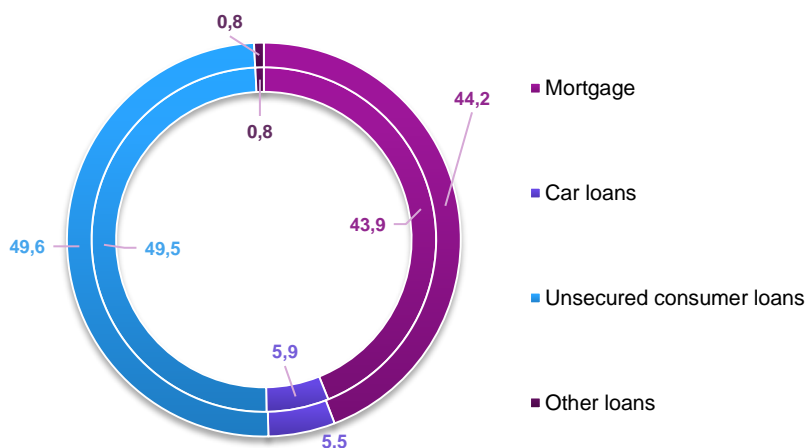
FOR REFERENCE

Experts expect a 15% increment of the portfolio of unsecured consumer loans granted to individuals in 2019 against the increase of risk coefficients from 1 April. In case of further strengthening of regulatory pressure, increment rates may fall to 12%¹³⁴.

At the end of 2018, DIA launched an Internet payment portal www.payasv.ru¹³⁵ in order to inform borrowers of banks the licenses whereof are withdrawn of all available ways of loan repayment and provide them with opportunities for continuing loan repayment in a new way: in the Internet via a bank card or e-wallet.

At present, DIA has two accredited partners – Yandex. Kassa and Loan Repayment Service of Zolotaya Korona.

Figure 2.10. Structure of retail credit portfolio for the beginning (internal round) and for the end of 2018 (external round) by types of credit



Source: Bank of Russia

DIA is going to expand a network of partners who will be able, inter alia, to increase the number of payment tools available for borrowers.

Upon implementation of this project, DIA promotes active replenishment of the bankruptcy estate, and as a result, increase of the share of satisfied creditors while borrowers have an opportunity to make payments in due time via a convenient interface and with a minimised fee due to competition.

In early 2019, DIA substantially simplified the procedure for considering applications on settlement of outstanding debt submitted by borrowers of the banks with licenses withdrawn, non-state pension funds and insurance companies for which DIA acts as a liquidator¹³⁶.

¹³⁴ Forecast for Development of the Banking Sector in 2019: On a Positive Note// Expert RA https://raexpert.ru/researches/banks/bank_sector_forecast2019.

¹³⁵ DIA Launched a New Internet Project – a Payment Portal for Borrowers of Banks With Licenses Withdrawn, 05 December 2018 // Official website of Deposit Insurance Agency https://www.asv.org.ru/agency/for_press/pr/556066/.

¹³⁶ DIA Adopted a New Approach to Settlement of Outstanding Debt With Borrowers of Financial Institutions Being Liquidated, 06 March 2019 // Official website of Deposit Insurance Agency https://www.asv.org.ru/agency/for_press/pr/568904/.

For example, standard terms of debt settlement are determined. Agreements with standard terms may stipulate agreement prolongation, payment of the principal debt and/or interest by instalments, recalculation/cancellation of forfeits on overdue debt. It is possible to decrease an interest rate to the level of the average weighted rate published by the Bank of Russia on its official website with regard to the respective credit type as of the date of entering into a settlement agreement.

A standard term of obligation performance under the agreement shall not exceed 24 months, and if it is entered into in the first year of the bankruptcy proceeding, the term shall not exceed 36 months from the date of the agreement. In relation to mortgage loans issued for more than 36 months, the term shall not exceed the loan repayment term under the loan agreement.

According to Yury Isaev, DIA General Director, changes to the existing practice are initiated for the benefit of bona fide debtors of the banks the licenses whereof are withdrawn in order to increase proceeds to the bankruptcy estate together with cutting-off court costs as well as to accelerate the process of liquidation of credit institutions. Information on loan debt restructuring procedures and conclusion of settlement agreements is available on the official website of DIA in the section “For Borrowers of Financial Institutions Being Liquidated” (www.asv.org.ru/debtor/).

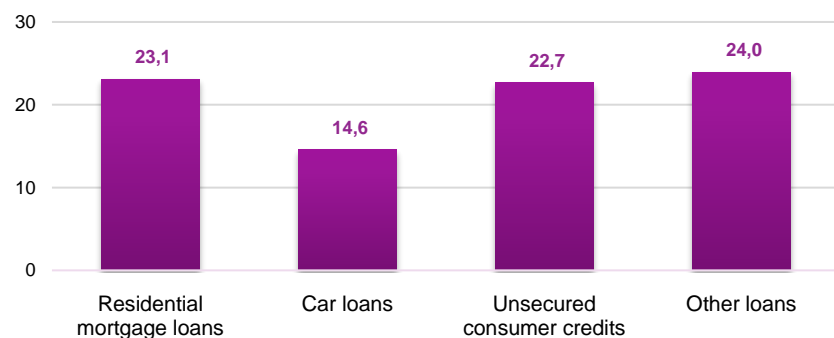
In order to provide a detailed description of development trends of certain bank lending segments, some reviews of the most large-scale and popular categories of loan products (and thus being most risky ones for consumers) are given below.

Mortgage Lending

In 2018, the portfolio of residential mortgage loans (RMLs) taking into account-acquired claims grew by 23.1% to reach RUB 6.6 trillion as of 01 January 2019 (Figure 2.11).

In 2018, the total amount of residential mortgage loans issued reached the maximum throughout the history of the Russian residential mortgage market: 1.472 mln new RMLs were issued for the total amount of RUB 3 trillion, which is 35% more in terms of quantity and 49% more in monetary terms than in 2017.

Figure 2.11. Growth rates by retail lending types in 2018, %



Source: Bank of Russia

Lending growth is due to a decrease of interest rates as well. An interest rate on RUB mortgage loans fell to a record low in September-October 2018 (9.41%); in December, it went up to 9.66%. In general, over 2018, an average weighted interest rate on RUB mortgage loans amounted to 9.56%, which is 1.08 pp lower than a similar figure in 2017. Quality of mortgage loans continued to improve.

A share of overdue debt on RMLs in 2018 went down from 1.3% to 1.1%. Standard quality mortgage loans account for a growing share in retail loans: as of 01 January 2019, RMLs account for 43.0% of the total volume of loans to individuals (as of early 2018 – 42.6%)¹³⁷. Thus, the growth rates of overdue debt on mortgage loans are lower than those in total mortgage loans debt, thus substantially reducing the risks of consumers of these financial services.

Prior to 01 July 2019, a transition should be arranged from the existing model of attracting private funds directly to the developers’ accounts to the target model stipulating that funds of individuals participating in shared construction are deposited on escrow accounts with the bank till construction completion and registration of rights to the first shared construction unit¹³⁸.

FOR REFERENCE

In Russia the potential of mortgage lending is not fully realised at the moment. According to the estimates of the World Bank, countries similar to Russia in the level of economic development have the ratio of RMLs to GDP of about 25%

¹³⁷ Development of Banking Sector in the Russian Federation in 2018 and January 2019. Information and Analytics // Official website of the Bank of Russia https://www.cbr.ru/Collection/Collection/File/15714/razv_bs_18-19_01.pdf.

¹³⁸ Federal Law No. 175-FZ dated 01 July 2018 “On Amendments to Federal Law “On Participation in Shared Construction of Multi-Family Apartment Buildings and Other Real Estate Items and on Amendments to Some Legal Acts of the Russian Federation” and Certain Legal Acts of the Russian Federation”.

(Poland – 20%, Czech Republic – 24%). In Russia this indicator is growing, however, it is only approximately 6%¹³⁹.

As per the new model, construction is financed out of a bank loan or developer's own funds while funds deposited on escrow¹⁴⁰ accounts become available to the developer only upon construction completion and registration of rights to the first shared construction unit.

A material novelty is insurance coverage over funds placed by individuals on the escrow accounts and intended for settlements under shared construction participation agreements in the amount of up to RUB 10 mln.

Switch to project financing will allow for ensuring protection of rights of individuals-participants of shared construction, and a high level of protection of private funds will promote demand for participation in this model. Developers will have a stable source of construction funding and cease to depend on flow of funds from shared construction participants.

To establish mechanisms of control over proper use of funds of the shared construction participants that are attracted directly by developers, requirements are set to the developers and their banks concerning control over performance of bank transactions by the developers¹⁴¹.

In April 2019, in pursuance of instructions of the President of the Russian Federation,¹⁴² criteria were approved according to which a developer is granted the right to attract funds of shared construction participants without use of escrow accounts under shared construction participation agreements submitted for state registration after 01 July 2019. The purpose of the decision taken is to ensure completion of apartment buildings when shared construction can be completed under old rules, i.e. without use of escrow accounts.

FOR REFERENCE

High growth rates of mortgage lending in 2018 and early 2019 are associated, inter alia, with expected changes in the shared construction market. According to experts, this can lead to an increase in construction costs and further growth of retail prices of apartments, since instead of deemed "free of charge" funds of shared construction participants developers will have to take loans and pay interest.

At the same time, a criterion of construction project readiness is at least 30%, except for a number of cases.

A criterion of the number of the shared construction agreements concluded is determined in the amount that confirms transfer to the shared construction participants under such agreements of at least 10% of the total area of residential and non-residential premises in a multi-family residential building.

Constituent entities of the Russian Federation are entitled to specify values of the criteria and application thereof on the grounds of an agreement entered into with the federal executive body authorised by the Government of Russia. Such agreement may be entered into subject to the existence of a regulation establishing the region's obligation to finance completion of the construction¹⁴³.

FOR REFERENCE

According to N. E. Stasishin, Deputy Minister of Construction, Housing and Public Utilities of the Russian Federation, it will be possible to continue implementation of about 50% of projects as per old rules after 01 July 2019. It is also mentioned that it will take approximately 2 or 3 years to replace completely the old financing mechanism. Together with this, a promotion campaign is to be launched to clarify advantages of escrow accounts to the population¹⁴⁴.

In 2018, amendments were introduced to "Rules of Granting Subsidies as Compensation for Lost Income on Mortgage Loans Granted to Citizens Having Children"¹⁴⁵ (hereinafter referred to as the Rules) in pursuance of the respective instruction of the President of the Russian Federation¹⁴⁶ following the results of the TV program "Live Telephone Call-in Show with Vladimir Putin" held on 07 June 2018.

In particular, a possibility is being found out to grant subsidies not only on newly issued loans but also on loans being refinanced by entering into a respective additional agreement. It is also specified that subsidising in the amount of up to 6% of interest rate on mortgage loans covers families where not only the second or third child was born but also the fourth or each subsequent one.

The amount of a residential loan for acquiring apartments in Moscow, the Moscow Region, St. Petersburg and the Leningrad

¹³⁹ Development of Banking Sector in the Russian Federation in 2018 and January 2019. Information and Analytics // Official website of the Bank of Russia https://www.cbr.ru/Collection/Collection/File/15714/razv_bs_18-19_01.pdf.

¹⁴⁰ According to the Civil Code of the Russian Federation, under an escrow account agreement the bank opens an escrow account for accounting and blocking of funds received from the account holder for the purpose of transfer thereof to another person upon occurrence of the grounds stipulated by the escrow account agreement.

¹⁴¹ Shared Construction Financing // Official website of the Bank of Russia <https://www.cbr.ru/analytics/finansirovanie-dolevogo-stroitelstva/>.

¹⁴² Instruction of the President of Russia Following the Results of Enlarged Meeting of the Presidium of the State Council Held on 12 February 2019 (No. Pr-555GS dated 29 March 2019, Subclause "c", Clause 1).

¹⁴³ Resolution of the Government of the Russian Federation No. 480 dated 22 April 2019 "On Criteria Determining Degree of Completion of a Multi-Family Apartment Building and/or Another Real Estate Item and Number of Concluded Shared Construction Participation Agreements Subject to Compliance With Which Developer Is Granted the Right to Attract Funds of Shared Construction Participants Without Use of Accounts Stipulated by Article 15.4 of Federal Law "On Participation in Shared Construction of Multi-Family Apartment Buildings and Other Real Estate Items and on Amendments to Some Legal Acts of the Russian Federation" Under Shared Construction Participation Agreements Submitted for State Registration After 1 July 2019".

¹⁴⁴ Developers to Be Relieved of Bankers // Kommersant Newspaper No. 71 dated 20 April 2019, p. 1.

¹⁴⁵ Resolution of the Government of the Russian Federation No. 1711 dated 30 December 2017 "On Approval of Rules of Granting Subsidies From the Federal Budget to Russian Credit Institutions and DOM.RF Joint-Stock Company as Compensation for Lost Income on Issued (Acquired) Residential (Mortgage) Credits (Loans) Granted to Citizens of the Russian Federation Having Children".

¹⁴⁶ No. Pr-1076 dated 22 June 2018, Subclause "a", Clause 1.

Region is increased from RUB 8 mln to RUB 12 mln. The amount of a loan for acquiring an apartment in other constituent entities of the Russian Federation is increased from RUB 3 mln to RUB 6 mln.

The amendments introduced also allow for establishing a loan interest rate below 6% p.a. Herewith, the subsidies are to be granted depending on the interest rate level comprising 6% p.a.

Moreover, an 8-year term of subsidising is established if twins or triplets are born in the family. This amendment will allow for cutting off costs of both a borrower and a creditor arising out of prolongation or renewal of the subsidising period. The Rules also establish that the total subsidising term subject to its prolongation or renewal may not exceed 8 years¹⁴⁷.

FOR REFERENCE

Every fourth Russian (28%) plans to improve housing conditions in the next three years, while 23% of them are ready to take a mortgage credit (the results of the All-Russian Survey conducted by NAFI Research Centre in May 2018)¹⁴⁸.

In 2019, amendments¹⁴⁹ were introduced to the said Rules, according to which subsidising of family mortgage is prolonged for the entire credit term. As before, a credit at 6% rate can be granted to individuals with the second child and/or subsequent children born within the period from 01 January 2018 to 31 December 2022.

Together with this, residents of the rural territories of the Far Eastern District will be able to take a mortgage loan at 5% interest rate for buying residential property from both a legal entity and an individual (secondary housing) upon birth of the second and subsequent children within the period from 01 January 2019 to 31 December 2022. Individuals having refinanced credits will be able to refinance them once again under the program.

According to the baseline scenario of Expert RA Rating Agency¹⁵⁰, in 2019, mortgage market will not be able to repeat a record of 2018: the volume of the loans granted will not exceed RUB 2.5-2.6 trillion. Exhaustion of main mortgage growth drivers such as low interest rates and relatively stable housing prices will prevent the market from achieving the volumes of 2018. Together with this, in the context of growing rates, some borrowers hurried to close mortgage transactions prior to the end of 2018, thus realising a part of demand of 2019. A repeated increase by the regulator of risk coefficients on mortgage loans with the initial instalment of less than 20% will restrict growth rates for such loans. Therefore, a slowdown of increment rates of the mortgage portfolio to 17%-18% is expected.

Thus, due to an increase in interest rates and growth of mortgage loans issued, more rigorous surveillance over observance of mortgage borrowers' rights is needed.

In spite of improving quality of the consumer loan portfolio (a share of overdue debt decreased from 7.0% to 5.1%) and improvement of indicators of residential mortgage lending (a share of overdue debt decreased from 1.3% to 1.1% in 2018), the problem of foreign currency mortgage loans remained acute.

For instance, in 2018, a share of overdue debt on residential mortgage loans issued in foreign currency grew by 0.6 pp (to 34.5%).

However, in general, the situation became better due to measures taken by the state as well. Efforts to minimise the risks of borrowers of mortgage loans in foreign currency other than the currency of income led to actual freeze in mortgage lending in foreign currency, thus, in 2018, only 12 of such loans (2017 – 11) were granted for a total of RUB 413 mln (2017 – RUB 544 mln).

Together with this, debt on foreign currency mortgage loans went down by RUB 9 bln (to RUB 33.6 bln), while overdue debt decreased by RUB 2.8 bln (to RUB 11.6 bln)¹⁵¹.

At the end of 2018, an additional amount of RUB 731.6 mln was forwarded as financial aid to mortgage borrowers who found themselves in a difficult financial situation¹⁵². Earlier, the amount of RUB 6.5 bln was assigned for implementation of the program of financial aid to certain categories of borrowers. Funds were obtained by more than 20,000 families with children, war veterans, physically impaired and other categories of the population.

It should be noted that a limit of compensation with regard to each restructured residential mortgage credit (loan) amounts to 30% of the remaining credit (loan) amount calculated as of the date when a loan restructuring agreement is entered into, however, it may not exceed RUB 1.5 mln (the amount can be increased but not more than twice). In particular, the loan restructuring agreement shall contain a clause stipulating that the established loan rate may not exceed 11.5% p.a. (for credits (loans) nominated in foreign currency) or the rate effective as of the date when the loan restructuring agreement is entered into for loans (credits) nominated in RUB).

It should be noted that in 2018, banks offered their own programs for restructuring loans, in particular, converting foreign currency loans to RUB loans, which also led to improvement of the loan portfolio quality.

¹⁴⁷ Resolution of the Government of the Russian Federation No. 857 dated 21 July 2018 "On Amendments to Resolution of the Government of the Russian Federation No. 1711 dated 30. December 2017".

¹⁴⁸ Every Fourth Russian Wants to Improve Housing Conditions, 13 July 2018 // NAFI Research Centre <https://nafi.ru/analytics/kazhdyy-chetvertyy-rossiyanin-khochet-uluchshit-svoi-zhilishchnye-usloviya>.

¹⁴⁹ Resolution of the Government of the Russian Federation No. 339 dated 28 March 2019 "On Amendments to Rules of Granting Subsidies From the Federal Budget to Russian Credit Institutions and DOM.RF Joint-Stock Company as Compensation for Lost Income on Issued (Acquired) Residential (Mortgage) Credits (Loans) Granted to Citizens of the Russian Federation Having Children".

¹⁵⁰ Mortgage Lending in 2018: Peak Is Behind // Official website of Expert RA Rating Agency https://raexpert.ru/researches/banks/ipoteka_2018.

¹⁵¹ Residential Mortgage Loans Granted to Individuals-Residents and Acquired Claims on Residential Mortgage Loans in Foreign Currency // Official website of the Bank of Russia <https://www.cbr.ru/statistics/table/?tableId=4-4>.

¹⁵² Resolution of the Government of the Russian Federation No. 1175 dated 03 October 2018 "On Further Implementation of the Program of Assistance to Certain Categories of Borrowers of Residential Mortgage Loans (Credits) Being in a Difficult Financial Situation".

In 2018, the Bank of Russia held public consultations on the issues of improvement of mortgage security regulation¹⁵³.

Respondents answered in the affirmative to the question relating to the importance and topicality of the problem of pledged assets withdrawal. It is noted that to prevent the banks from window-dressing, clearly defined requirements and criteria shall be stated in the regulations of the Bank of Russia determining liquidity of the security, terms of sale thereof, etc.

In addition to the suggested initiatives of the Bank of Russia concerning the said problem, banks also name as an essential element development of proactive supervision tools and intervention of the supervisory authority at an early stage to prevent inflicting damage to creditors and depositors of financially unstable credit institutions.

Car Lending

Car lending trends in 2017-2018 gives evidence of a gradual development of this lending segment upon a three-year decline, however, the lending level of 2011-2013 has not been reached yet. The volume of car loans in 2018 grew by 15.4% and reached RUB 817 bln. According to the National Credit Reporting Agency, the number of car loans issued in 2018 almost reached the the pre-crisis level of 2014 (801,000 vs 823,000 of cars sold on credit, respectively). Quality of car loans is also improving: a share of loans past due for more than 90 days in 2018 decreased from 9.8% to 7.2%¹⁵⁴.

Governmental support programs also contributed to the recovery of car loans growth. For instance, the program of preferential car loans is extended to the period of 2018-2020¹⁵⁵. To enhance availability of Russian cars for residents of the Far East, a discount under the social programs “First Car” and “Family Car” in the Far Eastern Federal District is increased to 25% of the value of the car being bought. The decisions taken will allow for selling 45,100 cars under preferential car loan programs in 2018. 5,800 out of them will be sold in the Far Eastern Federal District. The total amount of the program financing is RUB 15 bln. The preferential car loan program has been in existence since 2015 and provides for granting by a credit institution of a discount on the down payment in the amount of 10% of the car value with further reimbursement of costs from the federal budget.

Unsecured Lending

Unsecured consumer lending market was characterised by active portfolio build up after recovery growth observed in 2017. The individuals’ demand for borrowing funds was associated, inter alia, with a decrease in rates (Figure 2.12) as well as with enhancement of credit quality of the portfolio (volume of the loans past due for more than 90 days went down by 11.9% in 2018).

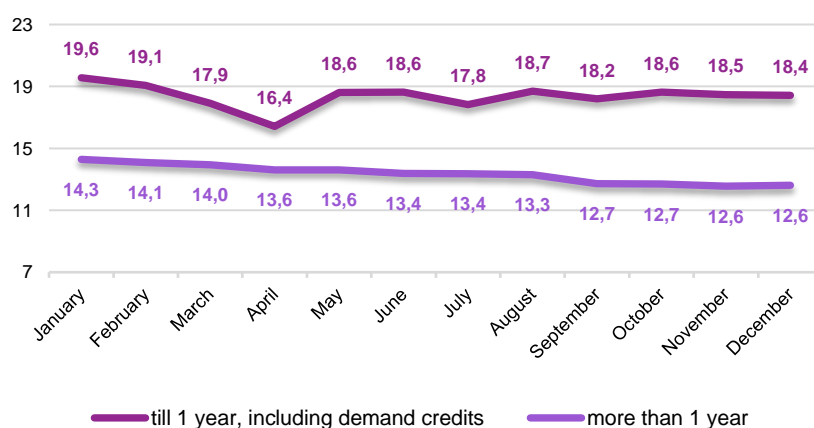
However, growth of the total loan portfolio still affects to a large extent the decrease in the share of the loans past due for more than 90 days in the portfolio of unsecured consumer loans (from 12.8% to 9.1% in 2018). Thus, significant risks of this lending area persist¹⁵⁶.

As part of the trend of decreasing interest rates on loans, the rates for special purpose consumer loans (credits) provided by transferring borrowed funds to retail and service companies for payment of goods (services) (POS-credits) without a collateral (for a term of up to 1 year and below 30,000 RUB) decreased more rapidly - by 3.6 p.p. (Figure 2.13).

The decrease in rates on POS loans was due to the regulatory policy of the Bank of Russia aimed at limiting high interest rates on loans, recovering consumer sentiment, and raising competition in this segment of lending.

The fall in interest rates on loans minimizes the risks of consumers due to a decrease in the monthly payment and, accordingly, the debt burden.

Figure 2.12. Weighted average interest rates on personal credits excluding Sberbank, % per annum



Source: Bank of Russia

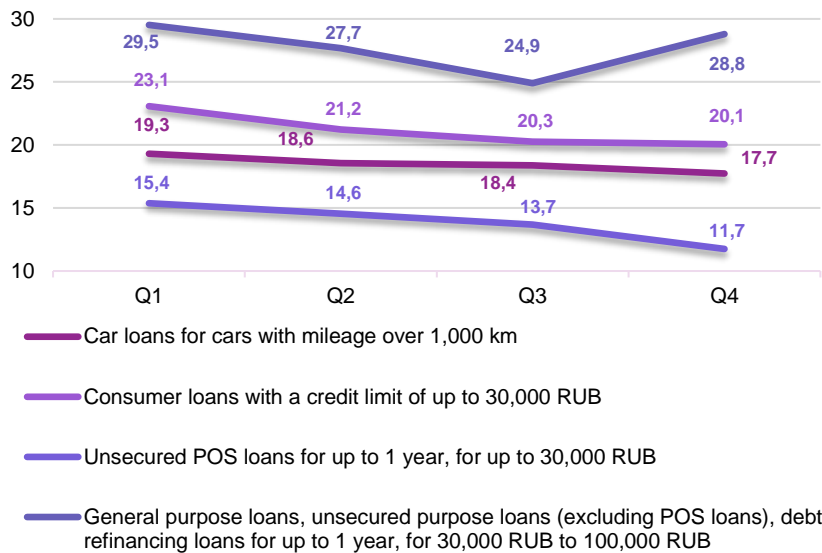
¹⁵³ Report on Results of Public Discussion of Public Consultation Paper “On Improvement of Mortgage Security Regulation” // Official website of the Bank of Russia http://www.cbr.ru/Content/Document/File/50677/Comments_180907.pdf.

¹⁵⁴ Development of Banking Sector in the Russian Federation in 2018 and January 2019. Information and Analytics // Official website of the Bank of Russia https://www.cbr.ru/Collection/Collection/File/15714/razv_bs_18-19_01.pdf.

¹⁵⁵ Resolution of the Government of the Russian Federation No. 870 dated 26 July 2018 “On Amendments to Certain Legal Acts of the Government of the Russian Federation”.

¹⁵⁶ Development of Banking Sector in the Russian Federation in 2018 and January 2019 // Official website of the Bank of Russia https://www.cbr.ru/Collection/Collection/File/15714/razv_bs_18-19_01.pdf.

Figure 2.13. Average market values of the true interest costs of consumer loans (credits) of certain types of credits (loans) by quarters of 2018, %



Source: Bank of Russia

At the end of 2018, the Bank of Russia took the decision to increase by 30 pp markups to risk coefficients on consumer loans granted from 01 April 2019 with true interest cost from 10% to 30%. Increase of markups to risk coefficients on consumer loans is necessary to prevent excessive growth of debt burden of the population and to make banks more stable with regard to potential systemic risks in the unsecured consumer loan market¹⁵⁷.

In March 2019, a decision was taken to leave unchanged the values of markups to risk coefficients on mortgage loans and consumer loans as well as corporate loans in foreign currency¹⁵⁸.

It should be noted that the innovations and the current provisions of the banking laws create the following main risks to borrowers of credit institutions¹⁵⁹:

- acquiring a financial product with excessively high cost to this borrower;
- taking a loan that is excessively onerous for the budget, because of the unfair practices of financial service providers;
- misunderstanding of the reasons for the occurrence of delay, as well as the procedure for calculating fines and penalties;
- errors in accounting of obligations of the borrower, both through the fault of the borrower and through the fault of the bank, which causes the borrower to assume his or her obligations discharged, and the bank - non-discharged, and continues to charge interest and penalties;
- debits of funds unauthorized by the borrower from accounts not intended for repayment of the loan in accordance with the signed loan agreement (or updates/ amendments thereto).

Risk of unjustified service denial to law-abiding persons in compliance by the banks with the requirements of Federal Law No. 115-FZ dated 07 August 2001 "On Combating Legalisation (Money Laundering) of Proceeds of Crime and Financing of Terrorism".

Banking Fees

In 2018 Rospotrebnadzor closely focused on the issue of the legitimacy of charging fees for operations, including banks.

Below are the attributes of the legitimacy of the additional fees:

- the service or additional actions are not included in the subject matter of the basic service (transfer of money or exchange of documents are a part and parcel of a lending transaction)¹⁶⁰;
- the additional service is not hard sold (it has useful properties, the consumer needs the effects of the service);
- the information on the provider of the additional service and its cost was communicated;
- the law, advertisement or the contract do not indicate that the service is free;
- the service does not interfere with the exercising of the rights set out by the law (the right to freedom of movement

¹⁵⁷ Information of the Bank of Russia dated 21 December 2018 "On Amount of National Countercyclical Capital Buffer of the Russian Federation and Markups to Risk Coefficients for Calculation of Capital Adequacy Ratios by Credit Institutions".

¹⁵⁸ Information of the Bank of Russia dated 07 March 2019 "On Amount of National Countercyclical Capital Buffer of the Russian Federation and Markups to Risk Coefficients for Calculation of Capital Adequacy Ratios by Credit Institutions".

¹⁵⁹ See Third Interim Report on Contract No. FEFLP/QCBS-1.43 "Examining the Extent of Compliance of Applicable Standards and Established Disclosure Practices (Including the Terminology Used by Financial Institutions in the Consumer Market) with the Level of Preparedness and Needs of Russian Financial Services Consumers with the Drafting of Practical Proposals for Improving Regulation and Business Practices in this Field".

¹⁶⁰ Information Letter of the Presidium of the Supreme Arbitration Court of the Russian Federation No. 147, dated 13 September 2011, "Review of Judicial Practice of Settling Disputes Related to Application of the Provisions of the Civil Code of the Russian Federation Regarding a Loan Agreement".

and the resident registration fee).

Types of fee income are recognized unlawful, including for maintaining the loan account; receipt of funds towards repayment of the loan; early repayment of the loan; issue of the loan via the bank's cashier desk; replenishment of the account; Issue of bank statements to be submitted to various authorities and institutions, for changing the terms of the loan agreement¹⁶¹.

The bank also may not unilaterally introduce penalties (for example, for submitting false information), relying on the term of the agreement with the client on its right to unilaterally approve of rates and tariffs and publish them on its website and in other accessible places, since any penalties may be established only by mutual agreement between the parties in writing¹⁶².

FOR REFERENCE

In early 2019, the Federal Antimonopoly Service (FAS of Russia) declared the necessity to cancel fees for money withdrawal using ATMs of other banks to stop the so-called "payroll slavery". When choosing a bank for entering into a collective wage agreement, one should consider a wide ATM network as one of the criteria. To provide employers with convenient terms for choosing a service bank, the FAS of Russia suggested cancelling ATM bank fees. It is noted that fee cancellation will not restrict or slowdown cashless payment growth. Suggestions on fee decrease relate not only to ATM cash withdrawal but also to acceptance of bank cards – acquiring¹⁶³.

In accordance with Part 17, Art. 5 of the Law "On Consumer Loan (Credit)", if individual terms of the consumer loan agreement provide for the opening for a borrower of a bank account by the lender, all transactions in such account associated with performance of obligations under the consumer loan agreement, including opening an account, issuing and crediting to the borrower's account of the consumer loan, must be carried out by the lender free of charge.

The following civil liability is established for charging an unlawful fee:

- recovery of the fee amount;
- liquidated damages for using the funds of others;
- liquidated damages for delay in processing a complaint;
- liquidated damages for remedying the omission in the principal agreement;
- compensation of losses;
- fine imposed by the court;
- compensation for moral harm.

Below are the main risks for consumers of banking services related to unlawful charge of fees for operations:

- with loans and deposits, including for replenishment and maintenance of the account, withdrawal of cash, early repayment of the loan, changing the terms of the agreement, obtaining an account statement;
- payment of taxes, levies and insurance premium;
- acceptance of denominations of banknotes undesirable for the bank;
- on release of bank accounts.



In 2018, several important decisions were taken including regulatory and law enforcement decisions enhancing protection of rights of bank service consumers with regard to certain risks including non-standard terms of bank products, cyberthreats, fraudulent activities, inadequate level of population awareness and other risks. In the long run, ongoing monitoring is necessary with regard to previously apparent risks and those occurred due to legal framework changes, new bank services and avalanche-like digitalisation of bank services. To minimise any adverse effects, it is critical to ensure timely response to regulation vulnerabilities, proper functioning of consumer protection institutes for bank service consumers, and raising public financial literacy.

2.3. Insurance Market Changes and Risks for Consumers

Insurance Market in 2018: Tendencies and Outlook

Upon the previous year decline, insurance market showed growth in 2018. This is expressed in a growing number of insurance companies and increase of the volume of their services compared to the last year and in rising income of insurance companies.

In 2017, the number of insurance companies fell from 256 to 226, and in 2018 it went up again to 242: 57 companies obtained insurance licences¹⁶⁴.

¹⁶¹ Resolution of the Federal Anti-Monopoly Service for the Central District on Case No. A48-4263/2013, dated 3 July 2014.

¹⁶² Resolution of the Federal Anti-Monopoly Service for the Moscow District No. KG-A40/5358-11, dated 29 June 2011, on Case No. A40-97749/10-98-848.

¹⁶³ FAS Suggested Cancelling ATM Cash Withdrawal Fee, 02 April 2019 // Kommersant Web Publishing <https://www.kommersant.ru/doc/3931555>.

¹⁶⁴ Registry of Insurance Entities // Official website of the Bank of Russia https://www.cbr.ru/finmarket/supervision/sv_insurance.

Together with this, according to the Bank of Russia, in 2018, increment rates of insurance premiums doubled and reached 15.7%, which is the maximum since 2012.

Life insurance made the highest contribution to the insurance market growth (60.2% of the total premium increment for 2018), mostly due to investment life insurance (ILI).

As a result, insurance premium per capita in 2018 went up by 15.6% and reached RUB 10,100, where RUB 3,100 out of this amount related to life insurance (+36.4% per year). Total amount of insurance premiums was RUB 1,479.5 bln.

Insurance market grew in 2018 even without taking into account life insurance, namely, by 8.4% (-1.8% a year before), and this is also the highest figure for the last six years.

Increment rates of insurance premiums on voluntary insurance types accelerated in 2018 to reach the level of 19% (11.9% in 2017). As a result, they accounted for 83% of the total premium amount.

Movements of premiums on mandatory insurance types turned from negative to positive (1.9% growth against the similar period of 2017). Together with this, a year ago decrease of insurance premiums was observed (-5%).

Such dynamics was supported by high loan demand that exerted a positive impact on the market of life insurance and accident insurance for borrowers and on car insurance volumes in case of buying cars on credit¹⁶⁵.

Therefore, in 2018, profit of insurance companies went up more than 1.5 times and reached RUB 204.1 bln. Profit growth is explained by increase of income of insurance companies from investment activities and loss reduction.

FOR REFERENCE

Loss ratio means a ratio of amount of losses incurred and expenses on loss regulation to the amount of premiums earned.

Expense ratio means a ratio of expenses (fewer losses) to the amount of insurance premiums earned.

Combined loss ratio is an indicator of efficiency of insurance activities of the insurance company with regard to insurance other than life insurance calculated for all types of insurance or for each type of insurance separately. It includes two components: loss ratio of insurance activities and level of business expenses to the insurance premium.

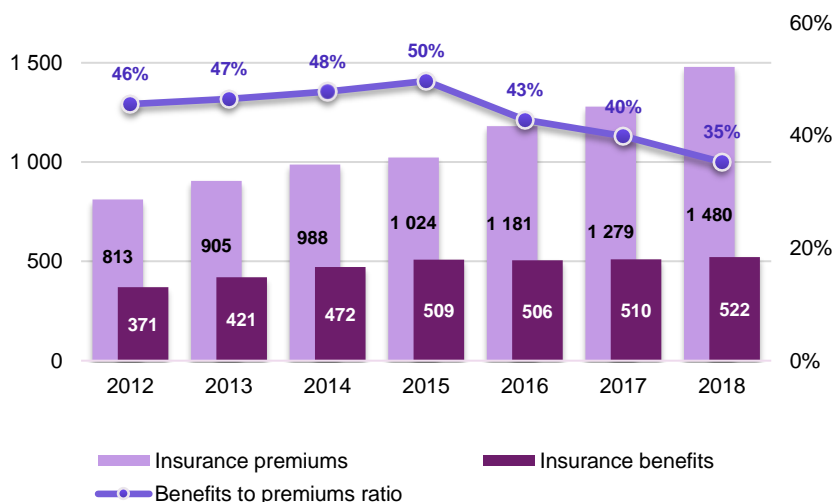
Following the results of 2018, loss ratios and expense ratios achieved minimum values for the last 5 years (49.1% and 35.8%, respectively). This was mainly due to stabilisation of unprofitability in the segments of Compulsory Motor TPL Insurance (OSAGO) and Voluntary Insurance of Vehicles against Damage and Theft (Fully Comprehensive Car Insurance (FCCI)).

For instance, loss ratios with regard to insurance of land vehicles remained at a quite low level: following the results of 2018, loss ratio was 44.2%, and expense ratio amounted to 29.8%. As a result, combined loss ratio was equal to 73.9% (for reference – combined loss ratio on FCCI for 2014 was 96.5%, for 2015 – 88.1%, for 2016 – 63.0%, for 2017 – 71.3%).

Due to higher premium increment rates compared to payment increment rates payment ratio in general throughout the insurance market for the year decreased by 4.5 pp to 35.3%¹⁶⁶.

Thus, principal indicators of the insurance market have a pronounced positive trend (Figure 2.14).

Figure 2.14. Dynamics of main insurance market indicators in Russia, bln RUB



Source: Bank of Russia

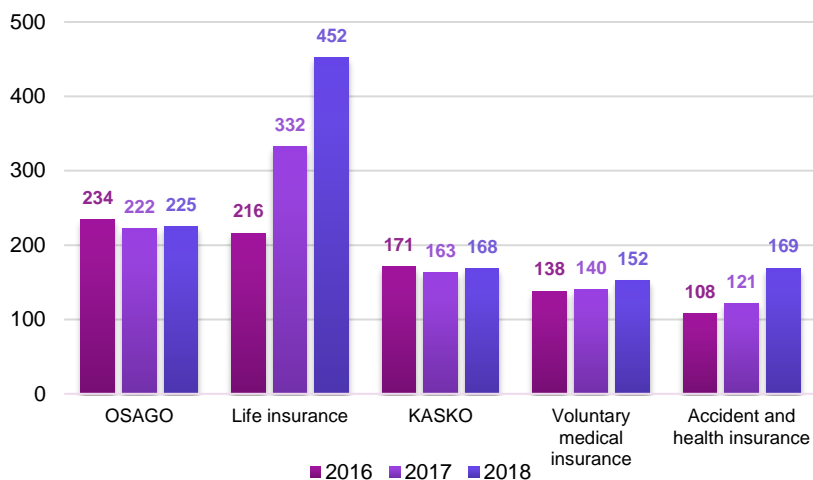
In this context, in the total volume of insurance premiums in 2018, one can distinguish the following segments:

¹⁶⁵ Review of Key Performance Indicators of Insurance Companies No. 4 // Official website of the Bank of Russia https://www.cbr.ru/Content/Document/File/71180/review_insure_18Q4.pdf.

¹⁶⁶ Ibid.

- OSAGO — RUB 225 bln;
- Life insurance — RUB 452 bln;
- Fully Comprehensive Car Insurance (FCCI) — RUB 168 bln;
- Voluntary Health Insurance — RUB 152 bln;
- Accident and health insurance — RUB 169 bln¹⁶⁷ (Figure 2.15).

Figure 2.15. Dynamics of insurance premiums, bln RUB



Source: Bank of Russia

89.3% of life insurance premiums attracted with the help of intermediaries were obtained via credit institutions. This means, inter alia, investment life insurance (ILI) offered by banks to clients as an alternative or addition to the deposits.

Sales of insurance products via the Internet in 2018 doubled and accounted for 5% of total insurance premiums. The growth was mainly caused by active development of e-OSAGO. During the year, the share of OSAGO insurance premiums obtained via the Internet more than doubled and reached 30.6%. At the same time, 21.5% of premiums (-1.5 pp) were received without intermediaries¹⁶⁸.

In this situation conventional agency channel lost premiums in 2018 for the total amount of RUB 37.5 bln¹⁶⁹.

In line with general digitalisation of economy, innovations are also being implemented in the insurance market. For instance, All-Russian Insurance Association (ARIA) is arranging a Global Office for Management of Social and Economic Risks Throughout the Country (hereinafter referred to as the Global Office).

In the framework of this project started in 2017, ARIA plans to establish a national risk office, i.e. a management centre for social and economic risks for the whole country where statistical data of the following authorities are to be handled: Federal Social Insurance Fund, Ministry of Health of the Russian Federation, Ministry of Labour of the Russian Federation, Ministry of Emergency Situations, Federal Service for Environmental, Technological and Nuclear Oversight (Rostekhnadzor), Federal State Statistics Service and others.

Total amount of uninsured risks in the Russian Federation was estimated by ARIA in 2018 at the level of RUB 1.3 quadrillion, where risks of individuals accounted for RUB 850 trillion.

According to ARIA, insurance companies are ready to investigate risk nature as the possibility of loss occurrence. Based on information and statistics obtained from all available databases, they will be able to prepare a forecast on the object insured. Reducing uncertainty, they will be able to manage the second component of risk nature, a loss, i.e. to carry out preventive measures that can mitigate the risk of insured event occurrence. This process will allow companies to decrease capital intensity of business processes and process chains and to reduce working capital needed for production^{170,171}.

Insurers believe they will benefit from the Global Office due to promotion of their services as the cheapest risk management tool, precise adjustment of products and rates, expansion of insurance coverage. Instead the state will receive analytical data for event simulation and precise inputs for allocation of funds, thus minimising costs¹⁷².

As for consumers, establishment of such system will make insurance services more cost effective for them due to a more flexible approach to determining rates on insurance products.

¹⁶⁷ Review of Key Performance Indicators of Insurance Companies No. 4 // Official website of the Bank of Russia https://www.cbr.ru/Content/Document/File/71180/review_insure_18Q4.pdf.

¹⁶⁸ Review of Key Performance Indicators of Insurance Companies No. 4 // Official website of the Bank of Russia https://www.cbr.ru/Content/Document/File/71180/review_insure_18Q4.pdf.

¹⁶⁹ Analytical Review "Russian Insurance Market in 2018" // National Rating Agency Portal <http://www.ra-national.ru/ru/node/63350>.

¹⁷⁰ A Quadrillion of Threats // Kommersant Newspaper, No. 220 dated 27 November 2017, p. 2.

¹⁷¹ ARIA to Rail to Digital Economy // Modern Insurance Technologies No. 4 (63) dated August 2017, pp. 6-12.

¹⁷² Accidents According to Plan. First National Risk Management System to Be Developed in Russia, 17 July 2017 // Banki.ru Portal <https://www.banki.ru/news/daytheme/?id=9872731>.

The national risk office project will start from elaboration of a single automated home insurance system – Zhilye (Housing) Automated Information System (AIS) and connection thereto from 4 August 2019 of federal and regional public authorities, the Bank of Russia, insurance companies as well as Russian National Reinsurance Company JSC¹⁷³.

FOR REFERENCE

Global management of social and economic risks is widely used on a worldwide basis.

For example, each year Munich Re German reinsurance company develops a global risk map covering economic, geopolitical, technological, environmental, and social risks for the whole world. These risks include interstate conflicts, cyber attacks, unemployment, severe social instability, extreme weather conditions, deterioration of the environment, urban planning failures, regional management disorganisation, financial crisis, etc. These data are presented by Munich Re at the annual Munich Security Conference. Similar risk maps but with some differences are prepared by another global reinsurance company, Swiss Re¹⁷⁴.

In 2018, an important event in the regulation of the insurance market in general and rights protection of insurance services consumers in particular was establishment of a position of financial ombudsman whose activities are described in detail in Section 1.2. of the Report.

Together with this, establishment of general requirements to rights protection with regard to consumers of voluntary personal insurance services effective from 01 March 2019¹⁷⁵ was very essential for consumer protection in the insurance market.

Adoption of the stated requirements was not only an attempt to enhance quality of assistance to consumers of voluntary personal insurance services. It also laid the foundation for a legal framework of consumer protection in the insurance market as a separate independent type of activities in the sphere of consumer protection.

As the document states, prior to its introduction, the activities of the rights protection for consumers of voluntary personal insurance services was not regulated by any special regulations or standards. This led to unhelpful variety and inadequacy of practices used by authorities and entities as well as professional lawyers providing services in this sphere.

Due to this fact and on the basis of consolidation and systematisation of extensive practice of rights protection with regard to consumers of voluntary personal services, the respective guidelines are suggested which include definition of basic terms in the sphere of voluntary personal insurance, general requirements to voluntary personal insurance rules and agreements as well as the procedure of interaction of an insurer and its services consumer, including requirements to the insurance payment procedure, the list of main duties of the insurers and the insured ensuring compliance with the current legislation and respective insurance agreement as well as patterns of the most important documents associated with entering into a voluntary personal insurance agreement and receiving an insurance payment.

The most essential insurance market segments with regard to risks for consumers are given below: OSAGO, investment life insurance, banking insurance, and housing insurance.

OSAGO

In 2018, the OSAGO segment showed the highest growth rates among all insurance market segments: 39.7 mln insurance agreements were entered into in total including 35.6 mln with individuals, that is by 1.5 mln higher than in 2017 (34.2 mln).

Following the results of 2018, loss ratio and expense ratio on OSAGO were 66.7% and 21.3%, respectively. Together with this, combined loss ratio on OSAGO stayed at the acceptable level, 87.9%. For instance, combined loss ratio on OSAGO following the results of 2014 was 93.0%, in 2015 – 101.7%, in 2016 – 97.8%, in 2017 – 106.8%.

Nevertheless, an average payment to individuals under OSAGO agreements went down (in 2018 – RUB 60,100, in 2017 – RUB 64,200).

With a breakdown into regions of the Russian Federation, the Republic of Dagestan remained the first in terms of payments under OSAGO schemes (182.7% following the results of 2018). The payment ratio exceeding 100% was also observed in 7 constituent entities of the Russian Federation. However, the situation generally became better – a year ago the payment ratio under OSAGO exceeded 100% in 20 Russian regions¹⁷⁶.

Thus, principal indicators of OSAGO market have a pronounced positive trend (Figure 2.16).

An important event for further development of the OSAGO segment was drafting and adoption of Federal Law No. 88-FZ dated 01 May 2019 “On Amendments to Certain Legal Acts of the Russian Federation”. The Law is aimed at a single approach to entering into an OSAGO agreement in paper and electronic forms. In doing this, it is established that an insurance policy can be submitted for an examination by a police officer in the paper form, and in case of entering into an electronic agreement, in the form of an electronic document or its printout.

Double accounting of insurance policies in the paper and electronic forms by RAMI (Russian Association of Motor

¹⁷³ Insurers to Go Through Addresses // Kommersant Newspaper No. 158 dated 03 October 2018, p. 2.

¹⁷⁴ Accidents According to Plan. First National Risk Management System to Be Developed in Russia, 17 July 2017 // Banki.ru Portal <https://www.banki.ru/news/daytheme/?id=9872731>.

¹⁷⁵ GOST R 58183-2018. National Standard of the Russian Federation. Guidelines for Voluntary Personal Insurance Consumer Rights Protection. General Requirements (approved and enacted by Order of the Federal Agency on Technical Regulating and Metrology No. 425-st dated 24 July 2018).

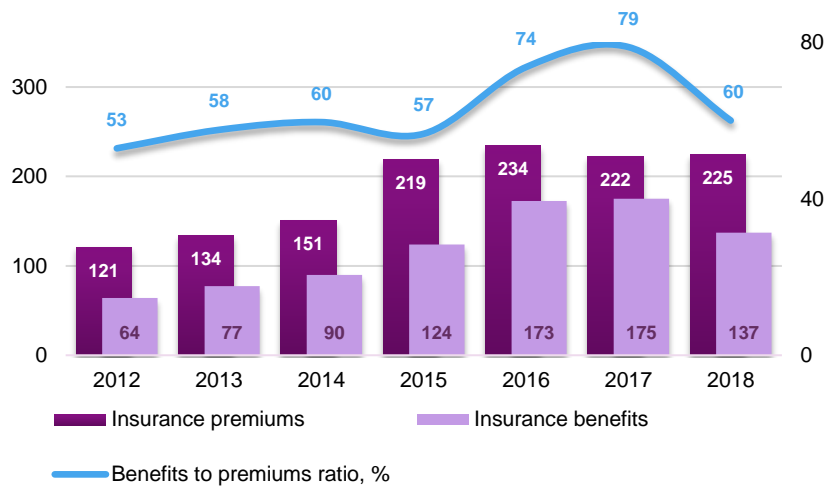
¹⁷⁶ Review of Key Performance Indicators of Insurance Companies No. 4 // Official website of the Bank of Russia https://www.cbr.ru/Content/Document/File/71180/review_insure_18Q4.pdf.

Insurers) AIS¹⁷⁷ and insurance companies shall be avoided.

Together with this, drivers now may complete an electronic accident notice without involving a police officer, the so-called European Accident Statement. The accident notice may be completed using data of the single portal of the state services according to the form established by the Bank of Russia.

Prohibition on reinsurance with regard to OSAGO is cancelled. An insurance company will have the right but not the obligation to carry out reinsurance against OSAGO risks.

Figure 2.16. Dynamics of main indicators of OSAGO market, bln RUB



Source: Bank of Russia, FBK Grant Thornton's estimates

FOR REFERENCE

Reinsurance is insurance by one insurer (reinsurer) of material interests of another insurer (reinsurant) associated with insurance payment obligations assumed by the latter under an insurance agreement (principal contract).¹⁷⁸

Insurers usually use reinsurance in cases when the volume of their obligations to clients exceeds their financial capacities. This ensures additional financial stability and profitability of insurance transactions. A special case of reinsurance is coinsurance where two or more insurers simultaneously provide insurance coverage for major risks under an agreement.

Moreover, the stated Law specifies the compensation payments procedure under the OSAGO scheme and prohibits having recourse¹⁷⁹ under OSAGO against pedestrians who were injured during a traffic accident and to heirs and relatives of the pedestrians who died in the accident.

Rate liberalisation became an essential novelty in the OSAGO segment. According to Ordinance of the Bank of Russia dated 04 December 2018¹⁸⁰, new limits of the basic OSAGO rates and the procedure of insurance premium calculation were introduced.

The stated Ordinance stipulates that the amount of insurance premium under an OSAGO agreement is determined by the insurer independently as before based on the established basic OSAGO rate and the respective coefficients thereto.

In particular, the following coefficients are provided for:

- Coefficient of insurance rates depending on the insurance period (KP);
- Coefficient of insurance rates depending on presence or absence of insurance compensation paid by insurers in the previous periods under compulsory insurance schemes for the period till 01 April 2019 (KBM);
- Coefficient of insurance rates depending on the territory where a vehicle is mostly used;
- Coefficient of insurance rates depending on availability of data on the number of persons approved for driving a vehicle;
- Coefficient of insurance rates depending on the age and driving experience of the person approved for driving a vehicle (the age-experience coefficient, or KVS).

A new system of KVS calculation is introduced together with additional classifications.

For example, for a group of persons within the high risk group (age of 16-21, driving experience from 0 to 2 years) this

¹⁷⁷Automated Information System of Russian Association of Motor Insurers.

¹⁷⁸ According to Article 13 of Law of the Russian Federation No. 4015-1 dated 27 November 1992 "On Organisation of Insurance Activities in the Russian Federation".

¹⁷⁹Recourse means a claim of a person who compensated the loss on compensation of this person's losses against a party at fault.

¹⁸⁰ Ordinance of the Bank of Russia No. 5000-U dated 04 December 2018 "On Limits of Basic Insurance Rates (Minimum and Maximum Values Nominated in Rubles), Insurance Rate Coefficients, Requirements to Insurance Rate Structure, and Procedure of Applying Thereof by Insurers When Determining Insurance Premium Under an Agreement on Compulsory Civil Liability Insurance of Motor Vehicle Owners".

coefficient is 1.87; for a group of persons within the minimum risk group (persons older than 59 years with driving experience exceeding 14 years) – 0.93.

Together with this, it is established that KBM is assigned to a driver once a year on 1 April and is not subject to change during the year.

As for recording of a traffic accident for further applying to the insurance company to receive compensation, on 01 June 2018, amendments¹⁸¹ to the OSAGO Law¹⁸² and OSAGO Rules¹⁸³ became effective relating to a simplified procedure of completing documents on a traffic accident without participation of the authorised police officers (the so-called “European Accident Statement”, “EAS”).

According to the amendments introduced, the insurance compensation limit under the EAS is increased from RUB 50,000 to 100,000. Together with this, the insurance compensation limit for Moscow, St-Petersburg, the Moscow Region and the Leningrad Region (in case of submission of necessary data on the accident) stayed at the same level of RUB 400,000. However, such amount of the insurance compensation is possible only subject to absence of disagreements among the accident participants.

Using the EAS scheme for recording a traffic accident with a damage within RUB 100,000 is possible even when accident participants have disagreements concerning circumstances of inflicting damage (earlier only in the absence of disagreements). To do this, drivers shall put on record the accident circumstances and transmit them to the OSAGO automated information system using technical means of control or software stipulated by the OSAGO Law.

FOR REFERENCE

The term “European Accident Statement” is not stipulated by the current legislation of the Russian Federation. This term is usually used to determine a simplified procedure of recording of a traffic accident without participation of police officers stipulated by Art. 11.1 of the OSAGO Law¹⁸⁴.

As reported by State Traffic Safety Inspectorate (STSI), in 2018, drivers recorded accidents without injured persons according to the EAS almost in half of cases – 44.5%. In 2017, this figure was 32%. Together with this, the number of drivers who applied to the insurance companies claiming direct losses compensation after recording an accident under the EAS scheme grew by 8.3% in January-November 2018 compared to the same period of 2017. Following the results of 11 months of 2018, 528,800 applications of persons affected who executed a European Accident Statement were registered, in 2017 there were 488,200 applications¹⁸⁵.

Starting from 01 June 2018, the OSAGO Law stipulates use by an insurer of the data on a traffic accident recorded using the software complying with certain requirements when handling a claim by such insurer. Actually, it means a mobile application having 3 main functions: examining the OSAGO policy validity, taking photos of a car and damages with recording of coordinates of the place where the photos were taken, transmission of photos and other information to RAMI AIS. Information will be further submitted to the insurance company being the recipient of the compensation claim of the person affected¹⁸⁶. Together with this, in September 2019, one more method of recording will be available. The second mobile application “OSAGO Assistant” developed by the Bank of Russia is to be launched¹⁸⁷. There is another mobile application “Accident. EAS” developed by RAMI but it shall be used with caution, since the developer itself (RAMI) does not regard consideration of materials provided through the application compulsory, and disclaims any liability for the use thereof¹⁸⁸.

Together with this, in spite of positive changes, many issues concerning OSAGO were still unresolved in 2018.

For example, in spite of implementation in the fall 2017 of the system of guaranteed conclusion of an electronic OSAGO agreement, car owners still had problems when buying OSAGO policies, especially in the regions.

According to the data of the All-Russia People’s Front, almost in 60% of cases, car owners faced technical problems when trying to enter into a compulsory insurance agreement through the Internet. Most of this entire problem manifested itself in four regions – Karachay-Cherkessia, North Ossetia, Adygea, and Buryatia. Three of these are included in TOP-10 of the most unprofitable regions with regard to OSAGO in 2017, as evidenced by statistical data of Russian Association of Motor Insurers (RAMI).

In some regions bike owners (OSAGO rates for bikes are lower than for cars) reported total impossibility to buy an OSAGO policy. For example, bike owners of the Kabardino-Balkarian Republic had to buy OSAGO policies in the neighbouring regions.

This situation was frequently observed in the regions which are called “toxic” by insurance companies. In these regions

¹⁸¹ Amendments are introduced by Federal Law No. 448-FZ dated 29 December 2017 “On Amendments to Articles 11.1 and 12 of Federal Law “On Compulsory Civil Liability Insurance of Motor Vehicle Owners”.

¹⁸² Federal Law No. 40-FZ dated 25 April 2002 “On Compulsory Civil Liability Insurance of Motor Vehicle Owners”.

¹⁸³ Regulation of the Bank of Russia No. 431-P dated 19 September 2014 “On Rules of Compulsory Civil Liability Insurance of Motor Vehicle Owners”.

¹⁸⁴ European Accident Statement // Portal of the Bank of Russia <https://www.cbr.ru/osago/europrotokol/index.html>.

¹⁸⁵ In 2018, State Traffic Safety Inspectorate Detected Over 51,500 Drunk Drivers, 04 January 2019 // Portal of FSUE Information Telegraph Agency of Russia (ITAR-TASS) <https://tass.ru/obschestvo/5975060>.

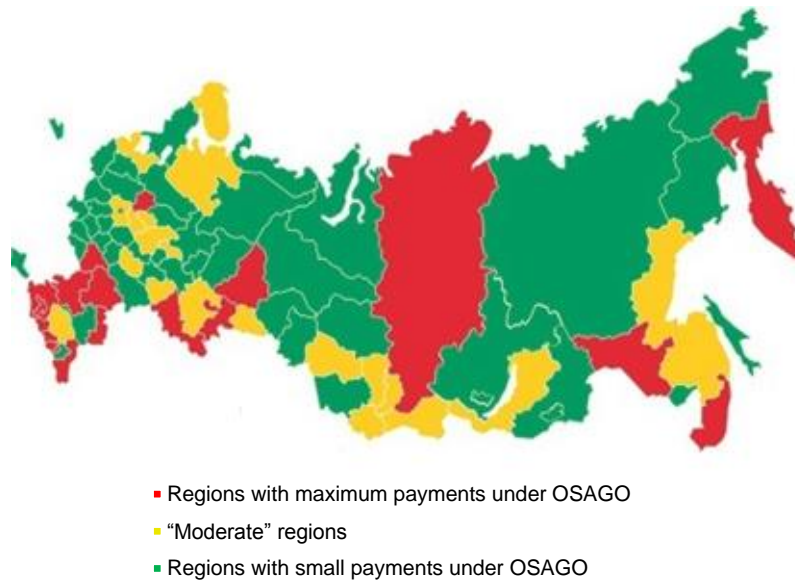
¹⁸⁶ RAMI to Develop a New Mobile Application for Car Owners, 08 August 2018 // Portal of RAMI https://www.autoins.ru/novosti/tekushchie/?ELEMENT_ID=113281.

¹⁸⁷ European Accident Statement: to Apply or to Avoid, 07 March 2019 // Banki.ru Portal <https://www.banki.ru/news/columnists/?id=10881712>.

¹⁸⁸ Official Mobile Application From Russian Association of Motor Insurers Available for Downloading, 31 July 2018 // AvtoVzglyad Portal <https://www.avtovzglyad.ru/obschestvo/strahovanie/2018-07-31-strahovschiki-razrabotali-zhulnicheskoe-prilozhenie-dtp-evroprotokol-chtoby-ostavit-voditelej-bez-vyplat/>.

insignificant payments led to unprofitable insurance activities (Figure 2.17¹⁸⁹). For this reason insurers tried to keep to a minimum the issue of policies therein. At the same time, an OSAGO policy for a bike, taxi or share taxi was difficult to buy almost throughout the entire country¹⁹⁰.

Figure 2.17. OSAGO Profitability Map in Regions in 2018



Source: *Za Rulem* Internet publication (www.zr.ru)

The situation with forged OSAGO policies stayed challenging as well. Such policies were sold even more frequently, Public Prosecutor's Office reported. Such policies were often sold at substantially reduced prices. Due to this fact consumers wishing to buy an OSAGO policy at a reduced price should beware of fake policy forms¹⁹¹.

It should be noted that new fraudulent practices appeared in the OSAGO sphere which became widely spread.

For example, fraudsters call clients using disposable SIM-cards and offer to buy an OSAGO policy at a favourable price and to verify the validity of their services they suggest arranging an incoming call from the hotline telephone of one or another real insurer. The thing is that the hotline phone number of the fraudsters differs from the real number in one digit and is perceived by the clients as a sort of guarantee of the transaction validity. A completed insurance policy is brought to the client by a courier to whom a payment in cash is made.

In some cases, fraudsters even invite the clients to the insurance company's office and pretending to be insurer's employees enter into an insurance agreement in the client area accessible for visitors. Together with this, forms of policies and receipts used by fraudsters are stated in the database of the insurance company as previously sold in other regions or kept in the warehouse.

To avoid the activities of such persons, it is necessary to ask first name and last name of the person calling as well as the name of the company and the person's position. Upon receipt of these data one should call the phone number stated on the insurer's website and ask the operator whether such employee works at the company and is authorised to perform insurance activities¹⁹².

One more fraudulent practice is making phishing websites similar, at first sight, to the websites of real insurance companies¹⁹³.

Moreover, forged policies were issued on behalf of non-existing insurance companies.

For example, *Obrazets JSC* having no valid licence over time offers its services on OSAGO policies issue. Moreover, the company launched a new website <http://globaltorgao.ru/>, which is still active¹⁹⁴.

Thus, while buying OSAGO policies via the Internet, consumers should take certain precautions including verification of webpages of the insurance companies, availability of insurance license as well as verification of the insurance policies being acquired. The stated information can be verified on the website of Russian Association of Motor Insurers (RAMI): <https://www.autoins.ru/>.

One more unsolved challenge that occurred all long ago is execution of OSAGO policies by fraudsters using the so-called "stolen" or "written-off" forms. Such forms are not forged, however, policies executed thereon are not recognised by insurance companies due to the fact that an insurance agreement is not entered into with such companies.

¹⁸⁹ Based on materials of www.zr.ru.

¹⁹⁰ OSAGO Problems: Past, Present and ... Future?, 05 April 2018 // *Za Rulem*.RF Portal <https://www.zr.ru/content/articles/911503-makhnut-na-polis/>.

¹⁹¹ Liability for Use of Forged OSAGO Policies, 16 February 2018 // Official website of Public Prosecutor's Office of the Belgorod Region <http://www.belproc.ru/newlaw/podosago/>.

¹⁹² Residents of Metropolitan Region Risk to Pay out of Pocket Compensation to a Person Injured in a Traffic Accident, 23 April 2018 // *AvtoVzglyad* Portal <https://www.avtovzglyad.ru/obshchestvo/strahovanie/2018-04-23-moshenniki-osvoili-novyy-sposob-prodazhi-poddelnyh-polisov-osago/>.

¹⁹³ Liability for Use of Forged OSAGO Policies, 16 February 2018 // Official website of Public Prosecutor's Office of the Belgorod Region <http://www.belproc.ru/newlaw/podosago/>.

¹⁹⁴ Non-Existing OSAGO Insurer Continues Working, 9 January 2019 // *ASN-NEWS.RU* Portal <http://www.asn-news.ru/news/69216>.

Together with this, courts in most cases take the part of consumers and recognise the insurance agreement as concluded, since the insurance company is responsible for proper storage of the policy forms.

However, if before the occurrence of the insured event an insurer, insurance broker or insurance agent applied to the competent authorities and declared theft of certificate forms, the insurance company shall be discharged from the obligation to pay an insurance compensation (Clause 7.1, Article 15 of the OSAGO Law).

In 2018, an attempt to implement the mechanism of bringing to the responsibility for driving without an OSAGO policy and using automated recording systems caused a hot discussion.

The project of checking the availability of OSAGO policies through road photo- and video cameras was suggested in 2016, however, the deadline for the launch was postponed several times for different reasons.

In 2018, it was suggested to launch the project on 1 September in Moscow and later in Tatarstan but its start was once again deferred due to implementation difficulties revealed.

The first difficulty was the mechanism of punishment; the problem how to avoid a repeated punishment for the same violation was not effectively resolved. The second difficulty was associated with organising required interaction between databases of STSI and RAMI. Together with this, errors in the drivers' data contained in the STSI Federal Information System present a challenge as well.

Thus, implementation of automated recording of driving without an OSAGO policy was once again postponed for an indefinite period¹⁹⁵.

The discussion continues concerning the roles of the so-called traffic lawyers, i.e. persons assisting consumers in claiming an insurance compensation.

Insurers often indicate the activities of such persons as the source of their major losses in excuse of the declared unprofitability under OSAGO agreements.

At the same time, experts taking the part of consumers argue that such complaints are unjustified, and legal assistance to consumers is undoubtedly useful in case of unjustified refusal of the insurer to perform its obligations under the insurance agreement.

According to V. I. Lysakov, Deputy of the State Duma of the Russian Federation, insurance companies trying to justify whatever it takes the need of increase or cancellation of rates as well rehabilitation of the insurers pile together payments under court decisions, underpayments due to decrease of the number of concluded OSAGO agreements, unjustified but stipulated by methodology 10% deviations in calculations and unjustified, in the insurers' opinion, fees of traffic lawyers. Together with this, terms used by RAMI, namely, "mala fide intermediaries-traffic lawyers", "unjustified payments", "underpayments", "grey or black traffic lawyers-fraudsters", do not indicate to the presence of elements of crime and may not be considered by investigators, inquiry officers, and field officers as evidence of crime¹⁹⁶.

FOR REFERENCE

Earlier RAMI applied to the Ethics Commission of the State Duma of the Russian Federation and requested to give an appraisal of activities of Deputy V. I. Lysakov. According to I. Yu. Yurgens, RAMI Head, the Deputy caused damage to reputation of RAMI and the Bank of Russia. The reason for request was a publication in mass media based on the report of Main Directorate for Economic Security and Anti-Corruption Enforcement of MIA of Russia presented by V. I. Lysakov. The authority stated in the report that managers of insurance companies used the myth about traffic lawyers to justify intentional bankruptcy and withdrew money from the companies in advance, and RAMI did not try to influence the situation. Most territorial bodies of the Ministry of Internal Affairs of Russia concluded that the problem of the traffic lawyers' activities had been caused by the insurance companies themselves and afterwards created a myth on major losses therefrom. The FAS of Russia has similar views on the problem¹⁹⁷¹⁹⁸.

Together with this, it was found out that insurers themselves, namely, managers and employees of insurance companies, inflicted the highest damage to the market or actively participated in such a process. This was confirmed, in particular, by RAMI Head who reported withdrawal of RUB 24.2 bln by mala fide insurers¹⁹⁹.

A similar situation was with regard to the activities of the so-called "insurance cancellers" who assisted consumers to terminate insurance agreements.

In this context, the number of court cases associated with OSAGO and the number of court decisions thereon are quite illustrative.

According to the data of the Supreme Court of the Russian Federation, in 2018, the number of cases considered by general jurisdiction courts concerning OSAGO disputes was 300,000, which is much lower than in 2017 (390,000). At least 90% of claims on OSAGO cases were sustained by the courts²⁰⁰.

¹⁹⁵ OSAGO Again out of Focus: Drivers May Be Unafraid of Cameras Again, 02 November 2018 // Portal of Izvestiya Multimedia Information Centre LLC <https://iz.ru/807494/evgenii-bagdasarov/osago-ne-v-fokuse-voditeli-snova-mogut-ne-boiatsia-kamer>.

¹⁹⁶ Lysakov Is Demanding Statistics on Traffic Lawyers and Fraud Again, 12 April 2018 // ASN-NEWS.RU Portal <http://www.asn-news.ru/news/66445>

¹⁹⁷ Lysakov Is Demanding Statistics on Traffic Lawyers and Fraud Again, 12 April 2018 // ASN-NEWS.RU Portal <http://www.asn-news.ru/news/66445>.

¹⁹⁸ MIA Accused Insurers of Creating Myth on Traffic Lawyers, 31 January 2018 // ASN-NEWS.RU Portal <http://www.asn-news.ru/news/65643>.

¹⁹⁹ Continuation of OSAGO Reform to Cause Market Collapse, 13 February 2019 // Portal of Primgazeta.ru <https://primgazeta.ru/news/prodolzhenie-reformy-osago-vyzovet-kollaps-rynka-ekspert-13-02-2019-12-02-13>.

²⁰⁰ Financial Consumer Protection: Challenges and Solutions, 16 May 2019 // Digest of St. Petersburg International Legal Forum Web Publishing <https://spblegalforum.ru/ru/Video>.

Similar data are provided by RAMI: according to the insurers' estimates, the number of court decisions on OSAGO cases amounted in 2018 to 283,000, which is 20% lower than in 2017 (354,000). Together with this, the amount of insurance compensations paid by the insurance companies under court decisions remained almost the same – following the results of 2018, this amount was RUB 34 bln. (RUB 35 bln in 2017).

Together with this, total amount of charged fines, penalties, and forfeits in 2018 accounted for 55% of the total amount of payments (53% in 2017). At the same time, an average amount of fines imposed by court grew to the level of RUB 70,000 in 2018 (RUB 50,000 a year before)²⁰¹.

Thus, in spite of decrease in the number of court cases and decisions concerning OSAGO, such statistics underlines a persisting large number of violations of consumers' rights by insurance companies in the OSAGO sphere and inadequate regulation therein.

Investment Life Insurance

In 2018, a relatively new credit product – investment life insurance (ILI) – continued to develop being one of the most fast-growing segments of the insurance market. Interest to this product has grown considerably due to decrease of interest rates on bank deposits and comparable yield on ILI.

As per estimates of the Life Insurers Association and ARIA, following the results of Q1 2018, life insurance provided for RUB 90 bln of insurance premiums. In addition, it was ILI that ensured the major increment. Contributions in this segment went up by a quarter to RUB 62.8 bln, which is comparable to the quarterly inflow of funds to RUB bank deposits (RUB 67.8 bln)²⁰².

Following the results of 2018, insurance premiums on ILI raised by 33.2% to RUB 306.3 bln, and payments increased by 211.7% to RUB 35.4 bln.

ILI, which is often presented by the banks as more profitable alternative to deposits, accounted for 67.7% of total insurance premiums on life insurance (RUB 452.4 bln). At the same time, life insurance of the borrowers accounted for 13.1% of insurance premiums (RUB 59.2 bln), pension insurance – 0.3% (RUB 1.5 bln), other types of life insurance – 18.9%²⁰³ (Figure 2.18)

FOR REFERENCE

Investment life insurance is an insurance product being simultaneously an investment product: a client obtains additional non-guaranteed income depending on fluctuations of the underlying asset, which is chosen by the client (it may be a stock index, USD rate, etc.). First ILI policies appeared in Russia in 2010, however, insurance companies started to promote them in 2015. According to the current legislation, insurers are not obliged to disclose the received profitability on this type of insurance. When executing an insurance policy, they are unable to guarantee final yield of the client and are allowed not to disclose the current results of their investment activities²⁰⁴.

Life insurance was flourishing mainly in large regions: 1.3 mln and 2.6 mln of life insurance agreements were entered into in Moscow and the Moscow Region, respectively. As for the rest regions, less than 50,000 agreements were concluded, except for Bashkortostan, Tatarstan, St. Petersburg, the Krasnodar Territory, the Sverdlovsk Region and the Nizhny Novgorod Region. Together with this, in 14 regions insurance premiums more than doubled²⁰⁵.

Nevertheless, increased consumers' interest in this insurance product and market growth in this segment were accompanied by certain problems.

²⁰¹ Number of Court Decisions on OSAGO Issues in 2018 Decreased by 20%, 13 February 2019 // RAMI Portal https://www.autoins.ru/novosti/tekushchie/?ELEMENT_ID=148451.

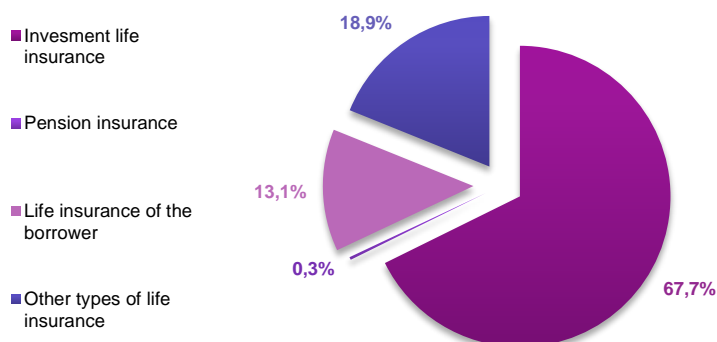
²⁰² In 2018, Life Insurers Collected Almost Half Trillion Rubles, 22 February 2019 // Vedomosti E-Periodical <https://www.vedomosti.ru/finance/articles/2019/02/22/794884-strahovschiki-zhizni-poltrilliona>.

²⁰³ Review of Key Performance Indicators of Insurance Companies No. 4 // Official website of the Bank of Russia https://www.cbr.ru/Content/Document/File/71180/review_insure_18Q4.pdf.

²⁰⁴ Russians Disappointed in Yield on Life Insurance, 26 February 2018 // RBC Portal <https://www.rbc.ru/newspaper/2018/02/27/5a93e1079a794740f46e996a>.

²⁰⁵ Life Goes On. Experts Announced Insurance Market Drivers in 2018, 03 October 2018 // Portal of Rossiyskaya Gazeta <https://rg.ru/2018/10/03/eksperty-nazvali-drajvery-strahovogo-rynka-v-2018-godu.html>.

Figure 2.18. Insurance Premium Structure in the Life Insurance Segment in 2018



Source: The Bank of Russia

According to the Bank of Russia, in 2018, the number of individuals' complaints in the ILI segment doubled. Most complaints of policy buyers were associated with incomplete or incorrect information on this financial product provided by the banks.

KonfOP examined websites of the biggest credit institutions with regard to accuracy of information on the investment life insurance. For the survey, banks from TOP-20 of the Banki.ru rating were chosen.

Monitoring results showed that 7 out of 9 banks promised consumers a guaranteed income on investment life insurance schemes, at the same time, 8 credit institutions declared such investment reliable which was not the case.

For example, unlike deposits, yield on investment life insurance agreements may be zero in certain periods. According to the figures of the Bank of Russia, average yield on three-year ILI agreements expired in 2017-2018 was just over 3% p.a., and on five-year agreements it was as little as 2.4%. At the same time, the Deposit Insurance System, which provides for return of all funds (up to RUB 1.4 mln) in case of bankruptcy of a credit institution does not cover investment life insurance.

During the survey, KonfOP revealed a hazardous tendency as follows. Some banks offered investment life insurance posing them as deposits. In particular, ILI was included in the deposit range of one of the banks. There was no information separately on ILI. Only at the bottom of the webpage under a separate footnote it was stated that this deposit opening was subject to simultaneous buying of an ILI policy.

A similar situation was observed in another bank where ILI was included in the deposit.

Moreover, in some banks a maximum interest rate on one of the deposits was possible only subject to buying an ILI policy (only after click-through the consumer was able to find out that an increased interest rate was "accompanied" by an additional option) or the deposit could be opened only subject to execution of an accumulative insurance or investment insurance agreement.

On the webpages of all banks relating to ILI there was a logo of Deposit Insurance Agency (DIA) "Deposits Are Insured", thus giving consumers a misleading impression that the Deposit Insurance System covers ILI programs as well.

According to KonfOP observations, frequent victims of insurance product sales were pensioners, many of them had inadequate financial literacy level. In the opinion of KonfOP, the situation may be improved by expansion of a 14-day cooling period to the investment life insurance plans as well as direct prohibition for credit institutions to offer ILI posing it as a deposit and use other types of misselling²⁰⁶ in these transactions²⁰⁷.

Monitoring of major market players held by the Bank of Russia also showed that the majority of clients at the moment of making the transaction were sure that in case of early termination of the ILI agreement they would be able to get their money back in full and that ILI funds were insured by DIA. The regulator also mentions that a mala fide model of the ILI selling creates inadequate expectations of the consumers. This may lead to disappointment of consumers in this type of insurance and market falling²⁰⁸. This is confirmed by the fact that only 25% of clients of Sberbank Life Insurance Insurance Company LLC (accounting for almost 70% of the total life insurance premiums in 2018) who own ILI policies extend them upon receipt of the first disbursements²⁰⁹.

To improve regulation in this segment of the insurance market, the Bank of Russia developed a Regulation Improvement Concept for Investment Life Insurance²¹⁰.

As it is noted in the Concept, together with the observable growth of the ILI segment, substantial increase of applications of consumers of financial services is noticed concerning issues of life insurance services. Upon analysis of the stated applications by the Bank of Russia, a trend is revealed expressed in dissatisfaction of insurance service consumers with quality of the ILI services provided, which is in most cases associated with inadequate awareness of the consumers with

²⁰⁶ Misselling means deliberate acts of a seller that lead to incorrect sales of a product or a service.

²⁰⁷ Insurance Off-the-Books: How Banks Mislead ILI Consumers, 27 November 2018 // Portal www.forbes.ru <https://www.forbes.ru/finansy-i-investicii/369629-strahovanie-po-chernomu-kak-banki-vvodyat-v-zabluzhdenie-pokupateley>.

²⁰⁸ Central Bank Revealed Mala Fide Sales of Investment Life Insurance Policies, 30 October 2018 // Vedomosti E-Periodical <https://www.vedomosti.ru/finance/articles/2018/10/30/785093-tsb-viyavil-nechestnie-prodazhi-investitsionnogo-strahovaniya-zhizni>.

²⁰⁹ Russians Disappointed in Yield on Life Insurance, 26 February 2018 // RBC Portal <https://www.rbc.ru/newspaper/2018/02/27/5a93e1079a794740f46e996a>.

²¹⁰ Regulation Improvement Concept for Investment Life Insurance // Official website of the Bank of Russia https://www.cbr.ru/Content/Document/File/51259/concept_20181030.pdf.

regard to special features of ILI and risks related to such agreements.

In the applications the consumers state that when concluding an agreement, they were misled with the promised yield on ILI agreements substantially exceeding the yield on bank deposits with simultaneous concealment of other material information on insurance terms which presented ILI disparagingly compared to bank deposits. For example, the fact that funds transferred under the ILI agreement are not covered by the Deposit Insurance System (DIS), a special state program implemented by DIA as well as information on related risks.

The Bank of Russia also notes that until recent times most buyers of ILI policies were quite wealthy people, however, in 2018, products with low entry threshold entered the market intended for consumers with average income and below average income. In these circumstances one can predict growth of mala fide sales on the part of sellers of these products.

At the same time, the existing ILI model leads to creation of inflated expectations of consumers with regard to quality and features of the product, bears reputational risks for insurers and intermediary banks. As a result, maintaining of this model may cause total disappointment of clients in ILI and the market falling.

Therefore, further development of ILI is possible solely subject to qualitative changes to the activities of insurers and their intermediaries with regard to forming correct expectations of the consumers concerning special features of the service as well as the respective enhancement of the regulatory framework.

The Bank of Russia mentions separately a high fee (8% on the average) paid to the banks as agents of insurance companies when selling ILI.

In order to decrease the level of mala fide sales and to raise the level of satisfaction of consumers with ILI services quality, the regulator plans a number of operational and systemic measures.

The Concept suggests the following operational measures:

- Establishment of requirements to the terms and procedure of providing voluntary life insurance subject to recurring insurance payments (rent, annuity) and/or participation of the insured in the investment income of the insurer;
- Publication of recommendations on interaction with ILI service consumers and agents who sell this service and on sale of the service on the basis of sales guidelines;
- Implementation of activities aimed at raising financial literacy of consumers with regard to ILI, namely, distribution of information leaflets, presentation of the ILI topic at the thematic events and inclusion thereof in the financial literacy training programs;
- Performance of control activities to check observance by the insurance company of applicable requirements.

The Concept suggests the following systemic measures:

- Reform of the qualification system for retail investors and establishment with regard to ILI agreements of requirements similar to the investor qualification requirements in the securities market as well as establishment of the requirements to the list of assets with reference to which yield on ILI agreements may be determined in order to ensure protection of consumers' rights;
- Preparation of amendments to the legislation of the Russian Federation with regard to regulation of sophisticated financial tools stipulating establishment of requirements to disclosure of information on financial tools including key risks related to the use thereof and special features when offering such financial tools;
- Preparation of amendments to the legislation of the Russian Federation on administrative offences with regard to toughening of administrative punishment for insurance companies for insurance activities involving breach of requirements and terms stipulated by a special permit (license).

At the same time, the Bank of Russia prepares initiatives aimed at making possible the public disclosure on the revealed facts of misselling performed by insurance companies and their intermediaries.

As an additional operational measure supporting the decrease of mala fide sales and increase of satisfaction of the consumers with the quality of financial services, the Bank of Russia considers the possibility of introducing a statutory ban on offering (selling) of certain financial tools including ILI by third parties acting as agents of financial institutions.

Implementation of the stated measures will allow for expanding the responsibility area of both insurance companies and their agents when selling ILI, and this will, in turn, lead to higher quality of interaction between insurance companies and individuals. Moreover, the individuals will acquire ILI consciously taking into account special features of such agreements and understanding the difference between them and bank deposits. This will result in higher satisfaction of the consumers with quality of insurance services provided.

To eliminate any shortcomings revealed, Ordinance of the Bank of Russia²¹¹ is published stipulating that at the moment of entering into an agreement the insurer shall provide complete and detailed information on the nature of the ILI agreement, including:

- Ensuring performance of obligations by the insurance company with regard to paying to the beneficiary of the insured amount and investment yield according to the procedure and on terms stipulated by the voluntary insurance agreement;
- Availability and procedure of calculation of the guaranteed income of the beneficiary under the voluntary insurance agreement and the amount thereof;
- List of assets on the cost (cost dynamics) whereof income of the beneficiary depends under the voluntary insurance agreement;
- The fact that yield on such assets in the previous periods does not guarantee the beneficiary's income under the

²¹¹ Ordinance of the Bank of Russia No. 5055-U dated 11 January 2019 "On Minimum (Standard) Requirements to Terms and Procedure of Providing Voluntary Life Insurance Subject to Recurring Insurance Payments (Rent, Annuity) and/or Participation of the Insured in Investment Income of the Insurer".

voluntary insurance agreement;

- The fact that the voluntary insurance agreement is not a bank deposit agreement with a credit institution and funds transferred under this agreement are not insured within the Deposit Insurance System²¹².

All information shall be printed with a distinct, easily readable font of maximum size out of the font sizes used on the page in the form of a table to be signed by the parties to the voluntary insurance agreement and shall be an integral part of such agreement.

Information on the guaranteed income, in turn, shall be placed in the square boxes in the right upper corner of the first page of the table and shall be printed with black digits and capital letters on the white background.

It is also established that if a company sells insurance policies via insurance agents or brokers, such company is obliged to supervise adherence of its intermediaries to new rules.

Banking Insurance

According to the data of the National Rating Agency, in 2018, banking insurance became an additional growth factor of the insurance market – retail sales of insurance products through banks have increased. Banking sales channel began to force out the rest of the channels: it accounted for more than 50% of intermediary sales. The volume of premiums received through credit institutions grew by RUB 156.5 bln together with total growth of sales through intermediaries by RUB 135 bln²¹³.

Together with this, in the banking practices life insurance was still an integral service being offered to a borrower when granting a loan. In particular, credit institutions substantiated such offer with the necessity to minimise risks of loan default due to possible disability of the borrower or any other accidents.

Hard selling of life insurance when concluding a consumer lending agreement remained a serious problem in 2018 for the borrowers: up to a quarter of all applications forwarded to the Service of Financial Consumer Protection of the Bank of Russia related to hard selling of additional services. As People's Rating of the Banki.ru portal states, in the total number of claims of retail banks' clients, 30% of applications relate to insurance forced to them fraudulently²¹⁴.

Introduction in 2017 of a new mechanism regulating "ancillary" insurance services and increase of the period when the borrower may refuse voluntary insurance related to the loan ("cooling period") from 5 business days to 14 calendar days²¹⁵ led to increase in the number of refusals of insurance which was hard-sold.

As early as in 2017, the Supreme Court of the Russian Federation determined that all voluntary insurance agreements should stipulate the right of the insured individual to repudiate the voluntary insurance agreement within 5 business days from the date of entering into it with return of the insurance premium in full if at the moment of repudiation the agreement has not become effective yet, and if it has become effective, then less the amount of the insurance premium pro rata to the term of validity of the effective voluntary insurance agreement²¹⁶.

Discussion on possibility of expanding the "cooling period" to group insurance agreements and possibility of a consumer's refusal of the insurance under such agreements continued in 2018.

For example, on 27 June 2018, a draft law was introduced to the State Duma of the Russian Federation,²¹⁷ according to which it is suggested to establish that in case of early refusal by the insured of the insurance agreement stipulating performance of obligations of the borrower under a consumer loan (credit) agreement under which the borrower early fulfilled its obligations, the premium paid to the insurer shall be subject to return to the insured less part of the insurance premium pro rata to the period when the insurance cover was effective.

In cases when insurance agreements are entered into by the banks on their own behalf in the interests and from voluntary consent of the borrower (by means of joining to the group insurance programs), the borrower is proposed to be given the right (which can be exercised within 10 calendar days from the date of early fulfilment of obligations under the consumer loan (credit) agreement) to demand from the bank return of funds paid towards compensation for the bank's expenses on payment of the insurance premium less part of the insurance premium pro rata to the period when the insurance cover was effective.

In doing this, according to the Draft Law, funds paid by the borrower to the bank as a compensation for the bank's expenses on execution of the "group insurance" agreement (fee for the borrower's joining the "group insurance" program) are not subject to return. Meanwhile, legality of the existing practice of charging such fees is contested since by virtue of basic rule of Clause 3, Article 308 of the Civil Code of the Russian Federation, conclusion of a transaction between two persons (a bank and a borrower) may not result in any obligation for a third party (a client of the bank) including monetary obligations as well.

On 19 September 2018, the Draft Law passed the first reading and is currently pending consideration by the State Duma of the Russian Federation²¹⁸.

²¹² Federal Law No. 177-FZ dated 23. December 2003 "On Insurance of Private Deposits With the Banks of the Russian Federation".

²¹³ Analytical Review "Russian Insurance Market in 2018" // National Rating Agency Portal <http://www.ra-national.ru/ru/node/63350>.

²¹⁴ Believe It or Not. Why Banks Hard-Sell Insurance Certificates and When to Listen to Them, 05 September 2018 // Portal of Rossiyskaya Gazeta <https://rg.ru/2018/09/05/rg-sovety-zachem-banki-naviazvayut-strahovki-i-stoit-li-ih-brat.html>.

²¹⁵ Ordinance of the Bank of Russia No. 4500-U dated 21 August 2017 "On Amendments to Clause 1 of Ordinance of the Bank of Russia No. 3854-U dated 20 November 2015 "On Minimum (Standard) Requirements to Terms and Procedure of Providing Certain Types of Voluntary Insurance".

²¹⁶ Decision of the Supreme Court of the Russian Federation dated 31 October 2017 on Case No. 49-KG17-24 // Official website of the Supreme Court of the Russian Federation http://vsrf.ru/stor_pdf.php?id=1603454.

²¹⁷ Draft Law No. 498384-7 "On Amendments to Certain Legal Acts of the Russian Federation Providing for the Individual Borrower's Right to Get a Refund for a Portion of the Insurance Premium in Case of Early Repudiation of an Insurance Agreement Due to a Premature Fulfilment of Obligations under a Consumer Loan (Credit) Agreement".

²¹⁸ As of 29 April 2019.

FOR REFERENCE

Rospotrebnadzor considers the practice of group insurance of borrowers in the banks unfair and inconsistent with the current legislation of the Russian Federation and speaks for its cancellation.

During the round table “Discrimination in Insurance: Results of Monitoring by KonfOP” held on 11 February 2018, O. V. Prusakov, Head of Department of Federal State Supervision in Consumer Rights Protection of Rospotrebnadzor noted that conclusion of such agreements was inconsistent with basic norms of the civil law and special norms relating to insurance agreements. Unlike individual insurance agreements of the borrower which stipulate conclusion of an agreement between the loan recipient and the insurance company, the “group” scheme stipulates conclusion of an agreement between the insurer and the bank: the bank insures a group of its borrowers together, and the client pays to the bank for joining the insurance program. Rospotrebnadzor considers this scheme “a surrogate”.

These schemes enforce an individual to join some relationship, although such individual was not initially a participant thereof and does not know the terms of the relationship. This situation is inconsistent with the general norms of civil law. For instance, availability of information on an insured person is a material term of any insurance agreement. According to Rospotrebnadzor, one should raise a question on “cancellation of such illegal activities” rather than on decrease of bank fees in the group insurance agreements.

The respective proposals of Rospotrebnadzor were submitted with regard to the Draft Law stated above^{219,220}.

Main risks for consumers in 2018 in the banking insurance sector were overstating of the insurance cost due to excessive bank fees and limitation of the borrower’s right of choice of the insurer under the loan agreement since banks held close tenders to choose the insurer. As a result, the bank fee for attracting new clients might reach up to 95% of the insured amount. The problems of decrease in price affordability of insurance services for various groups of population and charge by the banks from the insurers of a fee for admittance to participate in the borrowers’ insurance still remained unresolved²²¹.

Housing Insurance

An important novelty in 2018 was the system of voluntary housing insurance against emergencies, the mechanism whereof was formalised by law ²²² (effective since 04 August 2019, except for certain provisions).

For example, the procedure is established when individuals before occurrence of the insured event are aware of the maximum amount and sources of compensation of their losses and a list of risks subject to insurance is established, and when such risks occur, assistance to damage recovery is provided from the budget.

It should be noted that during elaboration of the law, a disputed norm was excluded therefrom stipulating that individuals that did not insure their housing were not entitled to obtain into ownership new housing from the state instead of the housing they lost²²³.

Together with this, it is established that constituent entities of the Russian Federation are entitled to develop, approve, and implement programs of compensation of losses inflicted to residential property of the citizens located in the territory of the said entities using the voluntary insurance mechanism.

It is also stipulated that a single automated information system for residential insurance is to be created, which is necessary for information support of organising insurance of houses, apartments, and other types of residential property and taking decisions on compensation for damage inflicted to residential property.

Such system shall contain information on residential property insurance agreements, amounts of insurance compensation, and other data on residential insurance determined by an operator of the single automated system of residential insurance and submitted by insurance companies.

To ensure consistent approaches, ARIA plans to develop uniform rules of residential insurance²²⁴.

Cost of voluntary housing insurance against emergencies will amount, according to estimates, about RUB 150 per month and will depend on the number of factors including apartment area and additional risks to be included in the insurance coverage. The insurance policy will cover not only risks of damage or destruction of an apartment or house by natural calamities but the most common situations as well. The respective insurance item will appear in the utility bills²²⁵.

FOR REFERENCE

79% of Russians own (individually or jointly) residential property. The majority of residential property owners did not insure their property (67%). 16% of home owners use housing insurance services, while 14% of home owners are going to do this.

A third of Russian residents (30%) are aware to a larger or lesser degree of adoption of the law concerning voluntary housing insurance against emergencies, while 66% of respondents have never heard of it. 6% of respondents know about

²¹⁹ Experts of the All-Russia Civil Forum Continue to Monitor Discriminatory Practices in Insurance, 12 February 2018 // Portal of the Union of Public Associations International Confederation of Consumer Societies <http://konfop.ru/эксперты-офг-продолжают-мониторинг-с/>.

²²⁰ Rospotrebnadzor Considers Illegal Practice of Group Insurance of Borrowers, 11 February 2018 // Portal of FSUE Information Telegraph Agency of Russia (ITAR-TASS) <https://tass.ru/ekonomika/6103071>.

²²¹ According to the information of Consumers Union of the Russian Federation All-Russian Union of Public Associations.

²²² Federal Law No. 320-FZ dated 03 August 2018 “On Amendments to Certain Legal Acts of the Russian Federation”.

²²³ State Duma Adopted Law on Housing Insurance Against Emergencies, 26 July 2018 // Portal of FSUE Information Telegraph Agency of Russia (ITAR-TASS) <https://tass.ru/ekonomika/5404231>.

²²⁴ When the Weather Is Bad. Monthly Fee for Voluntary Housing Insurance to Be About RUB 150, 24 January 2019 // Portal of Rossiyskaya Gazeta <https://rg.ru/2019/01/24/plata-za-dobrovolnoe-strahovanie-zhilii-sostavit-okolo-150-rublej-v-mesiac.html>.

²²⁵ Ibid.

the law and are aware of its content.

Among Russians there is no single definitive position whether to include payment for housing insurance against emergencies in the utility bills. A share of those who react adversely to this initiative (40%) turned out to be two times higher than those reacting positively (17%). About one third of Russians (34%) reported a neutral attitude. Those who are familiar with the law on voluntary housing insurance against emergencies often react positively to the initiative than those who did not know about the law before (26% and 13%, respectively).

45% of respondents declare their potential readiness to pay for housing insurance against emergencies. However, the majority of them (84%) are ready to pay only for comprehensive insurance services covering both emergencies and other risks (for example, fire or flood). 38% of Russians are not ready to pay for housing insurance in any form, while 15% of respondents are undecided.

Respondents having a family (41%), those having income above average (49%), qualified specialists, and respondents with higher education (47%) are more frequently interested in the comprehensive insurance services. Residents of rural territories (30%), elderly (29%), unemployed (30%), those engaged in unskilled work (33%) and low-income respondents (27%) are interested in this type of insurance less often than others.

An average amount that Russian residents are ready to pay monthly for housing insurance is RUB 300. At the same time, young people are ready to pay more than elderly (RUB 500 and RUB 200, respectively).



2018 was characterised by growth of the insurance market after its long-time decline in the previous period and adoption of additional regulatory measures. Both insurers and insurance service consumers gained benefit: income of insurers grew, loss ratio on insurance services went down, while consumers obtained new insurance services and mechanisms of their rights protection.

Together with this, a number of existing issues and new challenges still require proper solutions. First of all, these are problems of insurance activity regulation and risks of consumer protection with regard to OSAGO, ILI, banking (credit) insurance, restriction of outrunning growth of insurance service prices, price differentiation as well as suppression of unfair practices in the insurance market.

2.4. Changes in the Microfinance Institutions Market and Risks for Consumers

Market of microfinance institutions (hereinafter referred to as MFIs) in 2018 continued to develop at a rapid pace: according to the Bank of Russia, in 2018, the volume of microloans issued increased by 29% compared to the previous year figure and reached RUB 330 bln (RUB 256.1 bln in 2017).

FOR REFERENCE

According to the data of Expert RA Rating Agency, the volume of microloans issued in 2018 was equal to RUB 320 bln²²⁶. 15 companies from TOP-20 which were interrogated by the Agency increased issue of microloans by more than 20% for the year. Experts associate such growth with strategies of market share capture in anticipation of mandatory rate decrease. TOP-20 of the survey participants augmented the loan issue by 46% to RUB 78 bln due to increase of an average loan amount and growth of the number of positive decisions on loans. Three fourths of the payday microloan companies increased the share of approvals on applications for payday microloans in the second half of 2018.

An aggregate microloan portfolio grew by 45% and reached RUB 163.6 bln by the end of 2018. It should be noted that microloans to individuals accounted for 82% (RUB 134.03 bln) of total profile assets of MFIs. Growth of the private share of the portfolio was 51%²²⁷.

FOR REFERENCE

According to Expert RA, following the results of 2018, MFI portfolio²²⁸ grew from RUB 113 bln to more than RUB 152 bln, i.e. by 35%. Previous estimates at the beginning of 2018 (RUB 121 bln) turned out to be overstated and were reviewed due to the fact that one of the market leaders winded down its operations in December 2017. As in the previous years, market gain was mostly due to microloans granted to individuals. The volume of microloans granted to business entities restricted by small state subsidies continued to decline. The forecasts show that in 2019, increment rates of the MFI portfolio will continue to decrease, being high at the same time due to activities of "bank" MFIs²²⁹.

The Bank of Russia mentions that the number of active microloan agreements grew by 44% for the period under review and amounted to 9.4 mln. At the same time, the MFI number for 2018 went down by 12% (269 companies) and amounted

²²⁶ Microfinance Market Following the Results of 2018: Adaptive Strategy // Official website of Expert RA JSC <https://raexpert.ru/researches/mfo/2018#att1>.

²²⁷ 2018 Microfinance Market Trends (Presentation) // Official website of the Bank of Russia http://www.cbr.ru/Content/Document/File/71762/press_23042019.pdf.

²²⁸ The portfolio volume means an aggregate volume of microloans on the books of MFIs as of the certain date (including reserves and overdue microloans).

²²⁹ Microfinance Market Following the Results of 2018: Adaptive Strategy // Official website of RAEX Rating Agency (Expert RA) <https://raexpert.ru/researches/mfo/2018#att1>.

to 2,002 companies as of the end of the period. Total number of companies excluded from the state register was 623.

According to the forecasts of Expert RA, in the next 2-3 years, we should expect decrease of microloan issue and substantial increase of the number of MFIs excluded from the register because, among other reasons, investors tend towards banking market to a greater extent since it is less risky.

Experts underline that MFIs included in the state register recently do not have necessary technologies and a constant client base yet. They also lack competitive advantages compared to market leaders, and this situation restrains possibility of investment in the microloan market.

At the start of 2019, 53 microfinance companies (hereinafter referred to as MFCs) and 1,949 microcredit companies (hereinafter referred to as MCCs) were included in the state register. Increment rate of the total MFC portfolio for 12 months was 59%, MCC portfolio – 30%. At the same time, as of the end of 2018, MFCs accounted for 57.4% of the MFI microloan portfolio, while the MCC share amounted to 42.6%. A major part of net profit (63%) in 2018 was also assigned to MFCs.

The segment of online microloans continues to exert a positive impact overall microfinancing market. In 2018, the share of microloan portfolio executed via the Internet amounted to 19% of the total portfolio. In general, online microloan portfolio doubled in 2018 and reached RUB 31.6 bln²³⁰. The Bank of Russia notes that such growth is associated primarily with convenience of execution and saving time of borrowers. The stated factors may become a source of further increase of demand for this category of microloans²³¹.

The regulator highlights that payday microloans gradually move to the online segment as well²³². In 2018, MFIs managed to adapt to regulatory requirements with regard to decrease of terms of booking such loans (starting from the 91st day – 100% booking), however, a mark-up factor of 10% applies to them now.

As of the end of 2018, payday microloans issued by non-mobile MFIs accounted for 9% (RUB 14.71 bln) and microloans issued online accounted for 14% (RUB 22.99 bln) of the total MFI portfolio.

In 2018, NAFI Research Centre made a portrait of a typical consumer of a payday loan²³³. The survey was performed by order of KonfOP.

Generally, a consumer of a payday microloan can be described as an average Russian having a standard set of financial products and services: credit and debit cards, credits and loans. Wages represent the main source of his/her income. Main expenditures include cost of utility services, foodstuffs and medicines, car maintenance, expenses for children, financial assistance to relatives. Together with this, most microloan consumers characterise financial position of their family as average and below average.

The survey showed that purposes of these loans are directly associated with the economic situation in the region. For example, in Moscow payday loans are mostly allocated to acquisition of image-related goods (mobile phones, clothing), while in regions – to repayment of debts and loans, buying essential goods (foodstuffs) and medical treatment. Women use this service 1.8 times more often than men do.

The survey also showed that with regard to a quarter of borrowers (26%) a payday microloan amount exceeded their monthly income (11% – 1.5 times, 15% – 2 times and more) and a half of monthly income with regard to a third of borrowers (33%). As a rule, MFI clients have a bank loan: in Moscow, 58% of respondents are bank borrowers, while in regions – 25% to 28%.

Most borrowers are aware of the daily interest rate on their loan. However, the level of financial literacy of the borrowers is quite low in general:

- 54% of MFI services consumers do not know the annual interest rate on their loan;
- 54% of consumers do not analyse terms of providing a financial service by different companies on a regular basis;
- More than a half of consumers do not understand to a greater or lesser degree terms of the loan agreement;
- 70% of consumers do not keep records of income and expenses on a regular basis;
- 18% of all consumers believe that they may refuse to repay the loan;
- Over 60% of consumers do not take any measures to save or invest money.

Consumers evaluate their own level of financial literacy as quite low or middle. They understand financial literacy as knowledge of the legislation on consumer protection and financial planning skills.

One should note that in 2019, the payday microloan segment will probably show a more moderate growth. According to the data of Expert RA, after statutory restriction of interest rates from the mid-2019, the majority of large players of the microfinancing market participating in the survey plans a more conservative growth in the payday microloan segment.

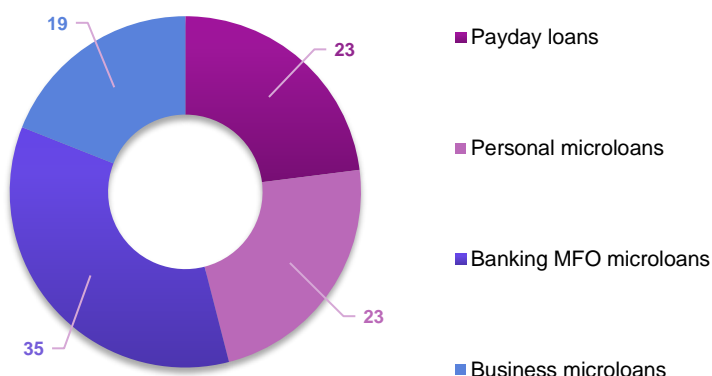
²³⁰ 2018 Microfinance Market Trends (Presentation) // Official website of the Bank of Russia http://www.cbr.ru/Content/Document/File/71762/press_23042019.pdf.

²³¹ Review of Key Performance Indicators of Microfinance Institutions No. 3, 2018 // Official website of the Bank of Russia https://www.cbr.ru/Content/Document/File/71165/review_mfo_18Q3.pdf.

²³² By payday microloans (Payday Loans, PDL) the Bank of Russia means microloans issued to individuals in the amount up to RUB 30,000 for the period of up to 30 days.

²³³ Portrait of Payday Loan Consumer, 15 October 2018 // Official website of NAFI Research Centre <https://nafi.ru/analytics/portret-potrebitelya-zayma-dozarplaty>. Official website of KonfOP <http://konfop.ru>.

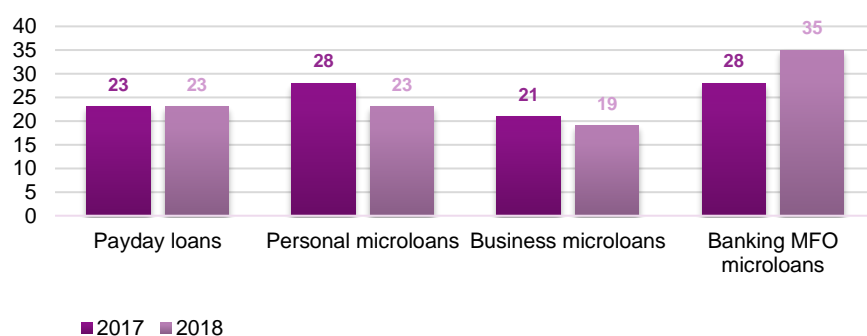
Figure 2.19. Structure of aggregate loan portfolio of microfinance institutions by the beginning of 2019, %



Source: RAEX (Expert RA) upon the results of MFI questionnaire survey²³⁴

Both experts and the Bank of Russia highlight the increment of the microfinancing market based on growth of microloans to individuals (including payday microloans and microloans provided by banking MFIs) which occurred in the context of toughening by the banks of requirements to individuals applying for a loan. Over the last 4 years, a share of such microloans increased from 68% to 81%. Together with this, microloans to business restricted by small volumes of state subsidies support the trend of incremental decrease (Figure 2.19, Figure 2.20).

Figure 2.20. Structure of aggregate loan portfolio of microfinance institutions in 2017-2018, %



Source: RAEX (Expert RA) upon the results of MFI questionnaire survey²³⁵

Expert RA estimates show that in 2018, concentration of the microloan portfolio on a single largest MFI increased by RUB 20 bln (from 27% to 32% of the total microfinancing market). This indicator characterises more than a half of increment of the whole market with regard to the portfolio size. Strengthening of the positions of major players supported by exit of small companies is also underlined. Thus, by the end of 2018, TOP-20 and TOP-100 of MFIs in terms of the portfolio size accounted for 56% and 84%, respectively.

In early 2019, in the structure of the total MFI loan portfolio the biggest change was due to increase of the share of microloans issued by “banking” MFIs that was 35% compared to 28% at the beginning of 2018.

A share of payday microloans stayed at the level of 2017 (23%). According to the Bank of Russia, in Q3 2018, an average amount of the microloan to an individual was RUB 10.4 thousand (Q3 2017: RUB 9.5 thousand), with regard to payday microloans – RUB 7.4 thousand. Following the results of Q3 2018, an average sum of the microloan throughout the market in general amounted to RUB 11,400 (+RUB 0.4 thousand for the year).

On the average, MFI borrowers in 2018 used only 75% of the limit of funds approved to them. Since the beginning of 2019, the situation has changed slightly: in January, this figure was 76.7%, in February – 78.1%, in March – 80.0%.

MFC Zaymer analysts highlight that among possible reasons of microloan growth one can name increase of VAT rate and following growth of prices of consumer goods and some services. According to the information of the MFC, every fourth borrower borrows money for immediate acquisition of necessary things and services, and every fifth borrower – for small current needs during the period of waiting for the wage. As analysts of Robot Zaymer service note, incomplete use of approved by the creditor limit of borrowed funds even in the context of general price growth is an indicator of financial literacy

²³⁴ Microfinance market at the end of 2018: adaptive strategy, April 2019 // Official website of the Rating Agency RAEX («Expert RA») <https://raexpert.ru/docbank/b6f/852/b9f/22d2762b201762c0fca8c9a.pdf>.

²³⁵ Microfinance market at the end of 2018: adaptive strategy, April 2019 // Official website of the Rating Agency RAEX («Expert RA») <https://raexpert.ru/docbank/b6f/852/b9f/22d2762b201762c0fca8c9a.pdf>.

of the MFI borrowers. Consumers try to find out in advance how to repay the loan and use only the amount needed²³⁶.

Main growth drivers of the microfinancing market in 2018 were IL microloans including POS²³⁷, unlike the trends of 2017, when the payday microloan segment showed the highest growth. Generally, IL microloan portfolio grew by 52% over the year. At the same time, IL microloans issued by permanent MFIs as of the end of 2018 amounted to 54% (RUB 87.76 bln) of the total microloan portfolio, while IL microloans issued online accounted for only 5% (RUB 8.57 bln).

Past due debt showed regular growth in 2018. A share of NPL 90+²³⁸ grew from 22.5% as of the start of the year to 26.5% as of the end of the year, and this corresponds to the previous year figures.

MFI profit for 2018 amounted to RUB 10.87 bln. According to Expert RA specialists, large MFIs continued to grow at a rapid pace due to postponement to 2019 of regulatory restrictions on short-term loans to individuals declared in 2018.

The payday microloan segment gained a positive financial result from the beginning of 2018 after a negative result accumulated from Q2 2017. Return on capital of MFIs at the end of Q4 2018 was 14.8%, that is by 6.6 pp higher than the figure as of 31 December 2017. Performance increase shows that MFIs cope successfully with changing requirements to the booking level and debt limit per borrower.

Expert RA notes that regulatory restrictions force companies to adapt their business strategies. For example, mono specialisation risks increase taking into account a limitation on maximum interest rate for a borrower in the amount of 365% from 01 July 2019 and current restrictions on the number of prolongations and microloans per borrower.

Together with this, the share of illegal MFIs is growing. According to the Safety Committee of Microfinancing and Development Union of Microfinance Institutions Self-Regulatory Organisation (hereinafter referred to as MIR SRO), the number of illegal microcreditors in Russia as of the end of January 2018 exceeded the number of legitimate MFIs 3 times. Together with this, an aggregate portfolio of “shady” creditors approaches RUB 100 bln. It should be noted that as of the end of 2018, the volume of legal microfinancing market was evaluated by experts at the level of RUB 152 bln, by the Bank of Russia – at the level of RUB 163.6 bln. An average portfolio of a “shady” creditor is about RUB 10 mln. Anton Gruntov, Chairman of the Safety Committee of MIR SRO says that the market of “shady” microcreditors consists mostly of individuals; a half of them have a status of an individual entrepreneur. Experts note that demand for services of illegal creditors is quite high. Among their clients there are not only persons to whom neither banks, nor MFIs grant loans, but borrowers having a normal credit record, and quite successful entrepreneurs²³⁹.

FOR REFERENCE

According to the survey held by MiR SRO, in 2018, the number of illegal creditors in Russia decreased almost by one third to 6,500. Together with this, total amount of loans issued by them grew by 15% approaching RUB 115 bln.

Such growth rates are comparable to dynamics of legal microfinancing market, the SRO specialists note. According to MFIs, illegal creditors attract people by a quick loan issue procedure, absence of excessive paperwork, and provision of data to the Credit Reporting Agencies. The Bank of Russia suppressed the activities of more than 2,000 of such entities. According to experts, to counteract the illegal market successfully, uniform approaches to identification of fraudsters are needed²⁴⁰.

Rospotrebnadzor supports initiatives aimed at protection of rights of microfinancing services consumers and underlines that the microloan market remains one of the most challenging for Russian consumers. Rospotrebnadzor believes that to enhance trust in microfinance products, some urgent measures are needed aimed at decrease of interest rates on consumer loans, restriction of maximum liability of the borrower, introduction of prohibition of loans secured by property pledge (if the cost of property exceeds substantially the loan amount), toughening of requirements to evaluation of the borrower's financial position, strengthening of control over companies engaged in granting microloans online, inclusion in requirements to advertisements of indications to the microloan interest rate value in percent per annum.

FOR REFERENCE

In April 2019, a draft law²⁴¹ was introduced to the State Duma of the Russian Federation aimed at prevention of illegal actions towards individuals in the microfinance market.

The explanatory note states that in order to prevent and suppress any fraudulent activities of receipt of loans by unidentified persons using passport details of third parties, the Draft Law suggests providing all types of MFIs with additional possibilities of client identification including the right to perform identification of clients in credit institutions, and a limited possibility to verify the client's identity through state information systems.

The Draft Law stipulates, inter alia:

- Prohibition of conclusion by MFIs of consumer loan agreements with individuals secured by pledge of residential

²³⁶ MFI Borrowers Take Borrowings Less Than Approved Limit, 11 April 2019 // Official website of MIR Self-Regulatory Organisation <http://www.npmir.ru/news/mfo-news/detail.php?ID=3847>.

²³⁷ Consumer microloans (Instalment Loans, IL) mean microloans issued to individuals in the amount exceeding RUB 30,000 for the period over 30 days. POS microloans mean microloans for certain goods issued directly in points of sale.

²³⁸ NPL 90+ is an indicator of outstanding debt with the payment of the principal debt and interest past due for 90 days and more.

²³⁹ Three Money Lenders per One MFI // Kommersant Newspaper No. 38 dated 05 March 2018, p. 7.

²⁴⁰ Creditors Enlarged Beyond the Law // Kommersant Newspaper No. 12 dated 24 January 2019, p. 1.

²⁴¹ Draft Law No. № 684667-7 “On Amendments to Federal Law “On Combating Legalisation (Money Laundering) of Proceeds of Crime and Financing of Terrorism” and Federal Law “On Microfinancing and Microfinance Institutions”.

property;

- Enhancement of requirements to business reputation and qualification of managers and owners of MCCs;
- Establishment of requirements to the MCC equity in the amount of RUB 5 mln;
- Increase from RUB 1.5 mln to RUB 3 mln of a minimum loan that an MFC is entitled to receive from a private investor.

The Draft Law was approved in the first reading on 18 April 2019.

It should be noted that during 2018, there was growth of average market values of TIC on consumer microloans secured by a pledge (Figure 2.21) and with regard to certain unsecured microloans (for example, up to RUB 30,000 for the term of up to 30 days).

According to the Bank of Russia, in 2018, 243,600 applications were received from consumers of financial services, that is 2.3% lower compared to 2017. However, 16,800 complaints concerning MFIs were forwarded by consumers (32.8% higher compared to 2017)²⁴². The number of complaints per each thousand of concluded microloan agreements in 2018 was lower than in 2016. Representatives of the regulator associate the growing number of applications with increase in the volume of issued microloans. Individuals consider MFIs as an alternative to a credit institution with increasing frequency. About 70% of consumers' complaints relate to activities on collection of debts under microloan agreements. Almost 11% of complaints relate to disputing the fact of entering into an agreement (fraud including correction (contesting) of the credit record in case it contains incorrect data). About 10% of claims were associated with breaches of microloan agreement terms²⁴³.

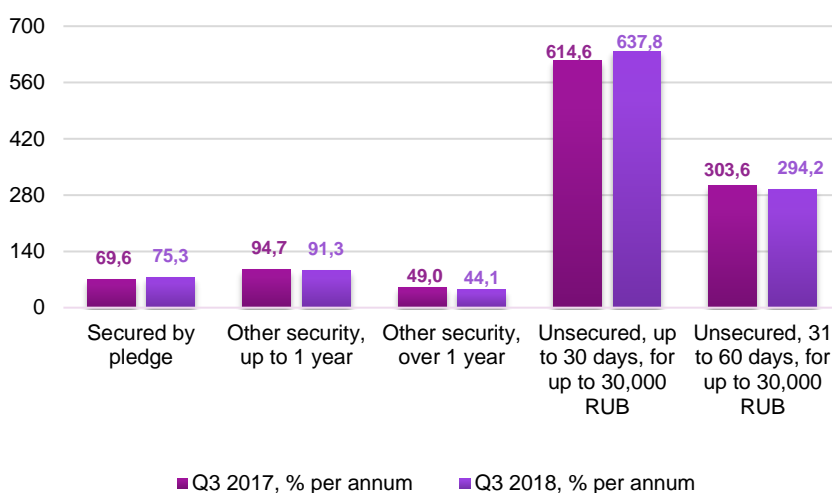
Due to increase of the microloan issue, starting from 2019, additional statutory limitations on social risk will apply to MFIs including decrease of debt limits and restriction of the daily interest rate.

Two thirds (68.4%) of applications to the Bank of Russia with regard to MFIs relate to activities associated with debt collection. Other 10.7% of applications relate to contesting the fact of entering into an agreement, 9.7% – agreement compliance, 9.0% – charge of interest/forfeit on the agreement, 2.2% – procedure and terms of granting microloans²⁴⁴.

Thus, main problems of dealing with MFIs, according to the consumers' complaints, are still the following:

- Activities on debt collection under microloan agreements;
- Contesting the fact of entering into an agreement including fraud;
- Compliance with the agreement terms.

Figure 2.21. Dynamics of mid-market TIC values on separate categories of microloans used in III quarter 2017 and III quarter 2018



Source: Bank of Russia

According to MIR SRO, in 2018, 20.7% of all complaints received by it related to those associated with different fraudulent practices. This category included the citizens' communications on fraud, incorrect data in the credit record, and calls demanding to repay the loan the person did not take²⁴⁵.

²⁴² In 2018, Number of Consumers' Claims to the Bank of Russia Decreased, 31 January 2019 // Official website of the Bank of Russia https://www.cbr.ru/Press/event/?id=2386&fbclid=IwAR1BJZJ7xXtoSEroHS_Unk2kfj3KjH2ssnn2PLMabpjG7dFb0lmc1s1PtKY.

²⁴³ 2018 Microfinance Market Trends (Presentation) // Official website of the Bank of Russia http://www.cbr.ru/Content/Document/File/71762/press_23042019.pdf.

²⁴⁴ Dealing With Applications of Individuals and Entities (Presentation) // Official website of the Bank of Russia https://www.cbr.ru/Collection/Collection/File/14246/stat_protection_2018_all.pdf.

²⁴⁵ MFIs Unite to Protect Private Consumers From Fraudsters, 21 February 2019 // Official website of MIR SRO <http://www.npmir.ru/news/mir-news/detail.php?ID=3771>.

FOR REFERENCE

In Q1 2019, MIR SRO received 247 applications from financial services consumers with regard to MFIs, which is 57% less than a year before (Q1 2018: 437). Almost a half of all applications (46%) still relates to procedures of past due debt collection²⁴⁶.

Nevertheless, at the legislative level an active process of introducing amendments and initiating new regulations continues with the view of protection of microfinancing services consumers.

In 2018, the Law²⁴⁷ was adopted introducing amendments to Federal Law No. 151-FZ dated 02 July 2010 “On Microfinancing and Microfinance Institutions”. For MFI clients it means that from 28 January 2019 to 30 June 2019, a limitation of the daily interest rate applies (1.5% per day) with simultaneous restriction on charge of interest, forfeit, other contractual liability as well as payment for services rendered by a creditor for a fee equal to the principal debt multiplied by 2.5. From 01 July 2019 to 31 December 2019, the maximum daily interest rate will amount to 1% per day, and payments under the loan will not exceed the loan amount multiplied by 2. From 01 January 2020, the limit value will not exceed the loan amount multiplied by 1.5. A previously stated limitation was 300% of the loan amount, and other payments were not included in the loan amount.

For instance, if the loan amount is RUB 5,000, then irrespective of the interest rate, forfeit, fee on the microloan taken a year or more ago, a microfinance institution will not be able to charge from the borrower the amount exceeding RUB 17,500 (if the loan was taken within the period from 28 January 2019 to 30 June 2019).

It should be noted that a condition on charge of interest and other payments shall be stated by an MFI on the first page of the consumer credit (loan) agreement.

Together with this, amendments to legal acts are introduced, according to which legal entities and individuals are not entitled to demand fulfilment by the borrower of its obligations under the consumer credit (loan) agreement if at the moment of entering into it, the initial creditor was not a legal entity engaged in professional activities of granting consumer loans.

Thus, absence of a microfinancing license issued by the Bank of Russia will prevent the creditor from demanding debt repayment including any reference to court.

Among important changes in the regulation, one should also name special limitations on loans for the amount up to RUB 10,000 and for the term up to 15 days. Such loans shall not be subject to limitation of the daily interest rate of 1% and restriction of the true interest cost in the interest per annum. However, the amount of charged interest on such loan shall not exceed RUB 3,000 (or 30% of the loan amount if the amount less than RUB 10,000 is issued for 15 days). Thus, a daily payment thereon shall not exceed RUB 200.

The Bank of Russia specialists highlight that such measures do not affect the entire MFI market and even not the whole segment of payday microloans, they are aimed specifically at containing such companies that ignore borrowers' interests. In particular, it means MFIs gaining profit due to applying TIC limit values, misusing prolongations and refinancing as well as promoting general growth of unjustified debt burden of the borrowers.

According to Elena Stratyeva, Director of MIR SRO, a substantial number of players (especially regional ones) will leave the market. The majority of the remaining companies will not be able to adapt to new regulatory conditions and shift to the segments of more long-term loans or focus on working with legal entities as some large-scale MFIs already do.

According to Yury Kudryakov, Director of Unicom24 Financial Market, the number of MFIs may fall by half. Creditors who left the official register will probably continue their activities in the “shady” segment.

An important novelty of 2018 effective from 2019 was increase from RUB 3 mln to RUB 5 mln of the maximum total principal debt above which MFIs may not issue a microloan to a legal entity or an individual entrepreneur²⁴⁸. Thus, if a borrower has no debts, an MFI can issue RUB 5 mln in a lump sum. If the borrower has debts, it may take one or more microloans, provided that the principal debt does not exceed the stated amount.

FOR REFERENCE

The Bank of Russia initiated the draft departmental act “On Procedure for Creating Loan Loss Provisions by Microfinance Institutions” in March 2019²⁴⁹. That was the second draft version, the first Draft Ordinance was published on 26 April 2018.

The Draft Ordinance is aimed at improving the procedure for creating loan loss provisions by MFIs, taking into account the law enforcement practice, as well as raising the efficiency of loan default risk hedging²⁵⁰.

The Draft Ordinance suggests creating provisions not only for microloans, but for other loans as well, as MFIs are legally provided with an opportunity to issue other types of loans. However, the latter can lead to risks similar to those that MFIs

²⁴⁶ Statistics of Applications From Financial Services Consumers: Q1 2019, 01 April 2019 // Official website of MIR SRO <http://www.npmir.ru/news/mir-news/detail.php?ID=3820>.

²⁴⁷ Federal Law No. 554-FZ dated 27 December 2018 “On Amendments to Federal Law “On Consumer Loan (Credit)” and Federal Law “On Microfinancing and Microfinance Institutions”.

²⁴⁸ Federal Law No. 537-FZ dated 27 December 2018 “On Amendments to the Federal Law “On Development of SME in the Russian Federation”, as well as Article 12 of the Federal Law “On Microfinancing and Microfinance Institutions”.

²⁴⁹ Draft Ordinance of the Bank of Russia “On Procedure for Creating Loan Loss Provisions by Microfinance Institutions” // Federal Portal of Draft Regulations: <https://regulation.gov.ru/projects#npa=89539>.

²⁵⁰ Currently, Ordinance of the Bank of Russia No. 4054-U dated 28 June 2016 “On Procedure for Creating Loan Loss Provisions by Microfinance Institutions” is in effect.

bear when issuing microloans. Therefore, the Draft Ordinance provides for creating loan loss provisions for all types of loans issued by MFIs.

Currently, MFIs only calculate such loan loss provisions without creating them for all loans issued to each borrower in order to define the ratios²⁵¹. Furthermore, as per IFRS requirements, it is mandatory for all MFIs to create provisions for impairment for all loans. Thus, the Draft Ordinance brings together the Russian and international best practices of creating provisions for loan loss and impairment, and may be used by MFIs to create provisions for impairment.

An important innovation suggested is replacement of fixed amounts of loan loss provisions with their minimum equivalents, thus, allowing MFIs to hedge their loan default risks more effectively.

Furthermore, the Draft Ordinance provides for specific requirements to loan agreements enforcement procedures, creating provisions not only when there are outstanding obligations to an MFI, but also when other risks of default in performance of the borrower's obligations occur, as well as for mortgage incentive rates applied to provisions, as it has already been done for credit institutions.

In 2018, independent monitoring of MFI consumer protection performed by KonfOP and an opinion survey of consumers of payday microloans²⁵² showed that most MFIs in Russia fail to follow the responsible lending principles and are ready to issue costly microloans even to persons that already have credits and to unemployed consumers. Furthermore, almost half of reviewed MFIs failed to mention the annual loan interest rate on their websites, and only 2 of 16 MFIs published a model agreement on their websites. About 2/3 of regional MFIs failed to present agreements to individuals until signing thereof, as well as to inform their clients of what happens in case of late payment of debt.

Complaints of many citizens about personal data processing remain one of the pressing issues related to the microfinancing market.

Thus, the major subject of such complaints submitted to the Federal Supervision Agency for Information Technologies, Communications and Mass Media (Roskomnadzor) Department for Protection of Rights of Personal Data Owners is that passport data of Russian citizens are used to illegally issue microloans to third parties; personal data processing is outsourced to third parties in order to collect the debt, as well as that no personal data processing information is provided upon an individual's request²⁵³.

Nevertheless, there is a sequence of actions taken in order to reduce negative influence of mala fide MFIs. According to Ilya Kochetkov, Director of Microfinance Market Department of the Bank of Russia, the project dedicated to marking such MFI websites in Yandex search engine (that helps consumers to identify both legal market members and "shady" creditors) is taking its pace, and the total number of views sorted by this marking amounts to about 20 million already.

Furthermore, he highlighted that MFIs fulfil a specific social function as they operate with those groups of individuals that credit institutions refuse to work with. Therefore, such work is highly important. About 10 million people received loans from MFIs, which is a significant part of the country's population²⁵⁴.

FOR REFERENCE

According to Denis Potapov, Head of MFI Control and Supervision Department of the Siberian Main Branch of the Bank of Russia, the Bank of Russia developed new regulations for MFIs operating through the Internet at the end of 2018 – beginning of 2019. MFIs were recommended to perform additional checks of the borrower's personal data by requesting a scanned copy of such borrower's own passport (certified by his/her own hand or by the Notary Public), as well as request additional information from the Credit Reporting Agency, and apply the method of quick short questions to validate the borrower's personal data.

As the regulator's representative believes, such measures will help combatting fraud offenders that apply for online loans using third parties' passport data²⁵⁵.

The Bank of Russia not only suggests important initiatives for improvement of MFI activities, but also takes active part in public disputes dedicated to related issues. On 2 August 2018, the Bank of Russia placed a Public Consultation Paper "Improvement of Regulation of Microfinance Market Entities" (hereinafter referred to as the Consultation Paper)²⁵⁶. Representatives of 16 entities and individuals took part in discussions thereof.

There were 18 questions suggested for a discussion, including regulatory burden optimisation for microfinance market entities through implementation of proportionate regulation of their activities. MFI representatives highlighted that the requirement to develop and submit business and strategic plans for MFIs upon establishment and during operation thereof, as well as to develop a product strategy may result in decreased competitiveness and increased operating expenses.

Moreover, it was mentioned that development of a strategic plan would result in formal documents only, considering the

²⁵¹ Ordinance of the Bank of Russia No. 4382-U dated 24 May 2017 "On Setting Economic Ratios for a Microfinance Company Attracting Funds from Individuals, Including Individual Entrepreneurs and/or Legal Entities, in Form of Loans, and for a Microfinance Company Issuing and Placing Bonds".

²⁵² Financial Security Rules When Applying for Microloans, 16 October 2018 // Official website of the Project "On Raising Public Financial Literacy and Development of Financial Education in the Russian Federation": <https://vashifinancy.ru/for-smi/press/news/pravila-finansovoy-bezopasnosti-pri-obrashchenii-v-mfo>.

²⁵³ Who Abuses Your Personal Data Most, 21 February 2019 // Clerk.ru project website: <https://www.klerk.ru/buh/news/482643>.

²⁵⁴ Microfinance Market Proved Useful, 28 November 2018 // PRIME Business News Agency website: <https://1prime.ru/finance/20181128/829485971.html>.

²⁵⁵ Up to 1 percent. MFI Interest Rates to Be Limited, 31 January 2019 // Rossiyskaya Gazeta website: <https://rg.ru/2019/01/31/reg-sibfo/kak-izmenitsia-spros-na-mikrozajmy-v-sibiri.html>.

²⁵⁶ Report on Results of Public Consultations on the Issues of Consultation Paper "Improvement of Regulation of Microfinance Market Entities" // The Bank of Russia official website: http://www.cbr.ru/Content/Document/File/50670/Comments_181015.pdf.

current market fluctuations and almost complete absence of planning skills.

The requirement for a product strategy also raised a number of concerns among MFI representatives as approval of the product strategy by the Bank of Russia may limit the financial manoeuvre of MFIs.

Furthermore, MFI representatives pointed out the need to adhere to consistent changes regarding establishment of enhanced provisioning ratios, as well as suggested a more flexible approach to the current procedure for creating loan loss provisions.

The suggested balanced system used to distribute control and supervision functions between the Bank of Russia and SROs within the financial market received wide support among the discussion participants.

In general, the community of financial professionals gave a positive estimate to the idea of further differentiation of MFI activities regulation.

In August 2018, the Bank of Russia established amounts of fines for microcredit companies for statutory non-compliance. Thus, Ordinance No. 4788-U²⁵⁷ implemented a general rule that the fine shall be 0.05% of the total debt of individuals and legal entities to MCCs accrued on the principal debt as of the last date of the quarter preceding the quarter in which SRO identified the said non-compliance. However, the total amount of the fine shall be 0.1% of the total debt for non-compliance that was found by SRO for the second time during one year and/or caused violation of consumer rights.

If the total amount of debt owed by an MCC is less than RUB 10 million, or the MCC receives the MFI status in the same quarter of the year in which the said non-compliance had been identified, the amount of the fine shall be RUB 5 thousand. If the non-compliance is found for the second time within one year and/or caused violation of consumer rights, the fine shall amount to RUB 10 thousand.

Thus, if the amount of debt equals to RUB 200 million, the fine shall be RUB 100 thousand, and RUB 200 thousand if the non-compliance is found for the second time and/or causes violation of consumer rights.

The Ordinance also stated that such sanctions applied shall match the nature of non-compliance, as well as contain a well-reasoned ground for application thereof.

If an MCC is able to provide information that it had submitted a solvency recovery plan to the Bank of Russia at a meeting of the SRO body responsible for consideration of cases on application of sanctions to the MCC, as well as inform the body of the sanctions already applied by the Bank of Russia for the considered non-compliance, then no sanctions shall be applied to such MCC.

On 29 December 2018, the Bank of Russia published a letter²⁵⁸ with recommendations related to appeals of citizens regarding interests and penalties charged under consumer credit (loan) agreements after coming into effect or enforcement of court orders for collection of debts under the said agreements. The letter was addressed to credit institutions, MFIs, consumer credit cooperatives, agricultural consumer credit cooperatives, and pawn shops. The regulator recommends creditors to take into account statutory measures applied to stop charging interest and forfeits to fix the debt amounts occurring under consumer credit (loan) agreements in order to prevent significant increase of debt burden for consumers and creation of unenforceable overdue indebtedness, as well as to consider the following approaches:

- Agreement termination through legal proceedings or by mutual agreement of the parties under condition of discontinued charging of interest and forfeit as of the agreement termination date;
- Inclusion of the terms and conditions providing for an option of discontinued charging of interest and forfeits, including debt restructuring clause applicable under specific conditions, in agreements;
- Use of the lender's right to reduce or cancel payments for the services; decrease the amount of forfeit (fine, penalty) or cancel it in full or in part; establish a period within which the penalty shall not be charged, or resolve to refuse to charge the forfeit (fine, penalty).

In 2018, the Bank of Russia excluded an MFI from the State Register for non-compliance found within behavioural supervision for the first time in its history. The most widespread issues are: charging payments for additional services; charging interest above the established limit; failure to transfer the data on the client to the Credit Reporting Agency. Experts say that such exclusion was a signal sent by the regulator to mark the next clean-up stage. However, experts also believe that such behavioural supervision will be effective only if the Bank of Russia obliges MFIs to compensate consumers for their losses.

Therefore, the following principal risks may be highlighted for consumers of microfinance services:

- A decrease in approval rate for microloans issued by MFIs included in the State Register followed by an increased amount of applications filed to shadow MFIs;
- Emergence of legal MFIs that ignore responsible lending principles and issue costly microloans to persons that already have credits and to unemployed consumers;
- Consumers may start neglecting terms and conditions of agreements with MFIs or refusing to examine such agreements in detail, including such clauses as the cost of loan, amount, size, frequency of loan payments, types and amounts of supplementary agreements or loan payments, as well as forfeits, fines, and penalties;
- Consumers may start using microloans not only in emergency situations when there is an immediate need for money, but also to cover everyday costs;
- A sizable percentage of MFI service consumers can be characterised as having an average or below-average level of

²⁵⁷ Ordinance of the Bank of Russia No. 4788-U dated 03 May 2018 "On Requirements for Sanctions Applied by a Financial Market Self-Regulatory Organisation to Microcredit Companies for Their Non-compliance with Federal Law No. 151-FZ dated 02 July 2010 "On Microfinancing and Microfinance Institutions" and Related Regulations Adopted by the Bank of Russia, and Set by the Internal Standard of the Self-Regulatory Organisation".

²⁵⁸ Letter of the Bank of Russia No. IN-06-59-83 dated 29 December 2018.

financial literacy, thus, they have little understanding about MFIs and their services, as well as risks related to microloans;

- Consumers may fail to plan their budget properly, as well as to find additional financial sources (apart from their salaries) to repay microloans;
- Many consumers may fail to understand that microloans are to cover short-time needs, therefore, they will not be searching for alternative sources of financing;
- Unjustified debt burden of borrowers may grow due to high interest charged on microloans;
- MFI business models may change resulting in MFIs specialising only on microfinancing services;
- Borrowers' personal data may be subject to illegal use in the Internet;
- The number of illegal microfinance market players may raise to an amount 3 times bigger than the amount of legal MFIs;
- An average amount of True Interest Cost (TIC) may increase, particularly for microloans issued for up to 30 days and to RUB 30 thousand maximum.



A number of significant changes took place in 2018, some became effective only in 2019, and thus, consumers in the microfinance market shall feel a positive impact. The work of legal MFIs becomes more transparent; however, an illegal MFI market also grows. Therewith, consumers themselves estimate their financial literacy level as average or low. Therefore, it is important not only to strengthen regulatory control of microfinance market, taking into account all its players, but also raise potential of direct consumers of MFI services.

2.5. Development of E-Commerce Payment Facilities and Risks for Consumers

Key changes in the e-commerce payment facilities market that took place in 2018 related to a significant increase in the amount of contactless payments, including through mobile payment services, as well as to a growing average amount of purchases made through the Internet. Such trends have been relevant in the previous year, and shall remain so in the upcoming years as well.

Concept Consumer Rights Protection Documents Applied in E-Commerce and to E-Payments

Ensuring accelerated implementation of digital technologies in the economy and social sphere was one of the tasks defined by the President of the Russian Federation in 2018²⁵⁹.

Thus, the Presidium of the Russian Federation Presidential Council for Strategic Development and National Projects approved a passport for the National Program "Digital Economy of the Russian Federation"²⁶⁰ (hereinafter referred to as the Program) on 24 December 2018. The previously approved Program "Digital Economy of the Russian Federation"²⁶¹ had been claimed invalid as of 12 February 2019²⁶².

The Program implementation period shall be from October 2018 to 31 December 2024.

The Program is aimed at the following major developments in economy and social sphere:

- Arrangement of a new regulatory environment for relations among the citizens, business, and the government emerging due to development of a digital economy;
- Establishment of an up-to-date high speed infrastructure used to store, process, and transfer the data, ensure its sustainable and safe operation;
- Arrangement of human resources development framework for the digital economy;
- Facilitation of prospective cross-cutting digital technologies and projects of implementation thereof;
- Improvement of government control performance and public services provisioning through implementing digital technologies and platform solutions.

The Program consists of 6 federal projects:

1. Regulatory Control of Digital Sphere;
2. IT Infrastructure;
3. Human Resources for Digital Economy;
4. Information Security;
5. Digital Technologies;
6. Digital Government Control.

In order to implement the Program and federal projects developed within its framework, a Regulation on the National

²⁵⁹ Decree of the President of the Russian Federation No. 204 dated 07 May 2018 "On National Objectives and Strategic Tasks for Development of the Russian Federation for the Period Until 2024".

²⁶⁰ Minutes No. 16 dated 24 December 2018.

²⁶¹ Executive Order of the Government of the Russian Federation No. 1632-r dated 28 July 2017 "On Approval of the Program "Digital Economy of the Russian Federation".

²⁶² Executive Order of the Government of the Russian Federation No. 195-r dated 12 February 2019 "On Annuling the Executive Order of the Government of the Russian Federation No. 1632-r dated 28 July 2017".

Program “Digital Economy of the Russian Federation” Implementation Management System has been approved²⁶³. The Regulation provides for the following:

- Specifics of the functioning structure of the Program Implementation Management System;
- Procedure for development of the passport of the Program and passports of federal projects within the Program, as well as for control and monitoring of the Program and federal projects implementation;
- Procedure for amendment of the passport of the Program and federal projects within the Program;
- Procedure for completion of the Program and federal projects within the Program;
- Special aspects of development, approval, and submission to the Government of the Russian Federation of draft acts developed for the Program implementation.

Development of the draft 2025 E-Commerce Development Strategy²⁶⁴ by the Ministry of Industry and Trade of the Russian Federation (Minpromtorg) became an important step forward in statutory regulation of the consumer protection within the digital economy. The document suggests easing excessive administrative burdens within e-commerce, harmonising conceptual framework, improving statistical recording, enabling SME to enter the online trade market, developing export e-commerce and ensuring maximum consumer protection. It is suggested that based on results of public disputes, Minpromtorg may include the document in the 2025 E-Commerce Development Strategy as an independent section, as online format is a part of the general trading system, thus, its issues shall be resolved in a systematic way, inside the industry.

In 2018, the Bank of Russia suggested developing a regulatory framework for digital technologies in finance, within which a number of Public Consultation Papers had been provided:

- Block chain Technology Development²⁶⁵;
- Issues and Directions for Development of Regulatory Technologies and Supervision Technologies (RegTech and SupTech) in the Russian Financial Market²⁶⁶;
- Cloud Technology Application in Financial Market (18 December 2018)²⁶⁷.

Consultation Papers provide a description of international best practices in application of the said technologies; a review of approaches taken by regulators to manage relevant risks, as well as define major issues in application of these technologies in the Russian financial market and provide for solutions for development thereof.

The Bank of Russia mentions that in order to ensure effective and safe development and functioning of the digital financial sector, all stakeholders need to implement coordinated measures, as well as provide for prompt balanced regulation that will ensure support of financial sector consistency and consumer protection, on the one hand, and facilitate development and implementation of digital innovations, on the other. The regulator highlights that along with development of digital technologies, risks related to higher cyber threat emerge, thus, requiring rapid and timely monitoring, identification, evaluation of such threats, and development of remedy measures to prevent them or minimise their potential implications²⁶⁸.

Efficient consumer protection has fundamental importance for shaping a competitive and transparent high-tech e-commerce market in the Russian Federation. The Government needs risk mitigation mechanisms to prevent risks that arise in the context of technological revolution and macroeconomic instability. Therefore, Rospotrebnadzor sees the need for further improvement of its work on consumer protection by fulfilling its supervision functions and implementing punitive measures.

FOR REFERENCE

E-commerce development has been different in various regions and countries due to many factors. The United Nations Conference on Trade and Development (UNCTAD) has developed a B2C E-Commerce Index, which measures an economy’s “preparedness to support online shopping”. The Index consists of four indicators:

- Number of individuals using the Internet;
- Secure Internet servers per 1 million citizens;
- Bank Cards Ownership Index;
- Postal Reliability Index.

Luxembourg ranks number one in the rating. Among 10 largest economies of the world: 6 are European, 3 are from the Asia-Pacific Region, and 1 is from North America.

Among developing countries, the highest ranks are attributed to the Republic of Korea, Hong Kong (China) and Singapore, followed by several Persian Gulf states.

²⁶³ Resolution of the Government of the Russian Federation No. 234 dated 02 March 2019 “On the National Program “Digital Economy of the Russian Federation” Implementation Management System”.

²⁶⁴ Draft 2025 E-Commerce Development Strategy // Minpromtorg of Russia official website: http://minpromtorg.gov.ru/docs/#!proekt_strategiya_razvitiya_elektronnoy_torgovli_v_rossiyskoy_federacii_na_period_do_2025_goda.

²⁶⁵ Public Consultation Paper “Blockchain Technology Development”, 29 December 2017 // The Bank of Russia official website: https://www.cbr.ru/Content/Document/File/36007/reestr_survey.pdf.

²⁶⁶ Public Consultation Paper “Issues and Directions for Development of Regulatory Technologies and Supervision Technologies (RegTech and SupTech) in the Russian Financial Market”, 16 October 2018 // The Bank of Russia official website: https://www.cbr.ru/Content/Document/File/50667/Consultation_Paper_181016.pdf.

²⁶⁷ Public Consultation Paper “Cloud Technology Application in Financial Market”, 18 December 2018 // The Bank of Russia official website: http://www.cbr.ru/Content/Document/File/59559/Consultation_Paper_181218.pdf.

²⁶⁸ Main Growth Areas of Financial Technologies for the Period of 2018-2020 // The Bank of Russia official website: https://www.cbr.ru/StaticHtml/File/36231/ON_FinTex_2017.pdf.

In 2018, Rospotrebnadzor actively exercised its authorities with regard to consumer protection in the e-commerce payment facilities market. For instance, the following recommendations for individuals were published within the state information resource specialised in consumer protection: "How Not to Become a Victim of a Fraud Offender When Buying Goods Online", which includes examples of potentially fraudulent Internet shops (see Table 2.1)²⁶⁹.

Table 2.1. Recommendations to Citizens: How Not to Become a Victim of a Fraud Offender When Buying Goods Online

No.	Attribute	Worth considering
	Low price If you have found an announcement or an online shop offering goods at prices that are significantly lower than market ones, please remember, that cheaters often use such moves to bait clients.	You should check for the cost of similar goods with other online shops, the difference should not be too big. You should not give yourself up to such words as "sale", "limited offer", "be the first to buy", "sale of customs confiscated goods", "from auction in Holland".
	Advance payment requirement If a seller offers you to transfer an advance payment thereto for the goods you buy, especially using some anonymous payment systems, e-money, or wire transfer of money to a bank card registered in the name of an individual, you should be aware that such transaction is potentially threatening.	Please consider your risks when buying online. Please remember, when making an advance payment, you have no guarantee that you will return your money or receive the goods. If you have decided to make an advance payment, please check the seller's ratings in payment systems.
	No courier service or client pick-up option Due to these factors, clients are forced to use services of transport companies and buy goods with an advance payment.	When selecting an online shop, one shall prefer the shop that provides a client pick-up option. Abusers may provide counterfeit copies of transport companies' waybills.
	No contact information and the seller data If the website of the online shop shows no contact information about the seller or individual entrepreneur, and there is only a feedback form and mobile telephone number provided on the website, such online shop might pose danger.	You should take your time to carefully study the seller. Please remember that you are about to trust your money to a person or a company that you know nothing about. If the website shows an address, you should check whether the shop actually exists. It is often the case that abusers give fake addresses, or there are other entities registered at these addresses. You should check feedback about the shop on open online rating web sites, read the feedback as much as possible, abusers may hide negative feedbacks behind tens of fake ones. In case you make your purchase through an online advertisement panel, you should check the seller's transaction history and its rating, many trading platforms provide for such option.
	No history of the seller or the shop If an online shop or a seller's account have been registered only a few days ago, it may be dangerous to deal with such seller.	It takes just a few hours to create an online shop, change its name and move to another address takes even minutes. Please be careful when buying with recently opened online shops.
	Unclear or inconsistent description of goods If the description of goods contains evident inconsistencies, one shall be careful when considering such offer.	You should carefully study the description and compare it to other descriptions available in other online shops.
	Sellers and managers are being too persistent If a manager of an online shop starts making a rush when you are buying the goods or paying for them, and tries to convince you to immediately buy the goods, or else the price will change or the goods will be off the shelf, you should not give yourself up to the words and take a reality check.	Abusers often use such time factor to prevent their victims from considering all details of the deal. You should carefully study the payment information and postpone the deal if any concerns arise.
	Confirmation of the seller's identity by sending a scanned copy of the seller's passport While awaiting for payment, sellers working through social networks often send scanned copies of their passports to buyers in order to gain trust from them.	Please remember, with modern sophisticated technologies, one can easily forfeit images of the passport. Images provided to you by the seller may not in any way relate to identity of a person who sent them to you.

If an online shop or an advertisement are characterised by at least one of these factors, you should seriously consider whether to make this deal. If an online shop is characterised by two of these factors or more, Rospotrebnadzor strongly recommends refraining from having contacts with such online shop or seller.

FOR REFERENCE

In Germany, rapid growth of online shopping results in more traffic jams, noise and pollution in large cities: almost all vehicles used to transport the goods are running on diesel fuel. Total number of packages may increase up to 4 billion packages delivered per year by 2021, according to the forecasts. Sorting stations are usually located in the suburbs, thus,

²⁶⁹ Recommendations to Citizens: How Not to Become a Victim of a Fraud Offender When Buying Goods Online // Rospotrebnadzor official website: https://rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=8167.

making it harder for the seller to deliver the goods to other districts of populated areas. For instance, Hermes delivery service attempts to deliver the package to one of its clients for 3 days, then redirects it to the nearest branch. DHL delivers about 4 million packages a day; this number doubles at Christmas.

In Hamburg, they developed an eco-friendly project called Micro-Hub-Konzept; the idea is to bring mini-containers with already sorted packages using electro-cars to the downtown early in the morning. Postmen shall take packages from these containers and deliver them to clients either on foot or by cargobike. This should allow for saving 24 thousand kilometres of route for transport companies, thus reducing CO2 emissions by 11 tons.

In Leipzig, the city decided to subsidise the development of a network of cargobikes to use them exclusively for transport companies. Cargobikes used by individuals do not fit in this category²⁷⁰.

Commodity Aggregators

Since 01 January 2019, the Law “On Protection of Consumer Rights” covers owners of commodity (service) information aggregators²⁷¹. This should allow for protecting consumer rights and interests when dealing with such consumer market professionals that have formed a new niche in the e-commerce market (Internet-platforms that aggregate information about the goods and services in order to facilitate their search, selection, comparison, and buying process). Before adoption of the Law, commodity online aggregators like Yandex.Market or Torg.Mail.Ru had no liability to clients under the consumer protection legislation.

The Law provides for new terms. For instance, the goods (services) information aggregator owner (hereinafter referred to as the Aggregator Owner) is an entity or an individual entrepreneur that owns a program and/or a website and/or a website page providing consumers with an ability in relation to certain goods (services) to study the seller’s (provider’s) offer of the sale and purchase agreement (paid services agreement), execute such sale and purchase agreement (paid services agreement) with the seller (provider), as well as make an advance wire payment for the goods (services) on a single occasion.

The Law also provides for an obligation for the Aggregator Owner to inform consumers of the aggregator company and the seller (providing name, address, open hours, State Registration Number of an Entry for Establishment of a Legal Entity, full name of the owner, State Registration Number of an Entry for Establishment of an Individual Entrepreneur). The Aggregator Owner shall also be liable for all losses incurred by a consumer in case the Aggregator Owner provides inaccurate or incomplete information about the goods or the seller, and the consumer relied on such information when executing the sale and purchase agreement with the seller.

The seller shall be made liable for fulfilment of the agreement executed between the seller and the client based on the information provided by the Aggregator Owner, as well as for infringement of consumer rights due to the sale of goods of inadequate quality and for replacement of non-food goods of inadequate quality with similar goods, unless otherwise provided for by the agreement signed by and between the Aggregator Owner and the seller or followed from the nature of relations between them.

The Law provides a consumer with the right to claim for a refund of an advance payment made by the consumer for the goods (services) from the Aggregator Owner. The Aggregator Owner shall refund the amount of the advance payment received from the consumer within 10 days after receipt of the said claim, provided that the following conditions are met:

- The goods (services) for which the consumer has made an advance payment by wire transfer of money to the Aggregator Owner’s bank account, have not been provided to the consumer in due time;
- The consumer has sent a sale and purchase agreement (paid services agreement) repudiation notice as the seller (provider) failed to fulfil its obligations to deliver the goods (services) in due time.

Thus, online Aggregator Owners have been included in the list of entities subject to the federal state supervision of consumer rights protection²⁷².

Adoption of the Law became one of important steps in implementation of the 2030 Strategy of State Consumer Rights Protection Policy of the Russian Federation adopted by the Russian Government in 2017. The Strategy names consumer protection in e-commerce as one of the most priority issues²⁷³.

FOR REFERENCE

As of the end of 2018, the number of online shops with inaccurate information about the shop’s name or registered address has decreased by 38-41%, and the number of those lacking such data has fallen by 25-28%. The number of companies that do not receive payments by card or charge more for such payments has decreased by almost 50% (based on the research data provided by Public Consumer Initiative Consumer Rights Protection Association)²⁷⁴.

Cryptocurrencies Market Development Trends

Following an intense interest in cryptocurrencies in 2017, the digital currencies market has experienced a dramatic fall

²⁷⁰ E-Commerce in Germany, 24 March 2018 // Vestifinance.ru Web Publishing, <https://www.vestifinance.ru/articles/99355>.

²⁷¹ Federal Law No. 250-FZ dated 29 July 2018 “On Amendments to the Law of the Russian Federation “On Protection of Consumer Rights”.

²⁷² Resolution of the Government of the Russian Federation No. 1536 dated 14 December 2018 “On Amendments to the Regulations on Federal State Supervision of Consumer Rights Protection”.

²⁷³ The Consumer Rights Protection Law Now Covers Online Commodity (Services) Aggregators, 14 January 2019 // Rospotrebnadzor official website: https://www.rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=11091.

²⁷⁴ Research Data of Leading Online Shops // Official website of Public Consumer Initiative Consumer Rights Protection Association: <http://buyprotect.ru/novosti/195-rezultaty-issledovaniya-vedushchikh-internet-magazinov.html>.

in 2018. The cryptocurrencies market capitalisation has decreased by more than 5 times in just a fraction of the year. In particular, the rate of one of the most popular cryptocurrencies – Bitcoin – has fallen by approximately 4 times since the beginning of 2018, if compared to maximum rates in the mid-December 2017, the rate is five-time lower. Estimates show that about 80% of all ICOs²⁷⁵ conducted in the last 2 years have failed to live up to investors' expectations. However, there were just a few percent of clearly fraudulent companies. The main reason for such failures lies in project implementation, as projects proved to be unrequired in the future, and poorly planned in terms of finance and economy. With this, the amount of successful ICOs started falling as well. In the beginning of 2018, 50-55% of all companies entering the market managed to get the required amount of financing, but in August, this rate fell to 23%²⁷⁶.

In April 2019, the Russian Public Opinion Research Center (VCIOM)²⁷⁷ presented results of a study that show low interest of Russians to Bitcoins: two thirds of Russians who have heard about Bitcoins believe investments in this cryptocurrency to be unprofitable, only 2% of respondents actually purchased this cryptocurrency. Over a half of Russian citizens (56%) claim to know about Bitcoins (however, only 9% studied it in detail), 18% of respondents just heard the term. Awareness of the issue is much higher among representatives of the youngest age groups (67% among those 18-24 years of age), people having higher education (71%), respondents living in Moscow and St. Petersburg (75%), males (66%), and active users of the Internet (69%).

On the other hand, actual knowledge about the cryptocurrency appears to be rather weak. For example, of those who know or have heard about Bitcoins, 37% are sure that any person may buy Bitcoins; 47% of respondents believe that Bitcoins are available only for sale, with no option to produce them; 43% think that there is no way to buy real goods or services for Bitcoins; 12% of respondents think Bitcoins are forbidden in Russia. Level of protection of Bitcoins, if compared to regular money, is seen ambivalent: 28% of citizens believe that it is harder to steal a cryptocurrency, 29% think differently²⁷⁸.

FOR REFERENCE

Cryptocurrencies regulation differs in various countries.

In the **USA**, the digital currency is seen as money (its analogue), a property and exchange commodity.

Cryptocurrency in the **UK** is viewed as an international currency used for various purposes, including taxation. In **Japan**, cryptocurrencies are a legal payment instrument.

Venezuela issued an oil-backed cryptocurrency called Petro, thus, becoming the first country with its own cryptocurrency that is a national currency backed with oil.

In **China**, trading with cryptocurrencies had been forbidden since September 2017 in fact, however, it is still allowed to keep digital assets.

Review of international cryptocurrencies best practices in regulation showed risks related to purchase, ownership, and dealing with cryptocurrencies:

- Lack of national statutory regulation to protect consumers from financial losses related to collapse of companies that own relevant technologies needed to facilitate the exchange of cryptocurrencies (cryptocurrencies exchange collapse) or decision of such companies to leave the market;
- In case the consumer makes any payments with cryptocurrencies, he/she shall have no right to claim for reimbursement within the national legislation (e.g. in case a person refuses to make a transaction, no money will be returned, unlike with payment cards);
- If law enforcement authorities identify illegal transactions on cryptocurrencies exchanges (for instance, they find money laundering transactions), such exchanges may be subject to closure within a short period of time resulting in loss of all digital assets by their owners;
- In case of a fraud related to cryptocurrency wallets in which owners store their cryptocurrencies and which are kept on their personal computers, laptops and smartphones, their owners will not be protected by the national legislation.

In Russia, an important step towards regulation of relations arising out of creation, issue, keeping and circulation of digital financial assets was made with Draft Law No. 419059-7 dated 22 May 2018 "On Digital Financial Assets" adopted by the State Duma of the Russian Federation in the first reading (introduced to the State Duma of the Russian Federation on 20 March 2018)²⁷⁹. The Draft Law is intended to make investing in digital financial assets more transparent and protect future investors.

The Draft Law is aimed at:

- Legal implementation of definitions of the most wide-spread financial assets created and/or issued with the use of information technologies (such as blockchain transactions), in the Russian legal framework;
- Establishment of legal environment in order to encourage Russian entrepreneurs for fund raising by issuing tokens (one of digital financial assets types).

The Draft Law provides for definitions of digital financial assets, including cryptocurrencies and tokens, as well as for a new type of agreements made in a digital form – the so-called "smart-contract" which is fulfilled with engagement of digital financial technologies. The said definitions determine cryptocurrencies and tokens as property by identifying key differences

²⁷⁵ ICO – Initial Coin Offering.

²⁷⁶ Main Topics of 2018: Cryptocurrencies, 07 January 2019 // Finansovaya Gazeta Electronic Publishing: <https://fingazeta.ru/finance/industry/453391>.

²⁷⁷ Russian Public Opinion Research Center (VCIOM).

²⁷⁸ Cryptocurrencies: After Hype, 09 April 2019 // VCIOM Web Publishing: <https://wciom.ru/index.php?id=236&uid=9646>.

²⁷⁹ Draft Law No. 419059-7 "On Digital Financial Assets".

between a cryptocurrency and a token based on amount of issuers: tokens have one issuer, cryptocurrencies have multiple issuers/miners, as well as on a purpose of issue. Furthermore, the Draft Law does not recognise digital financial assets as a legal payment instrument in the territory of the Russian Federation.

Moreover, the Draft Law contains such notions as digital recording and digital transaction, secures legal basis for new types of activities, including:

- Creation of cryptocurrencies or receipt of remuneration in the form of a cryptocurrency (mining);
- Confirmation of validity of digital records within blockchain transactions (validation).

The Draft Law also provides for an ability to exchange tokens for Russian Rubles or international currencies. The option of exchange of other digital financial assets, as well as the procedure for and terms and conditions of such exchange transactions shall be defined by the Bank of Russia in consultation with the Government of the Russian Federation.

In order to provide conditions to store and trade with digital financial assets, the Draft Law introduces such notion as “Digital Wallet”.

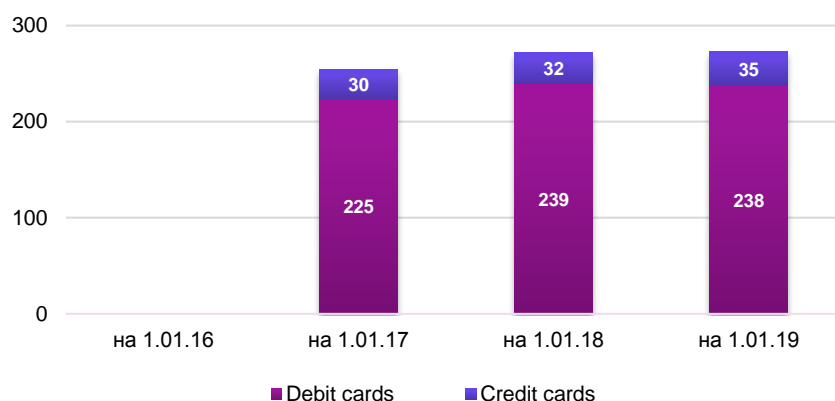
Special provision within the Draft Law is contained in an Article that establishes legal basis for tokens issue in the Russian Federation, currently known as ICO (Initial Token Offering).

Along with the Draft Law “On Digital Financial Assets”, the State Duma of the Russian Federation considered and adopted in the first reading Draft Law No. 419090-7 “On Encouragement of Investments Through Investment Platforms” (initially – “On Alternative Ways of Investment (Crowdfunding)”) on 22 May 2018. The Draft Law is to regulate relations arising from attracting investments by corporate entities or individual entrepreneurs using information technologies, as well as define legal basis for investment platform operators arranging retail financing (crowdfunding). The Draft Law establishes requirements for investment platforms, their operators, and members.

Bank Cards

As of 01 January 2019, as many as 342 credit institutions have been engaged in the issue and/or acquiring of payment cards, which is 53 institutions less than at the beginning of 2018²⁸⁰. According to the Bank of Russia, the number of bank cards issued by credit institutions is growing in Russia (Figure 2.22).

Figure 2.22. The number of bank cards issued by credit institutions in Russia, mln pcs



Source: Bank of Russia

Annual increment of issued payment cards is 0.4%, which is significantly lower than the increment rate in 2017 (6.6%). Such increment rates are ensured by a 9% increase in credit cards issue, followed by a 0.8% decrease in payment cards issue²⁸¹.

The number of operations involving the use of bank card by individuals as a means of payment grows actively while the number of operations of cash withdrawal goes down (Figure 2.23)²⁸².

According to the data of the Bank of Russia on operations in the territory of the Russian Federation and outside with the use of payment cards issued in the territory of the Russian Federation, the number and volume of the respective operations show continuous growth. Indicators for 2018 grew by 34% with regard to the number of operations and by 23% with regard to the volume²⁸³.

The share of payments for goods and services with bank cards in 2018 was approx. 76% of all transactions carried out by citizens of Russia using payment cards.

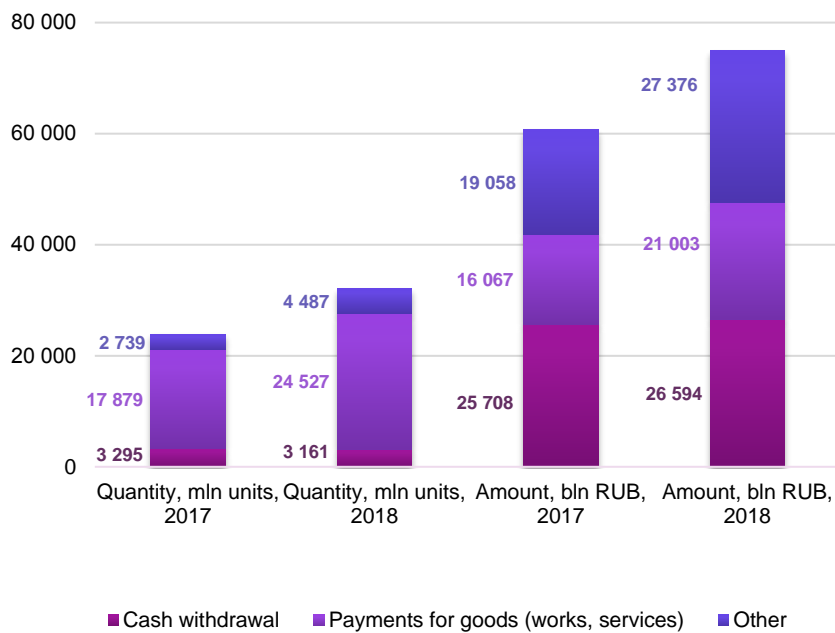
²⁸⁰ Statistics. The Number of Credit Institutions Engaged in the Issue and/or Acquiring of Payment Cards // Official website of the Bank of Russia http://www.cbr.ru/statistics/p_sys/print.aspx?file=sheet012.htm.

²⁸¹ The Number of Payment Cards Issued by Credit Institutions, Broken Down by Card Types // The Bank of Russia official website: http://www.cbr.ru/statistics/print.aspx?file=p_sys/sheet013.htm.

²⁸² Transactions carried out in Russia and abroad using payment cards issued by credit institutions, by type of customer // The Bank of Russia's Website http://www.cbr.ru/statistics/print.aspx?file=p_sys/sheet014_1.htm.

²⁸³ Review of Unauthorized Money Transfers in 2018 // The Bank of Russia's Website http://www.cbr.ru/content/document/file/62930/gubzi_18.pdf.

Figure 2.23. Structure of operations in Russia with the use of cards issued by Russian credit institutions



Source: Bank of Russia

FOR REFERENCE

The co-called “cash-back service” is becoming more and more popular in Russia, as well as in the world. Due to the service, bank card holders may partially refund the money they paid for goods or services simply by paying with a bank card. The terms and conditions, as well as the amount of such refund are usually defined by the bank for each partner or service sector (for example, 10% cash-back when paying for gasoline at any gas station). However, if the buyer decides to pay in cash, no cash-back is provided.

Plastic cards owners withdrew 26.6 trillion RUB from their card accounts in Russia during 2018, which is by 3.4% more than in the previous year. On the contrary, the volume of cashless payments with plastic cards increased by 37.7% and reached 48.4 trillion RUB. In this context, the volume of operations comprising payments for the goods, works and services grew by 30.7%, and that of other operations - by 43.6%²⁸⁴.

Growing volumes of other operations involving plastic cards is associated, inter alia, with remote transfers between individuals and banks’ promoting deposits that are opened and replenished by depositors remotely. In this context, consumer risks become higher due to possible abuses on the part of the banks.

The international Visa and MasterCard payment systems account for the majority of payment cards issued in Russia. Nevertheless, the MIR card share in total cards issued continued to grow in 2018. As of the beginning of 2017, the MIR cards share was just 1.2% of total cards issued, or just 3 million cards. This share grew up to 10% (about 26 million cards) by the end of 2017. As for 2018, there were 53 million MIR cards issued (a bit less than 20% of the total amount of cards), with the total share of payments made with these cards being 14%²⁸⁵. One of the major reasons of such high demand for these cards is that it had been made mandatory to pay all salaries of employees working at budget entities, and make other social payments (allowances, state scholarships, payments to those serving in the army, etc.) only to MIR cards since 01 July 2018²⁸⁶.

As of March 2019, 305 Russian banks have been working with MIR cards, 160 Russian banks acting as national payment system cards issuers. There are about 3 million devices that work with MIR cards²⁸⁷. A client may pay with a MIR card in the majority of the biggest shopping centres and points-of-sale in Russia and in a number of Internet shops. Since July 2017 it was stipulated that acceptance of Mir cards in all technical devices intended for making payments using payment cards including ATMs and in technical devices intended for making payments using payment cards of all entities, individual entrepreneurs with which such credit institutions have agreements on making settlements under operations with payment

²⁸⁴ Transactions carried out in Russia and abroad using payment cards issued by credit institutions, by type of customer // The Bank of Russia’s Website http://www.cbr.ru/statistics/print.aspx?file=p_sys/sheet014_1.htm.

²⁸⁵ MIR Cards Amounted to 53 Million, 21 February 2019 // Information Telegraph Agency of Russia official website: <https://tass.ru/ekonomika/6020938>.

²⁸⁶ Federal Law No. 88-FZ dated 01 May 2017 “On Amendments to Article 16.1 of the Law of the Russian Federation “On Protection of Consumer Rights” and Federal Law “On National Payment System”.

²⁸⁷ There Are About 3 Million Devices That Work With MIR Cards, 29 March 2019 // PLUS Magazine official website: <https://www.plusworld.ru/daily/platezhnyj-biznes/okolo-3-mln-ustrojstv-v-rossii-prinimayut-kartu-mir/>.

cards or national means of payment²⁸⁸.

NSPK²⁸⁹ claims that every seventh payment made through POS-terminals is made with a MIR card. The share of cash withdrawals in total transactions made with MIR cards amounts only to 5%, the other 95% of transactions are payments for goods and services, and other transactions. Furthermore, MIR cardholders mostly used the card in grocery shops (48% of all interbank transactions carried out through POS, average amount being RUB 468) in 2018. Payments in cafes and restaurants go second (9%, RUB 388), followed by gas stations (6%, RUB 916), pharmacies (4%, RUB 564), and clothing shops (3%, RUB 2,136).

In addition to an increasing share of wire transfers, there is a growing number of interbank transactions made with national payment system cards. In 2018, the amount of such transactions was above 1 billion. An average sum of purchases made with MIR cards reached RUB 8 thousand per month. This is just 5-7% less than the sum of payments made with international payment system cards.

In the autumn of 2018, NSPK presented its own dispute resolution model (the so-called "dispute model") used to refund the money paid under a disputed transaction made with a MIR card within 1 month at most. International experience, though, provides for resolution and refund to be made within several months. In case of using co-badged cards²⁹⁰ (MIR – Maestro; MIR – JCB; MIR – UnionPay), disputes related to transactions executed within Russia shall also be considered based on NSPK's dispute model within up to 30 days. If a transaction made with such cards is executed outside Russia, the dispute related to such transaction shall be considered based on a classic dispute resolution scheme applied by international payment systems operators, thus, dispute resolution may take up to 1 year²⁹¹.

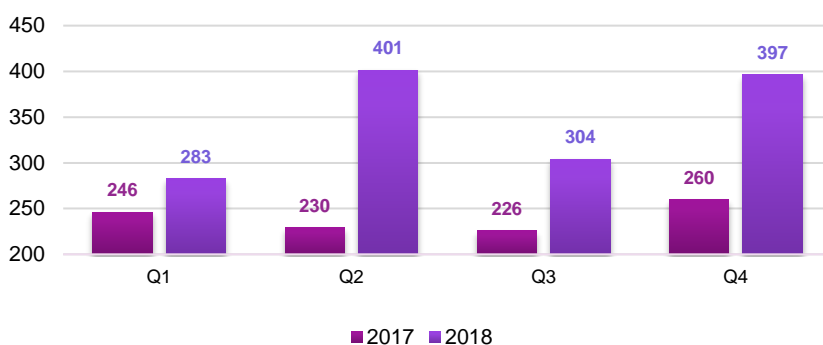
Contactless payment systems, such as Visa payWave and MasterCard PayPass have been working in Russia for several years already; so, NSPK also launched a mobile contactless payment service Mir Pay in 2019. If a purchase is less than RUB 1 thousand, a client just needs to apply a card to a terminal for 2-3 seconds; if the payment amount exceeds RUB 1 thousand, one needs to enter a PIN-code. Payments with Visa cards have been allowed to reach RUB 3,000 without the need to enter a PIN-code since April 2019²⁹².

FOR REFERENCE

In April 2019, Visa and MasterCard payment systems announced that Russian banks would be issuing only contactless cards (using NFC technology) allowing for payments being made with just one touch. Respective requirements have been sent to all credit institutions. Visa implements the new rules with effect from 13 April 2019, MasterCard – from 12 April 2021.

Advanced technologies set new risks for consumers. For example, a consumer may not be aware of the moment of payment and he needs knowledge in the field of financial literacy in order to avoid financial failure. Increased contactless payment limit that requires no PIN-code may result in an increased robbery rate, as cards may be stolen more often.

Figure 2.24. Volumes of unauthorized money transfers in 2017-2018, mln RUB



Source: Bank of Russia

One of the major risks related to the use of bank cards is still a risk of hacker attacks and authorised access to the money on the account. In 2018, total amount of unauthorised transactions made with payment cards issued within Russia reached RUB 1.4 billion (Figure 2.24), which exceeds the same rate in 2017 (RUB 961.3 million) by 44%. The amount of such transactions executed in 2018 is 417 thousand, which is by 31.4% more than in 2017. An average sum of an unauthorised transaction grew by 9.6% to RUB 3.32 thousand in 2018. This is due to an increased number and volume of unauthorised

²⁸⁸ Federal Law No. 88-FZ, dated 1 May 2017, "On Amendments to Article 16.1 of the Law of the Russian Federation "On Protection of Consumer Rights" and the Federal Law "On National Payment System".

²⁸⁹ National Payment Card System Joint Stock Company (NSPK JSC) is the operator of MIR National Payment System.

²⁹⁰ Co-badged cards are cards jointly serviced by two payment systems.

²⁹¹ What Happened With MIR in 2018, 28 December 2018 // Banki.ru Portal: <https://www.banki.ru/news/daytheme/?id=10806235>.

²⁹² Visa Extended Contactless Payment Limit to RUB 3,000, 11. March 2019 // RBC portal: <https://www.rbc.ru/finances/11/03/2019/5c8130909a79473a4e09e618>.

transactions in the year under review.

The Bank of Russia highlights that the largest part of embezzlement is done by abusers that receive an unauthorised direct access to electronic payment facilities or falsely encourage owners to transfer their money in favour of abusers or by abusing the owners' trust (using social engineering methods)²⁹³.



On 28 January 2019, a new service was launched by the Bank of Russia – the Instant Payment System (IPS), allowing individuals for making immediate money transfers by mobile phone number to any bank participating in the IPS²⁹⁴.

Currently, there are 12 banks connected to the system: Gazprombank, VTB, Alfa Bank, Promsvyazbank, AK Bars Bank, Raiffeisenbank, Tinkoff Bank, QIWI Bank, SKB-Bank, Rosbank, Sovcombank, and Credit Union "Payment Center". However, not all of them have implemented the IPS in full. Some banks have claimed to gradually connect their clients to the system: one category after another. Some banks started with accepting transactions, but postponed introduction of the client money transfer function. Other 40 banks are also expected to join the system by the end of 2019, with all national financial institutions becoming a part of the system going forward.

Transactions are made directly between the clients' accounts within the Instant Payment System, i.e. no dependence on payment systems. Money transfer option within the IPS is available through an online-bank or a mobile application. To make a transfer, one only needs to indicate the telephone number of the receiver, the amount, and confirm the transaction. If the receiver has several accounts opened with different participating banks and connected to one telephone number, the sender may choose to which account the money is to be transferred. The receiver may also indicate the number of an account to which the money will be credited through the IPS by default.

Transaction security is ensured by the Bank of Russia being the IPS operator, and the National Payment Card System that is to act as an operating payment clearing centre. Transacting through the IPS means that a sender has passed secure authentication by the sender's bank, and the receiver's identity has been confirmed by the sender (therefore, the sender sees the receiver's full name before confirming the transfer)²⁹⁵.

Remote Banking Service

In 2018, credit institutions executed 288.2 million payments for individuals for the amount over RUB 3.5 trillion; payment orders were formed and transferred in a digital form. In quantitative terms this is by 92.7% more than in 2017, and by 10.7% more in terms of the amount.

Payments are often made through the Internet; in 2018, 207 million payments were made via the Internet (increment of 92.7% if compared to 2017) for the total amount of almost RUB 2.8 trillion (payment volume increment with regard to 2017 was 10.7%)²⁹⁶.

Higher growth rates were observed in 2018 in relation to payments of individuals through customer devices of mobile communication. Through such devices 59.4 mln payments were made (increment rate was 59% compared to 2017) for the total amount exceeding RUB 251.6 bln (more than twofold increment compared to 2017).

Following the results of 2018, the share of payments via the Internet in the total amount of payments of individuals was 61.4%, the share of mobile payments – 17.6%. The share of payments via the Internet in the total amount of payments remains steady for the second year at the level of 25%, the share of mobile payments gradually grows in 2018 and was 2.3% of the total payments of individuals.

It should be noted that the money transfer operator acting following the receipt of a client's request sent by a way defined in an agreement between the operator and the client, shall establish specific transaction parameters to identify transactions that their client may execute through the Internet-banking system²⁹⁷. However, financial service consumers often do not know about this option, but money transfer operators are reluctant to inform their clients about it in order to ensure the maximum transparency of transactions available for the client, thus, increasing risks of unauthorised transactions.

In order to minimise risks of unauthorised transactions, the Regulations establish a list of limitations that may be settled following the client request for transaction parameters. The list shall come into effect as of 01 January 2020, and includes the following limitations for:

- Maximum amount of money transferred under one transaction and/or within a specific period;
- List of potential receivers of money;
- Term during which money transfer may be executed;
- Geographical location of devices used to prepare and/or confirm e-messages by the client;
- List of identifiers of devices used to prepare and/or confirm e-messages by the client;
- List of services provided due to the money transfer²⁹⁸.

²⁹³ Overview of Unauthorised Money Transfers in 2018 // The Bank of Russia official website: http://www.cbr.ru/content/document/file/62930/gubzi_18.pdf.

²⁹⁴ Instant Payment System official website: <http://sbp.nspk.ru/>.

²⁹⁵ Share Your Money in One Click? How the Instant Payment System Works, 02 April 2019 // Vashi Lichnye Finansy website: <http://vlin.ru/nashi-stati/aktualno/podelitsya-dengami-v-odin-klik-kak-rabotaet-sistema-bystrykh-platezhey/>.

²⁹⁶ Payments Made by Clients of Credit Institutions Based on Payment Orders Received by Credit Institutions, by Method of Receipt // The Bank of Russia official website: http://www.cbr.ru/statistics/p_sys/print.aspx?file=sheet011.htm.

²⁹⁷ Regulations on Requirements for Ensuring Information Protection During Money Transfer and on the Procedure for Control by the Bank of Russia of Compliance With Requirements for Ensuring Information Protection During Money Transfer (approved by the Bank of Russia on 09 June 2012, No. 382-P).

²⁹⁸ Ordinance of the Bank of Russia No. 4793-U dated 07. May 2018 "On Amendments to Regulations of the Bank of Russia No. 382-P dated 9 June 2012 "On Requirements for Ensuring Information Protection During Money Transfer and on the Procedure for Control by the Bank of Russia of Compliance With Requirements for Ensuring Information Protection During Money Transfer".

FOR REFERENCE

Digital personal finance management channels (personal account opened on the website or a mobile application) allow financial services users to manage their accounts in a more competent way. This is what 88% of financial institutions representatives think, but only 57% of their clients share this point of view. These data were supported by the all-Russian study conducted by NAFI Research Centre in collaboration with the Russian Microfinance Centre and Citi Fund in January 2019.

As per representatives of finance organisations, their clients are most likely to use their personal account and mobile application to transfer the money (54%) and make mandatory payments (52%), receive certificates and extracts (48%), and make credit/mortgage payments (42%). Representatives believe that every third user tracks his/her income and expenses with digital instruments (34%).

However, as the survey conducted among financial services consumers showed, only 19% of users track their expenses and income, and just 6% of users do it in electronic form. 40% of respondents said that they track their income and expenses "in mind", 41% of respondents admitted not tracking their money.

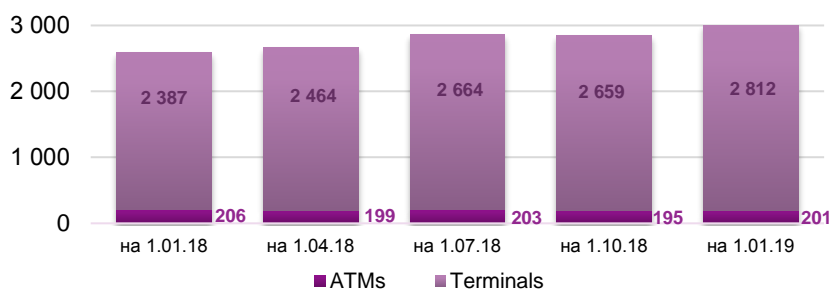
Most users (over 80%) have a positive view on digital channels through which financial services are provided and give a high esteem of their advantages: efficiency, accessibility, transparency. Users also acknowledge risks related to such digital channels: 77% of respondents believe that due to these channels their financial transactions become less tangible as one does not see actual cash.

Among representatives of financial organisations, every fourth person (26%) believes that there are certain risks related to digital channels through which financial services are provided, but does not see them as critical. As 40% of respondents admitted, risks occurring when using financial services either online or offline are nearly the same; every third representative of financial organisations believes that there are almost no or significantly reduced risks when providing financial services online²⁹⁹.

Analysis of a hardware infrastructure of remote banking showed that the share of ATMs in the total amount of devices is decreasing, but the share of electronic terminals is increasing (Figure 2.25).

In 2018, the total number of electronic terminals grew by 17.8% (425,000 units) and reached 2.8 million units. Therewith, the number of ATMs reduced by 2.6% (or 5.4 thousand units) to 200.9 thousand units; and the number of imprinters fell by 2.8% (or 497 units) to 17.2 thousand units³⁰⁰.

Figure 2.25. Dynamics of the number of electronic terminals and ATMs in Russia (thousand. units)



Source: Bank of Russia

FOR REFERENCE

In the beginning of 2019, the amount of complaints of Sberbank clients regarding the money stolen from their accounts through payment terminals increased. The algorithm of stealing the money is simple: an abuser initiates a transaction on a terminal without putting a card into it, and leaves the terminal with an uncompleted transaction. The terminal waits for 90 seconds to complete the transaction, and if another person puts his/her card into the terminal, the money will be debited following the uncompleted transaction.

Thus, terminals work in a way as to choose the purpose of payment, the sum, and then the way of payment: either with a card or by cash. If the previous client chooses to pay "by card" and fails to complete the transaction, the next client finishes the transfer when puts his/her card into the terminal.

Security experts highlight serious drawbacks in Sberbank's client-operated machine operation scenario, but the bank just call for their clients' caution.

Sberbank had 77 thousand ATMs as of the end of 2018³⁰¹.

²⁹⁹ Financial Organisations Give a Positive Evaluation to the Effect of Digitisation on Their Clients' Financial Literacy Level, 21 February 2019 // Official website of NAFI Research Centre: <https://nafi.ru/analytics/finansovye-organizatsii-polozhitelno-otsenivayut-vliyanie-tsifrovizatsii-na-uroven-finansovoy-gramot/>.

³⁰⁰ Major Development Indicators of the National Payment System // The Bank of Russia official website: http://www.cbr.ru/statistics/p_sys/print.aspx?file=sheet016.htm.

³⁰¹ Abusers Won by Time-Out // Kommersant Newspaper, issue No. 84 dated 20 May 2019, p. 1.

Traditional payment methods give way to remote banking channels that are becoming mainstream due to the possibility of remote identification of bank clients.

For instance, Law No. 482-FZ³⁰² passed on 31 December 2017 stipulates a creation of the remote identification mechanism for bank clients using their biometric personal data. Pursuant thereto, banks are permitted to open and maintain accounts of individuals, provide loans to individuals, perform money transfers under such accounts upon client orders without their personal presence upon identification by means of ascertaining and verifying information on individuals using the uniform system of identification and authentication and uniform biometric system according to procedures established by Law No. 149-FZ³⁰³, provided that the following conditions are met simultaneously:

- an individual is not a person included in the list of entities and physical persons in relation to which there are available data on their implication in extremist activities or terrorism, or a physical person in relation to whom interdepartmental coordination body in charge of counteracting financing terrorism has taken decision on freeze (blocking) of funds or other property;
- in relation to this client or client operations the bank has no suspicions that he/she/they is/are connected with legalisation (money laundering) of criminally obtained income or financing terrorism.

In order to use the remote identification option, a client shall pass the initial identification with the authorised bank that is to register the client in the Unified Identification and Authentication System (ESIA) and the Unified Biometrics System (EBS) taking the client's biometric data (face image and voice recording). To further use remote banking services, the client needs to re-authenticate his/her profile in the ESIA and confirm his/her identity using the smartphone, tablet or computer with a camera and a microphone.

Within the first stage it is planned to provide account opening, money transfer, and credits issuing options by credit institutions through remote services with no need for individuals' personal presence. Later, such distance services are planned to be extended to non-credit institutions, as well as to provisioning of government and other services. To implement the said mechanism, regulations are to be developed, as well as the relevant technological infrastructure is to be launched.

Therewith, the Bank of Russia prepared recommendations for financial organisations on improvement and optimisation of registration processes within the Unified Identification and Authentication System (ESIA) and the Unified Biometrics System (EBS) in the beginning of 2019³⁰⁴.

Principal risks of use of biometric data for user authentication are explained by the fact that in case of loss or theft of such information it cannot be renewed. You can change your password if it was stolen or reissue a bank card if it was compromised. But you are unable to "reissue" your fingerprints or eye retina. Compromise of any biometric data will lead to impossibility of further safe use thereof³⁰⁵.

Electronic Payment Services

Electronic Payment System (EPS) is a technology that allows for making settlements between counterparties using data transfer networks (most often through the Internet).

Usually there are 5 ways to conduct e-payments:

1. Payments are made with bank cards, online transactions under which are processed by processing centres;
2. Payments are made with e-wallets from e-money operators (EMOs);
3. Payments are made with the use of mobile services by debiting the money from the mobile phone account by mobile network operators;
4. Payments are made through Internet-banking services, when payment for the goods or services is made through special applications or on the bank's website;
5. Payments are made by cash through cashiers or terminals, when stationary or mobile payment terminals are used, as well as the money is given to a courier or shop cashier³⁰⁶.

An important factor to consider when choosing a payment method to pay for the purchase online, along with payments security and fees charged, is the comfort of payment for the client.

In 2018, individuals made 775 mln of money transfers for the total amount of RUB 3 trillion without opening a payer's bank account (-9.7% to 2017), within the territory of the Russian Federation for the amount of RUB 2.8 trillion (-10.2%), beyond the territory of the Russian Federation - RUB 220.8 bln (-3.4%)³⁰⁷.

There is a general market trend for digitisation. For instance, the share of Qiwi e-wallets filled by wire transfer exceeded 50% of all payments for the first time in 2018 (in 2015, the share was 15%, over 25% in 2016 with further stable growth). This trend resulted in a reduced amount of kiosks and terminals through which clients can fill their e-wallets using cash. For example, the total number of Qiwi kiosks and terminals was 181 thousand in 2014, followed with a gradual annual decrease

³⁰²Federal Law No. 482-FZ, dated 31 December 2017, "On Amendments to Certain Legal Acts of the Russian Federation".

³⁰³ Federal Law No. 149-FZ, dated 27 July 2006, "On Information, Information Technologies And Protection of Information".

³⁰⁴ Information Letter of the Bank of Russia No. IN-04-13/22 dated 01 March 2019 "On Recommendations for Banks Regarding Actions Provided for by Clause 5.6, Article 7 of Federal Law No. 115-FZ dated 7 August 2001 "On Combating Legalisation (Money Laundering) of Proceeds of Crime and Financing of Terrorism".

³⁰⁵ To the bank by fingerprints // Expert N 15 (1071) 09.04.2018.

³⁰⁶ How to Launch Payment Services on Your Website?, 07 June 2018 // Komsomolskaya Pravda Web Publishing: <https://www.kp.ru/guide/priem-platezhei-na-saite.html>.

³⁰⁷ The structure of money transfers without opening a bank account of an individual // The official website of the Bank of Russia http://www.cbr.ru/statistics/print.aspx?file=p_sys/sheet008.htm.

by about 9 to 10 thousand until it reached 143 thousand in 2018³⁰⁸.

In order to enhance control over payments made by persons that have not passed identification, relevant legal amendments have been introduced³⁰⁹. In particular, it is established that the funds recorded by the e-money operator as balance (part thereof) of the e-money of the private client using the relevant electronic payment facility may be transferred by his/her order to a legal entity's or individual entrepreneur's bank account, used to perform obligations of the private client to a credit institution, as well as transferred to the client's personal bank account or given to the client in cash if the latter has passed a simplified identification procedure. Furthermore, the law provides for grounds based on which the e-money operator may refuse to transfer e-money if an anonymous electronic payment facility is used.

Moreover, the law states that freezing (blocking) the money or any other property following the provisions of Federal Law No. 115-FZ dated 07 August 2001 "On Combating Legalisation (Money Laundering) of Proceeds of Crime and Financing of Terrorism" shall not be deemed a reason for civil liability to occur for attorneys, notaries public, and entrepreneurs operating in legal and banking services sphere.

Major risks related to e-money are transaction security risks, they include:

- Risk of loss of e-money user's personal data;
- Risk of e-wallet hacker attacks;
- Risk of loss of the data or money due to the system equipment failure;
- Risk of loss of personal data due to theft in the form of a hacker attack against a user, a bank, an online shop, or a processing centre.

Financial Services Digitisation and Marketplace Project Development

Experts say that further penetration of financial technologies may destabilise business of traditional banks and payment systems. Therefore, for example, in the horizon of 2-3 years the share of traditional banking in the payment sector may reduce by 40% – the bank niche will be filled with high-tech companies able to satisfy the client needs in this market largely³¹⁰.

FOR REFERENCE

In 2018, Russians increased the use of financial online services, electronic services provided by state agencies, and search engines. In 2015, 38.9% of Russian citizens used search engines every day or almost every day, but this amount grew to 49.7% in 2018³¹¹.

In April 2019, VCIOM presented the data of a research on the frequency of utilising e-commerce services by Russians using the Internet. Among those Russians using the Internet, the most popular online service is bank transactions (61%), the largest share of users is attributed to people of 18 to 24 years of age (77%) and people living in Moscow and St. Petersburg (74%). The search and payments for government taxes and fines come second (45%), these services are most popular among people of 25-34 years of age (57%) and those living in Moscow and Saint-Petersburg (68%). TOP-3 services also include submission of meter readings and payments for utilities (40%), among people aged 45-59 the share of such services' users amounts to 45%, and among those living in Moscow and Saint-Petersburg – to 66%.

One third of respondents (33%) buy train or plain tickets online (42% among those 18-24 years of age, and 67% – among residents of Moscow and Saint-Petersburg). To book their medical appointment, 29% of respondents use online services (of them 35% are 18-24 years of age, and 34% – 25-34 years of age), other 28% are more likely to book it off-line (46% – among residents living in the Far Eastern Federal District). One fourth (27%) of participants admitted booking a taxi through the Internet, 29% do it off-line. Every fifth respondent (21%) buys tickets to cinemas, theatres, and concerts online, while 22% prefer doing it off-line.

Among services that Russians prefer having off-line are buying clothes, electronic devices, and household appliances at first hand – 35% do it without using the Internet (against 12% of those doing it online). Receipt of certificates and documents from government bodies goes second: 27% often do it off-line (34% of them are people 18-24 years of age), unlike 19% that do it online³¹².



In order to arrange the system of remote retail distribution of financial products/services and financial transactions registration, the Bank of Russia in collaboration with financial market players launched a project called "Marketplace" in December 2017³¹³. This was done within the framework of Main Growth Areas of Financial Technologies for the Period of 2018-2020.

The "Marketplace" project is to ensure an equal access of all service users to the financial market, on the one hand, and create prerequisites for development of a competitive environment and financial services optimisation, on the other hand.

³⁰⁸ In 2018, Over 50% of Qiwi E-Wallets Filled by Wire Transfer, 02 April 2019 // PLUS Magazine official website: <https://www.plusworld.ru/daily/platezhnyj-biznes/post-427926/>.

³⁰⁹ Federal Law No. 33-FZ dated 18. March 2019 "On Amendments to Articles 7 and 7.1 of Federal Law "On Combating Legalisation (Money Laundering) of Proceeds of Crime and Financing of Terrorism" and Articles 7 and 10 of Federal Law "On National Payment System".

³¹⁰ Smartphone Dominates the Bank, 9 April 2018 // Expert No. 15 (1071).

³¹¹ According to the All-Russian Study "Russians' Digital Literacy Index" // Internet Technologies Centre Regional Non-Governmental Organisation project official website: <http://цифроваяграмотность.рф/mindex/2018/>.

³¹² Service Digitisation in Russia – Just Around the Corner. 22 April 2019 // The Russian Public Opinion Research Center official website: <https://wciom.ru/index.php?id=236&uid=9667>.

³¹³ Marketplace // The Bank of Russia official website: https://www.cbr.ru/finmarket/market_place/.

Among the project advantages are: an improved situation with availability of finances, in particular, due to lifting of geographical restrictions. Therewith, users gain a remote 24/7 access to financial services and a wide range of financial products. Financial products assortment shall include bank deposits, state and corporate bonds, shares in unit investment funds, OSAGO, and mortgages. It may be further expanded with other credit, insurance, investment, and other financial products.

FOR REFERENCE

There are certain requirements implemented in the UK, obliging microcredit institutions to place information about their products on at least one of their websites approved by the Financial Conduct Authority (FCA) and used to compare terms and conditions of payday loans. Furthermore, there are standards for notifying clients of microcredits terms and conditions by comparison websites approved by the FCA.³¹⁴

In Portugal, there is a special web-site used to compare the cost and terms and conditions of various financial products (<https://clientebancario.bportugal.pt/en/aplicacao/comparador-de-comissoes>). The website has been created in compliance with the EU Directive and is a means of consumer protection; the information provided on the website is not used for advertisement, it shall ease the task of choosing the services for the client.

The project does not provide for government investments in “Marketplace” system elements development. The system is to be developed on an arm’s length basis. The Bank of Russia is to facilitate establishment of a favourable regulatory environment to make the system function effectively.

The system is to be operated based on a “plug&play” principle and unite the following members:

- E-platforms. Platforms on which financial organisations and clients negotiate their transactions. The platform is aimed at automation of communications between parties and making financial transactions easier;
- Suppliers of financial products and services. These are banks, insurance companies, asset management companies of unit investment funds, corporate and government bonds issuers;
- Financial transactions registrar. Register in which all legally relevant information on transactions executed on platforms is stored. This is a major element of a Trusted Execution Environment;
- Aggregator marts. Internet resources and mobile applications providing clients with an ability to choose a financial product by arranging and visualising its characteristics. The mart is to ensure that the financial product parameters are duly presented (the maturity, interest rate, rating, etc.);
- Bots. Automatic financial products/services consultants used at execution and fulfilment of transactions.

The system infrastructure is to be integrated into the remote biometric identification platform, thus, providing for a transfer of financial services into the digital environment and better accessibility of these services for consumers. To construct the “Marketplace” system, developers are to use such innovative solutions from other FinTech Association projects as Open API and the Instant Payment System.

The “Marketplace” system launch was initially planned for the mid-February 2019, but postponed for an indefinite period due to continuing discussions of the Draft Law “On Electronic Platforms Regulation” to be introduced to the State Duma of the Russian Federation in 2019³¹⁵.

It should be noted that the “Marketplace” project concept is not new to the Russian Federation. There are many portals in the Russian financial market that allow for comparing the terms and conditions and the cost of individual financial services, as well as purchase them (for instance, Banki.ru, Sravni.ru).

Prospects of Development of E-Commerce Payment Facilities and Risks for Consumers

E-commerce is one of the most dynamic spheres of economy, it opens access to such opportunities in goods purchase that have never existed before. The online trade sphere grows every year, it is becoming a worldwide industry.

For example, the volume of online trades in 2018 reached USD 2.8 trillion worldwide, which exceeds double the size of 2014 volumes. A global sales volume in e-commerce is expected to grow up to USD 4.1 trillion by 2020. In the CIS countries, the total volume of transactions executed through the Internet has been growing for the past 5 years and exceeded USD 22 billion in 2018.

Due to this, the first priority issues are now to determine the goals and objectives, and develop the common principles of state policy on the consumer protection, harmonising the consumer law as one of the key short-term focus areas, based on risks related to consumer rights violations during remote purchase of goods and services through the Internet, including:

- Sale of hazardous goods non-compliant with compulsory requirements;
- Failure to supply paid goods/services under the agreement or late supply of goods/services;
- Sale of goods/services of improper quality or non-compliant with description (expectations);
- Fraudulent misrepresentation to the consumer on properties of the goods;
- Wilful non-disclosure or partial disclosure of information on the seller (manufacturer, provider);
- Non-consideration of a consumer’s request, failure to refund (avoidance of refunding) the money paid by a consumer, refusal to indemnify against losses, etc.

³¹⁴ Report on the Ninth Wave of Independent Monitoring “The State of Protection of Consumer Rights and Interests in the Russian Credit Market” (May 2018) // International Confederation of Consumer Societies: <http://konfop.ru/мониторинг-рынка-финансовых-услуг>.

³¹⁵ The CB Does Not Launch Financial Supermarket as Planned, 03 December 2018 // RBC portal: <https://www.rbc.ru/finances/03/12/2018/5c011bb69a79477dfeee3725>.

FOR REFERENCE

In the review of judicial practice related to disputes on consumer protection during the sale of goods/services dated 17 October 2018, the Presidium of the Supreme Court of the Russian Federation outlined that in case the bank identifies questionable transactions, it shall be entitled to:

- Restrict provisioning of banking services to the client by blocking his/her bank card
- until the circumstances that raised suspicions regarding fraudulent activities with the bank card cease to exist, or
- until the circumstances that prove the risk of breaching the legislation of the Russian Federation cease to exist;
- Refuse to execute the client's order for a transaction.

In connection with the progress of digital technologies, e-commerce and electronic payments, Rosпотребнадзор continues to warn consumers on high exposure to different risks in these segments. So, for example, the authorized body in charge of consumer protection highlights the following principal risks for users of payment instruments, which are mostly electronic ones:

- risks of financial losses for payment service consumers;
- risks of purchase of the goods/services of low quality.

The said risks are determined by the following:

- Technical failures and malfunction of payment terminals, ATMs, electronic payment facilities, as well as insufficient level of information security ensured by providers in the market of payment facilities;
- Insufficient level of protection of clients' personal data ensured by payment services providers;
- Use of consumers' personal data without notification, including for the purpose of creating different models (assessment of consumer's creditworthiness, consumer's interests in the financial market, etc.) based on Big Data;
- Fraudulent activities, including with the use of up-to-date technologies;
- Insufficient informing by banks and non-credit organizations of their clients on safety rules relating to means of payment, including e-payment;
- Insufficient provision of information by money transfer operators to their clients about the features of restricting the parameters of transactions that may be executed through the Internet-banking system;
- Low level of financial literacy of consumers.
- Rapid development of digital technologies and slow response thereto on the part of state authorities for risk mitigation, informing consumers on risks and improvement of financial literacy of the population.

FOR REFERENCE

In 2018, Internet Technologies Centre Regional Non-Governmental Organisation (ROCIT) (in collaboration with ZIRCON Research Group) carried out the fourth wave of the annual Russian national study "Russians' Digital Literacy Index". Based on the results of the study, the Index average value amounted to 4.52 points, which is 14.7% less compared to the previous year (5.99 points) and 2.7% less than in 2015 (the initial year of the study) (4.79 points).

Such rapid decrease of the Index average value happened, first of all, due to a wider gap between the level of digital competences, consumption in the digital sphere, and digital security available to Russians. Unlike in 2015 and 2016, when digital competences have been a major weakness of Russian citizens, they have become a priority No. 1 for them in 2017 and 2018. However, if compared with the previous years, Russian citizens are defined by a large gap between digital competences and digital security in terms of digital knowledge and skills.

It should be noted that digital literacy is a set of knowledge and skills that are required to use digital technologies and Internet resources in a safe and efficient way. It includes digital consumption, digital competences, and digital security issues³¹⁶. Digital literacy of consumers is one of the most important elements of financial literacy.

High risks related to payment facilities are often explained by insufficient personal data security ensured by payment services providers. In order to mitigate such risks, the Bank of Russia and Rostelecom PJSC have developed a list of security threats arising during processing, collection, storage, and validation of biometric personal data by government agencies, banks, and other institutions. The Ordinance was drawn up in order to ensure security of both biometric data and rights of individuals during the work therewith in the process of identification³¹⁷.

Efficient consumer protection has fundamental importance for shaping a competitive and transparent high-tech market of e-commerce payment instruments in the Russian Federation. Mechanisms of counteracting risks arising in the context of technological revolution and macroeconomic instability are vital for the State. In view of the above, Rosпотребнадзор

³¹⁶ Russians' Digital Literacy Index // Internet Technologies Centre Regional Non-Governmental Organisation official website: <http://цифроваяграмотность.рф/mindex/2018/>.

³¹⁷ Ordinance of the Bank of Russia No. 4859-U, Rostelecom PJSC No. 01/01/782-18 dated 09 July 2018 "On List of Security Threats Arising During Processing, Including Collection and Storage of Biometric Personal Data, Their Validation and Transfer of Information About Their Compliance With the Biometric Personal Data Provided by the Russian Federation Citizens to Government Agencies, Banks, and Other Institutions Within the Unified Biometric System As Per Paragraph One, Part 1, Article 14.1 of Federal Law No. 149-FZ dated 27 July 2006 "On Information, Information Technologies And Protection of Information".

considers it necessary to provide further improvement of its work on protection of the rights in course of supervision activities and applicable corrective actions.



Technologies development leads to significant changes in the e-commerce payment facilities market: some technologies leave the market (for example, payment terminals), others conquer it rapidly (e.g. contactless payments, including through mobile payment services). However, state regulation often fails to follow all the changes, thus, increasing risks related to the use of e-commerce payment facilities, which requires development of adequate means to mitigate such risks. Special attention shall be paid to cybersecurity measures, anti-fraud measures, and raising public financial literacy, including improvement of digital literacy.

2.6. Changes in Other Sectors of Financial Segment and Risks for Consumers

Pawn Shops

In 2018, the number of pawn shops, borrowers, and loan portfolios issued by such pawn shops has been decreasing, unlike other sectors of consumer lending.

According to the Bank of Russia, the portfolio of loans issued by pawn shops has decreased a bit (by 0.8% if compared to the data for 30 June 2018) to RUB 33.7 billion for 9 months of 2018. Total fall amounts to 3.2% as compared to the same period of 2017.

The number of borrowers also decreased to 2.6 million people (-0.9% if compared to the data for 31 June 2018) as of Q3³¹⁸.

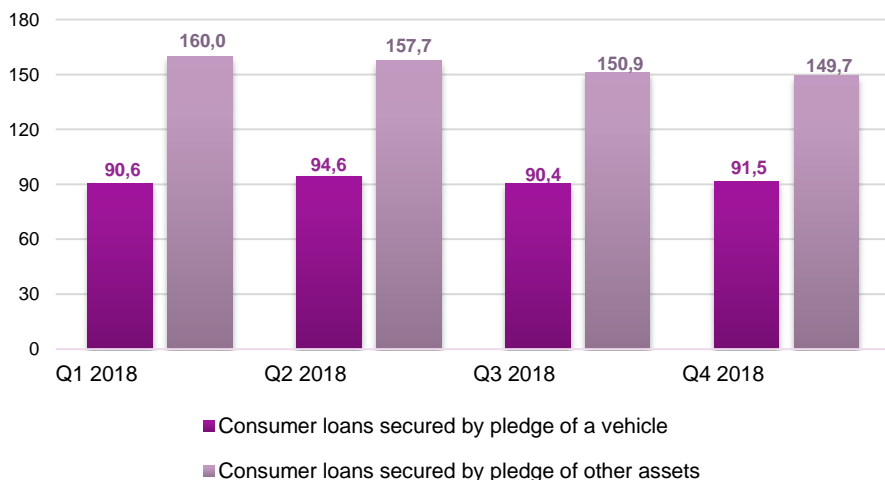
FOR REFERENCE

According to the study conducted by NAFI Research Centre, 8% of Russians have applied for the pawn shop services over the last 3 years, and 5% of Russian citizens plan to do the same in the future³¹⁹.

In Q4 2018, the average market True Interest Cost (TIC) for pawn shops amounted to 112.3%, and 68.6% for loans that were issued against vehicles as security. Thus, threshold amounts of TIC are 149.7% and 91.5%, respectively (applied to consumer loan agreements executed in Q2 2019).

During 2018, TIC thresholds calculated for auto pawn shops showed various dynamics, while TIC thresholds for loans issued against other property as security demonstrated a decrease (Figure 2.26)³²⁰.

Figure 2.26. Dynamics of TIC limit values of pawn shops, %



Source: Bank of Russia

FOR REFERENCE

According to the All-Russia People's Front, thousands of Russian citizens have lost their personal cars when applied to "shadow car pawn shops". As the experts of All-Russia People's Front working within the project "For Borrowers' Rights" say, there is an unscrupulous secured lending practice developing in Russia. The practice provides for a sale and

³¹⁸ Review of Key Performance Indicators of Microfinance Institutions for Quarter 3 of 2018 // Official website of the Bank of Russia https://www.cbr.ru/Content/Document/File/71165/review_mfo_18Q3.pdf.

³¹⁹ 8% of Russians Have Used Pawn Shop Services, 22 February 2018 // Official website of NAFI Research Centre: <https://nafi.ru/analytics/8-rossiyan-polzovalis-uslugami-lombardov>.

³²⁰ Information on Average Market Values of True Interest Cost of Consumer Credits (Loans) Issued by Pawn Shops, 14 February 2019 // Official website of the Bank of Russia: https://www.cbr.ru/Collection/Collection/File/14327/14022019_Jomb.pdf.

leaseback transactions, which is bypassing the Bank of Russia requirements. It is a sort of financial lease, under which an individual is both a lessor and a lessee at the same time. For instance, a person sells his/her property, a car, for example, to a leasing company, and executes an agreement with the same company under which receives the same property for rent.

This scheme allows such companies to ignore consumer loan legislation; and interest rates and forfeit amount provided for such agreements are unlimited. Another risk for a borrower arises from the company usually deliberately setting a lower price of a car in sale and purchase agreements.

In order to help Russian citizens define unscrupulous market players and keep their property, the experts of All-Russia People's Front working within the project "For Borrowers' Rights" have developed a leaflet in which they described all attributes of "shadow car pawn shops"³²¹ (Figure 2.27).

The State Register of Pawn Shops included records of 4,617 operating pawn shops as of 09 January 2019³²². This is 605 companies (or 11%) less than in 2017. The total number of new pawn shops registered in 2018 amounts to 346, and 951 pawn shops have been wound up (which is almost three times more)³²³.

However, if a pawn shop is excluded from the State Register, it does not always mean it discontinues its operations. It is often the case, that pawn shops wind up officially, but become "shadow" players and keep engaging clients under signs of a "Consignment Store" or a "Buyup". By doing this, they not only create unfair competition for law-abiding participants of the market, but also misinform their clients that sometimes do not understand the difference between a pawn shop and a consignment store. For example, in a pawn shop, there is a pledge agreement combined with a consumer loan agreement, a client is given a grace period - 30 calendar days to repurchase its property³²⁴, while in a commission or second-hand shop the client does not have this right and beyond the repurchase term the item shall be sold immediately. Also, upon sale of the non-repurchased item the client of a pawn shop may receive positive difference between the sale price of its property and the claim amount of the pawn shop as of the date of sale³²⁵.

As experts say, there are no fundamental factors that facilitate a decrease in demand for pawn shop services and, thus, a decrease in the number of such shops in Russia, except for stricter regulatory control by the Bank of Russia.

Some pawnshops that failed to accustom to the Bank of Russia requirements are looking for other options to stay in the market. There are specialised law firms in regions of Russia that are ready to convert a pawn shop into a consignment store, for instance, just for a few tens of thousands of Russian Rubles. After that, pawnshops legally continue their operation under the applicable legislation, provided that they do not use such words as "pawn shop" in their advertisements when they are no longer under the supervision of the Bank of Russia. This situation is known to the Bank of Russia, as well as to other government agencies. In order to resolve the issue, an interdepartmental commission has been established, but consignment stores still keep successfully developing their activities.

In order to tackle creditors acting in bad faith, the Bank of Russia has established separate structures. When an entity or an individual entrepreneur is found to illegally perform pawnshop activities or those of a consignment store under the sign of a "pawn shop", the regulator submits the relevant information to the law enforcement authorities for further inspection.

Nevertheless, the Bank of Russia recommends Russian citizens to exercise caution by carefully studying documents and entering into agreements only when all terms and conditions are clear.³²⁶

In order to mitigate risks for consumers of pawnshops services, the Bank of Russia prepared a new draft law providing for a change in the procedure for entering the market by pawnshops, as well as for their wind-up. According to the amended draft law, a pawnshop shall be entitled to perform its activities as of the date of entering the relevant record thereof into the Bank of Russia's Register of Pawn Shops, and lose such right as of the date of removal from the Register. Currently, pawnshops are automatically recorded into the Register as of the date of registration with the Federal Tax Service. Those pawnshops that already operate, shall confirm fulfilment of all requirements to be included into the Register within 1 year after adoption of the law.

³²¹ Experts of All-Russia People's Front Working Within the Project "For Borrowers' Rights" Have Developed a Leaflet to Help Russian Citizens Identify "Shadow Car Pawn Shops" That Take People's Money by Fraud, 22 April 2019 // All-Russia People's Front Information Resource: <https://onf.ru/2019/04/22/eksperty-onf-razrabotali-pamyatku-dlya-raspoznaniya-seryh-avtolombardov-kotorye>.

³²² The State Register of Pawn Shops, 22 April 2019 // The Bank of Russia official website: https://www.cbr.ru/Content/FileDocument/File/33636/list_PS.xlsx.

³²³ The Number of Pawn Shops Decreased by 11%, 15 January 2019 // Zaim.ru information portal: <https://zaim.com/news/novosti-dlya-lombardov/lombardov-stalo-menshe-na-11>.

³²⁴ Federal Law No. 196-FZ, dated 19 July 2007, "On Pawn Shops".

³²⁵ Pawn Shops Vs Commission Shops: Unequal Battle // Information portal <https://zaim.com/articles/lombardnyi-biznes/lombardy-vs-komissionki-neravny-boy>.

³²⁶ Credits Drop Off the Radar, 19 September 2018 // Rossiyskaya Gazeta website: <https://rg.ru/2018/09/19/chislo-oficialnyh-lombardov-sokratilos-do-piaty-tysiach.html>.

Figure 2.27. Leaflet of All-Russia People's Front "Signs of "Shadow Car Pawn Shops"



Source: Information Resource Web Publishing of All-Russia People's Front

The Bank of Russia also reconsiders approaches to exclusion of pawnshops from the Register. Now, the regulator liquidates pawnshops through the court, thus wasting a lot of time. In the new edition of the draft law, the Bank of Russia has suggested to exclude pawnshops from the Register in an extrajudicial procedure for the following violations: failure to execute a loan agreement secured with personal property or a property storage agreement within one year, and repeated infringement of legal requirements for anti-money laundering and financing of terrorism.

The new version of the draft law also provides for exclusion criteria in case of violation of pawn shops legislation, consumer loan law and the Bank of Russia's regulations: a pawn shop may be subject to exclusion from the Register based on these criteria only if the regulator applied at least two compliance enforcement measures within one year and the pawn shop violated the legislation 2 more times after that.

The regulator believes that due to these changes the market will become more transparent, and adequate control over its participants will be ensured.

However, pawn shop market participants believe that easing of some requirements provided for by the draft law is insufficient:

- Extrajudicial procedure for exclusion of pawn shops from the Register is fraught with a multitude of risks as it is subject to inspection authorities' subjective opinion, thus, may result in some abusive practices;
- The Regulator needs to give a specific description to violations to be taken into account when deciding whether to exclude a pawn shop from the Register, by making a closed list thereof, or consider only material violations and specify materiality criteria.

According to the Pawn Shops Development Association experts, new initiatives setting additional requirements for entering the market, as well as new grounds for losing the right to do business, will push away both existing and new players, especially considering the ongoing decrease in the number of pawn shops. Thus, availability of finances to specific social groups may be significantly reduced³²⁷.

Another suggested development is a draft law that obliges pawn shops to give a unique identification number to loan agreements and submit the data on these agreements to CRAs, as other credit institutions do. In case this draft law is adopted, a large part of clients of pawn shops will have their credit records ruined due to specifics of pawn shops operation, thus, these clients will be forced to apply to other institutions like consignment stores and buyouts the activities whereof are not controlled by the Bank of Russia. Pawn shops may lose over 1/3 of their clients, many will be forced off the market.

For example, a standard maturity period of loans issued by pawn shops is under 1 month. However, about 30% of pawn shops' clients do not plan to repay their debt intentionally, market participants say. Half of Russian citizens that come to get their belongings back, usually do it within the grace month after the maturity date, while a pawn shop is not entitled to sell these things, but the client had actually delayed his/her payments already. In case of the draft law adoption, many Russians coming to pawn shops may have their credit records ruined quickly even without knowing it. However, many pawn shops already started submitting information to the CRAs, as they are entitled to do so, but not obliged by law³²⁸.

If a pawn shop cooperates with a CRA, and a borrower fails to repay the loan with interests within the maturity period, it is mandatory for the pawn shop to inform the CRA about a delay. Therefore, the borrower's credit record will contain information about delayed payments. Even despite the fact that the borrower has no obligation to cover the debt, the information about such overdue payments will be shown in the borrower's credit records until the pawn shop sells the pawn, which may take a while.

It should be noted that any information about overdue payments might affect the borrower's credit rating in a negative way. The longer it takes a pawn shop to sell the pawn, the longer the borrower's credit record will contain such information.

³²⁷ Pawn Shops to Be Lined in the Register // Kommersant Newspaper, No. 178 dated 01 October 2018, p. 8.

³²⁸ Pawn Shops Do Not Want to Get Tangled // Kommersant Newspaper, No. 78 dated 10 May 2018, p. 8.

FOR REFERENCE

To know, whether a pawn shop is to inform the CRA, one shall carefully study the agreement. If it contains a clause on personal data transfer, there is a high chance the information will be given to the CRA. One may also ask the pawn shop employee, whether the company cooperates with the Credit Reporting Agency.

Currently, the Bank of Russia also investigates the issue and strives to prevent pawn shops from issuing loans the amount of which exceeds the pawn appraisal cost. Market participants are assured that this is a marketing ploy intended to keep loyal clients and receive a large profit. However, experts also share the regulator's concerns, as issuing a large amount of such loans may be a way of laundering money, including proceeds of crime³²⁹.

In 2018, Rospotrebnadzor continued to monitor and control the activities of pawn shops, including through territorial bodies. In April 2018, for example, the Rospotrebnadzor Regional Office in the Republic of Altai published a leaflet "Information for Consumers When Dealing with Pawn Shops" on its website³³⁰ to keep the consumers informed.

FOR REFERENCE

It should be noted that courts also pay more attention to the issues of financial consumer protection. For example, the Supreme Court of the Russian Federation ruled against pawn shops' practice of charging interests on loans at the initial and last dates of maturity period in January 2019, thus, it supported the Bank of Russia to some extent³³¹.

However, market participants claim such decision is not only to cut pawn shops' profits, but also to create a risk of pawn shops' involvement in illegal monetisation schemes.

Thus, one may highlight the following principal risks for pawn shop services consumers:

- Non-compliance with terms of the grace period established for property buy-out;
- Failure to receive a positive difference between the sale price of the property and the claim amount of the pawn shop as of the sale date in case the non-repurchased property sale;
- Exaggerated interest charges and undervalued cost of the pawn;
- Absence of the pawn insurance;
- Potentially ruined credit records;
- Money laundering and buyouts of stolen properties;
- Illegal monetisation;
- Activities of online fraudsters creating clone websites of real pawn shops;
- Activity of "shadow" pawn shops pretending to be consignment stores or buyouts.

Consumer Credit Cooperatives

As a result of activities of the Bank of Russia aimed at cleaning up the credit cooperation market from unscrupulous participants, the number of Consumer Credit Cooperatives (CCCs) and Agricultural CCCs goes down every year (Figure 2.28). The number of CCCs fell by 11.4% to 2,361 as of the end of September 2018; and the number of Agricultural CCCs decreased by 12.1% to 1,092.

According to the Bank of Russia, the CCCs' loan portfolio increased by RUB 1.7 billion (3.04%) to RUB 58.3 billion for Q3 2018. However, the total number of unit holders of CCCs decreased by 9.05% for the past 12 months. The amount of funds raised by CCCs as of the end of Q3 2018 grew by 4.5% against the same period of 2017 (from RUB 19.1 billion to RUB 19.9 billion).

However, the loan portfolio of Agricultural Consumer Credit Cooperatives (ACCCs) remained almost unchanged at RUB 15.1 billion (+0.3% per quarter) in Q3 2018. The amount of funds raised by ACCCs from their unit holders decreased by 4.3% (if compared to the same period of 2017) to RUB 2.9 billion as of the end of Q3 2018. There has been a small decrease of the total number of ACCC unit holders by 1.44%, as compared to the same period of 2017³³².

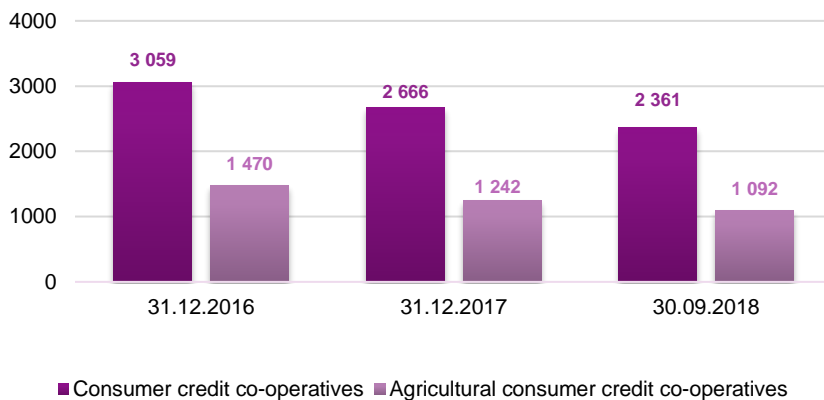
³²⁹ Pawn Shops Disagree With the CBR // Kommersant Newspaper, No. 15 dated 29 January 2019, p. 8.

³³⁰ Information for Consumers When Dealing With Pawn Shops, 16 April 2018 // Administration of the Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing in the Republic of Altai: <http://04.rospotrebnadzor.ru/index.php/consumer-information/faq/9025-16042018.html>.

³³¹ Decision of the Supreme Court of the Russian Federation No. 306-KG17-21297 dated 29 January 2018 for case No. A12-10977/2017.

³³² Review of Key Performance Indicators of Microfinance Institutions for Quarter 3 of 2018 // The Bank of Russia official website: https://www.cbr.ru/Content/Document/File/71165/review_mfo_18Q3.pdf.

Figure 2.28. Dynamics the number of consumer credit co-operatives and agricultural consumer credit co-operatives



Source: Bank of Russia

In 2018, Basic Standards approved by the Bank of Russia and regulating the CCC activities, irrespective of whether the CCC is a member of a Self-Regulatory Organisation (SRO) or not, have come into effect, including:

- Basic Standard for Corporate Management of a Consumer Credit Cooperative (approved on 14 December 2017, in effect since 21 January 2018);
- Basic Standard for Financial Market Transactions Executed by a Consumer Credit Cooperative (approved on 27 July 2017, in effect since 27 January 2018);
- Basic Standard for Consumer Credit Cooperative Risk Management (approved on 17 April 2018, in effect since 01 July 2018).

In order to ensure observance of rights and interests of recipients of financial services provided by CCCs, prevent unfair practices, ensure information transparency, raise public financial literacy, as well as improve the quality of services provided by CCCs, the Bank of Russia approved the Standard³³³ that has come into effect as of 01 January 2018.

The said document contains requirements for CCCs making it obligatory for them to disclose information about subsidiary liability of their unit holders in their advertisements. As experts say, not all unit holders understand that the subsidiary liability is shared by both investors and those who receive a loan, when they become members of the cooperative. Due to such disclosure requirement, unit holders shall make more weighted decisions when investing in a cooperative. The Standard also provides for CCCs' obligation to inform their unit holders that the latter are not members of the Deposit Insurance System.

The Standard also provides for requirements to overdue debt information structure. In case there is an overdue payment under the CCC loan agreement, the CCC shall inform the debtor of the overdue debt free of charge and within 7 calendar days, in order to prevent further increase of the debt burden. The CCC shall notify the debtor of the amount of the loan, interest, and other payments overdue, as well as of the procedure and terms of the debt repayment. The cooperative shall ensure that the financial service recipient is able to apply for debt restructuring, and review such application, provided that it contains grounds specified by the Standard (death, accident, assignment of disability of groups 1 and 2, etc.). However, the resolution on debt restructuring shall be made by the CCC.

Furthermore, the Standard requires CCCs to record and store information about all initiated telephone calls and other types of communication made with the debtor regarding the overdue debt repayment. To ensure compliance with these requirements, the Bank of Russia established a transition period; the requirements have come into force only as of 01 January 2019.

In 2018, the Bank of Russia continued its work on identification of fraud practices in the credit cooperation market.

In particular, in some cases, unit holders receive a specific amount of money, in addition to interest charged, as a "present" when they enter into a personal savings transfer agreement. Thus, the total amount of payments made in favour of a unit holder exceeds the permissible amount of interest payments made by a cooperative for invested funds application. According to the regulator, such practice brings significant risks of breaching CCC unit holders' rights and may have a detrimental effect on a company's financial strength.

Therefore, the Bank of Russia highlights that the maximum amount of payment (interest, consideration) made by a cooperative for using the unit holder's investments shall not exceed 1.8 of the key interest rate established by the Bank of Russia as of the personal savings transfer agreement date, as per the Basic Standard for Transactions in Financial Market. The regulator suggests that the CCCs' SROs should strengthen control over their unit holders; and as such failure is rough and deliberate, SROs shall take relevant measures, even exclude CCCs in default from the list of Self-Regulatory Organisation members³³⁴.

³³³ Basic Standard on Protection of Rights and Interests of Individuals and Legal Entities – Recipients of Financial Services Provided by Members of Self-Regulatory Organisations in Financial Market Involving Consumer Credit Cooperatives, approved by the Bank of Russia on 14 December 2017 // The Bank of Russia official website: <http://www.cbr.ru/Queries/UniDbQuery/File/47448/9>.

³³⁴ The Bank of Russia to Take Measures Against CCCs' Fraud, Misselling, and Illegal Creditors Issuing Loans Against Security of Immovable Property, 25 April 2018 // The Bank of Russia official website: <https://www.cbr.ru/press/event?id=1787>.

FOR REFERENCE

At present, the Bank of Russia together with interested financial market participants is implementing the project “Improvement of Regulation and Development of Credit Cooperation Market”, with the strategic objective of “developing a steady market of credit cooperation with a wide range of financial services”. Estimated duration of the project: from July 2015 to May 2019.

The project provides for an increase by 2019 of the total assets of credit cooperation up to RUB 120 bln, vesting of credit cooperative members with the right to receive compensation in the established amount for personal savings in case of the insured event, as well as 20% increase in the funds raised from non-members of the CCC.

To achieve the stated targets, it is planned to establish a common system of protection of savings of CCC members, improvement of compliance with cooperation principles, expansion of a range of financial services provided by CCCs³³⁵.

As per the Bank of Russia, over one third of all pyramid investment schemes identified in 2018 have been operating as CCCs. Special interest to CCCs from the part of unscrupulous entrepreneurs has the following grounds:

- Easy registration of a cooperative as a full-fledged participant of the financial market with an ability to attract peoples’ investments and advertise own services;
- Availability of a formal insurance and guaranteed investments system that brings exceeded expectations from the part of unit holders regarding safety of their savings;
- Weak supervision by SROs over their members’ activities.

Within the framework of combatting fraud in the CCC market, the Bank of Russia plans to publish its improvement notices on suspension of CCCs activities on its website. Thus, the regulator attempts to prevent cooperatives from refusing to return investments to their unit holders referring to the Bank of Russia restrictions, as well as engage new unit holders and raise their money, even despite the restrictions in place. Furthermore, it plans to publish information about fulfilment of the improvement notices and discontinued supervision over compliance therewith; issued improvement notices shall contain recommendations for cooperatives to inform their unit holders of such improvement notices issue at the service locations. Moreover, the Bank of Russia highlights that implementation of an improvement notice does not prevent a cooperative from making payments to its unit holders under personal savings transfer agreements.

Market participants say that accessibility of information about an improvement notice will facilitate consumer risks mitigation. It is often the case that CCC employees deliberately misinform unit holders of loan issuing restrictions, thus, delaying the savings repayment period and simultaneously trying to establish a cooperative with a similar name to engage new unit holders or developing other unscrupulous schemes. Experts believe that this information published on the Bank of Russia website will help potential unit holders understand whether the cooperative is actually functioning, and whether it is working in good faith or not, before they make their investments. Existing CCC members will be able to confirm whether the improvement notice is actually in existence and address the SRO to check the legitimacy of the CCC’s actions in case the latter refuses to return the investments³³⁶.

Therefore, one may highlight the following principal risks for individuals being CCC unit holders:

- Lack of obligatory insurance schemes for CCC unit holders;
- Absence of credit cooperation from the scope of the Law “On Consumer Rights Protection”, thus, Rospotrebnadzor has no authority to protect consumers being CCC unit holders;
- Activity of unscrupulous CCCs that fail to return investments to their unit holders;
- Risky CCC lending policy providing for CCCs granting their unit holders’ funds to unreliable clients;
- Use of CCCs as a cover for pyramid investment schemes.

Securities Market

Traditional mechanisms of consumer protection are not applied to those individuals that operate in the securities market as such activity provides for a calculated risk and is based on a will to gain profit. Nevertheless, this financial market sector is still under supervision by Rospotrebnadzor due to high level of risks, especially for vulnerable social groups, including those with poor financial literacy.

In order to gain better trust of Russian citizens to the financial market to facilitate further inflow of private investments into the Russian economy and improve the standard of living in general by providing citizens with clear and reliable investment protection tools, Draft Law No. 618877-7 “On Amendments to Federal Law “On Securities Market” and Certain Legal Acts of the Russian Federation” was introduced to the State Duma of the Russian Federation in December 2018.

FOR REFERENCE

Over 0.5 million private investors were registered in the Moscow Stock Exchange in the spring of 2019. Their number has grown by over 7 times in the past 4 years.

³³⁵ Public Consultation Paper “Credit Cooperation Development”, 03 October 2017 // The Bank of Russia official website: http://www.cbr.ru/content/document/file/50692/consultation_paper_171003_01.pdf.

³³⁶ CB to Disclose Restrictions for CCCs // Kommersant Newspaper, No. 19 dated 04 February 2019, p. 8.

The Draft Law provides for brokers to divide their clients being individuals into categories before they fulfil their first order to buy securities and/or enter into contracts being derivatives.

Clients are to be divided into the following categories:

- Specially-protected unqualified investors;
- Ordinary unqualified investors;
- Ordinary qualified investors;
- Professional qualified investors.

There are criteria defined for each category to be met by an individual; and professional securities market participants, unit investment fund management companies, credit institutions, and insurance entities are subject to special requirements for transactions with investors being individuals related to a specific category. Due to this, a higher level of protection is ensured for individuals that have no sufficient knowledge and/or skills to operate in the financial market.

When dividing individuals into categories, a broker is to validate the data provided by a client.

In case a client is falsely categorised as a qualified investor, and a broker executed transactions with such client on derivatives available only to qualified investors, the broker shall be obliged to purchase securities as per the client order but at its own account, and reimburse for all expenses incurred under such transactions, including fees paid to the broker, depository, and stock exchange. Furthermore, the broker is to reimburse the client for all losses and damages incurred by the client due to execution and fulfilment of contracts being derivatives.

Moreover, the broker is entitled to execute securities and derivatives purchase transactions following the client order, provided that the client is a specially-protected unqualified investor or an ordinary unqualified investor, and financial instruments are not intended for qualified investors; and the amount of such transactions shall not exceed RUB 5 thousand per annum³³⁷.

According to Rospotrebnadzor, even despite the improved security for investors, there are still some risks like inability to early terminate the contract without losing the client's assets; Additional fees and services (for example, currency conversion, leverage, exchange fee, special account maintenance fee, professional consultancy fee).

Vulnerable social groups, including retired persons and people with low level of financial literacy, usually engaged by securities market participants to the greatest possible extent, are at risk.

It is often the case that a person from the "risk group" is left with debts even after selling his/her residential property.

The Chinese experience is remarkable in this regard, as unqualified investors have lost huge amounts of money during "investment rush".

Taking into account fast growth of private investments, one needs to take further actions to improve individuals' protection in the securities market, in particular, protection against misselling and aggressive engagement of retired people and those with low level of financial literacy, and other vulnerable social groups into the securities market shall be ensured.

Credit Reporting Institution

Russian citizens have an option to check their personal credit rating since 31 January 2019³³⁸. Credit rating is a point automatically calculated based on the credit record of an individual. The credit rating is affected by the following factors: late credit payments, debt burden level, number of requests to check own credit record, "age" of credit records, etc. The higher the rating is, the lower the credit risk of a person and the possibility for loan rejection are. For the borrower, it is not the credit rating point that is the most important, but the risk range to which it is related: high, medium, or low³³⁹.

FOR REFERENCE

Joint Credit Reporting Agency analysts have assessed the individual credit rating of Russians living in various regions of the country based on the data on 77.7 million citizens that have ever been granted a credit in a bank or a loan in an MFI, information whereof is stored by the Agency.

High credit rating is assigned to 78% of Russian citizens (or 60.6 million people), 9% of Russians (or 7.4 million people) have a medium rating, and 13% (or 9.8 million people) have a low credit rating.

The largest share of citizens having a high credit rating lives in Moscow (84%), the Chukotka Autonomous District and the Ryazan Region (83% each), the Penza, Orel, and Bryansk Regions, Saint-Petersburg, and the Republics of Mordovia and Chuvashia (82% each).

The largest share of citizens having a low credit rating lives in the Republic of Tyva (29%), the Republic of Altai (22%), the Republic of Buryatia and the Karachay-Cherkess Republic (19% each), the Republic of Khakassia, the Trans-Baikal Territory, the Kabardino-Balkarian Republic, the Republic of North Ossetia, and the Kemerovo Region (18% each)³⁴⁰.

³³⁷ Draft Law No. 618877-7 "On Amendments to the Federal Law "On Securities Market" and Certain Legal Acts of the Russian Federation".

³³⁸ Federal Law No. 327-FZ dated 03 August 2018 "On Amendments to Federal Law "On Credit Records".

³³⁹ Personal Credit Rating Law Is in Effect in Russia, 31 January 2019 // RBC portal: <https://www.rbc.ru/society/31/01/2019/5c527ba09a794726ba6bf594>.

³⁴⁰ 60.6 Million Russians Have a High Credit Rating, 29 January 2019 // Joint Credit Reporting Agency official website: <https://bki-okb.ru/corp/analitika/606-million-rossiyan-imeyut-vysokiy-kreditnyy-reyting>.

Each CRA uses its own model with a specific set of variables affecting the final rating point. However, the Bank of Russia discusses practicability of applying a unified rating method with market participants.

To get their credit records and individual credit rating data, Russian citizens shall address the Credit Reporting Agency. In order to know which CRA keeps an individual's personal credit record, one may use an independent free-of-charge service available on Gosuslugi website³⁴¹. It should be noted that there have been 13 CRAs registered in the State Register of Credit Reporting Agencies as of 12 April 2019.

FOR REFERENCE

As of 01 January 2019, the National Credit Reporting Agency (NCRA) database contained credit records of 96 million Russians. Credit records have been compiled by over 4,200 creditors: banks, microfinance institutions, consumer credit cooperatives, and other types of organisations. These credit records contain information about credit applications, credits issued and repaid, as well as about servicing credits during the credit agreement validity period³⁴².

There are several ways to receive a credit record from a CRA:

- Through the CRA website;
- Personally at the CRA office;
- By e-mail based on a digital application signed by an enhanced encrypted and certified digital signature;
- Based on an application certified by a Notary Public and submitted by mail;
- By sending a certified telegram.

The Law "On Credit Records" also contains the following amendments³⁴³ presented in Table 2.2.

Table 2.2. Overview of Amendments to the Law "On Credit Records"³⁴⁴

Before 31 January 2019	After 31 January 2019
1. Extended validity of a subject's consent to provide the user with his/her credit record report	
The consent had been valid for 2 months since the date of issue. Therefore, clients had less time to execute an agreement not to get a new consent.	The subject's consent is now valid through 6 months since the date of issue. If a credit/loan agreement is executed with the credit record subject, the consent shall be valid throughout the whole agreement validity period.
2. Amended period for storage of the principal part of credit record	
Creditors had been obliged to store an original copy of the consent for 5 years after the credit/loan agreement expiry date. In case no such agreement had been executed, the 5-year term commenced after the consent expiry date.	The credit record subject's consent to receipt of its principal part had been subject to storage by a user for 3 years after the consent expiry date. CRAs are entitled to request the consent at any time.
3. Borrowers can obtain their credit record reports more frequently	
Borrowers could obtain their reports only once a year. The report could have been provided in any form and format (digital or hard copy).	The credit record subject is entitled to obtain his/her report from any Agency that keeps his/her record at most twice a year. A free-of-charge printed copy of the credit record report is available only once a year.

In 2018, an issue related to mistakes made by creditors when transferring the data about obligations to the CRA had become worse. It appeared that many banks deliberately ruined their borrowers' credit records to keep their clients. When seeing a poor credit rating, other financial market entities refuse to issue credits/loans to consumers or provide such loans under terms and conditions that are significantly worse than suggested to a prompt payer. Thus, clients are forced to use services of the bank that has ruined their credit records.

FOR REFERENCE

According to the Joint Credit Reporting Agency estimates, creditors ruin less than 0.5% of credit records. Equifax estimates vary between 2% and 3%³⁴⁵.

At the end of September 2018, the news broke that the Bank of Russia identified 3 functioning banks that had been ruining their clients' credit records. Thus, borrowers had been seeing inadequate data in their credit records for a long time

³⁴¹ Credit Reporting Agency Data // Public Service Online Portal official web-site: <https://www.gosuslugi.ru/329476/2>.

³⁴² As From 31 January 2019, Russians Can Receive Their Credit Record Reports on NCRA Website, 04 February 2019 // National Credit Reporting Agency official website: <https://www.nbki.ru/company/news/?id=22477>.

³⁴³ Federal Law No. 327-FZ dated 03 August 2018 "On Amendments to Federal Law "On Credit Records".

³⁴⁴ It Is Now Easier to Work With Credit Records: Overview of Changes, 31 January 2019 // ConsultantPlus legal reference system: http://www.consultant.ru/document/cons_doc_LAW_306639.

³⁴⁵ How Banks Ruin Your Credit Record, 05 October 2018 // Banki.ru Information Agency: <https://www.banki.ru/news/daytheme/?id=10687165>.

(1.5 years). These systematic disturbances had been found by the Bank of Russia due to application of a set of measures. Each bank had been subject to improvement meetings, a road map had been developed to transfer the information to the CRA, with all stages and terms agreed.

The regulator also performed a similar revision of the banks at its own discretion. To do so, it had sent requests to CRAs to understand and evaluate adequacy of the information provided by market participants. Hence, the Bank of Russia identified 12 banks that transferred the data to CRAs with a huge delay (2 banks are among TOP-10 banks by asset size). The regulator took compliance enforcement measures, the banks received improvement notices requiring them to remedy their failures³⁴⁶.

Therefore, with regard to the activity of the institution of credit records, it is possible to specify the following principal risks that consumers face:

- Mistakes made during transfer of the data on borrowers fulfilling their obligations (a borrower's profile may include the data on late payments that never happened, as well as "third party's" obligations, for example, if fraudsters received a credit on behalf of another person);
- Late transfer of information about the client (the information shall be submitted to a CRA within 5 business days);
- Limited unauthorised access to citizens' personal credit records;
- Insufficient level of financial literacy and lack of understanding by citizens of how important it is to regularly check their credit records.

Pyramid Investment Schemes

Activities of pyramid investment schemes still represent a substantial risk for financial service consumers. Usually, pyramid investment schemes engage new clients using aggressive advertisement, promising them a high yield, and often use symbols that resemble well-known financial entities' logos.

The Bank of Russia is challenging these fraudsters. On the regulator's web-site, in "Frequently Asked Questions" section, there are recommendations that help identify pyramid investment schemes, as well as information about measures the Bank of Russia takes to neutralise such fraudulent activities.

There are several features common for all "pyramid schemes":

- absence of license for funds attracting;
- promise of high yield by several times exceeding the market level;
- yield assurance (prohibited in the market of securities);
- massive advertising in the mass media, on the Internet;
- absence of information on financial position of the entity;
- disbursements to new participants out of funds previously paid by other depositors;
- absence of own fixed assets, other high cost assets;
- absence of clear determination of the entity's activities.

The Bank of Russia highlights that having these attributes is not enough to clearly (unmistakably) refer an organisation as a pyramid investment scheme. For law enforcement authorities and supervision authorities, these attributes are just a signal that an organisation that has these attributes requires inspection³⁴⁷.

FOR REFERENCE

Pyramid investment schemes are explicitly forbidden in many jurisdictions around the world. In China and United Arab Emirates, founders of such pyramid schemes may be even subject to death sentence.

The Russian legislation provides for both administrative liability for raising of funds to pyramid investment schemes, as well as for their advertisement (maximum amount of the fine is RUB 1 million), and criminal liability under which criminals may be sentenced to jail for up to 4 years (up to 6 years in case of large-scale fraud).

In 2018, the Bank of Russia identified 168 pyramid investment schemes, of which 72 had been arranged as limited liability companies, 58 – consumer credit cooperatives, 5 – consumer cooperatives, 18 – Internet projects, and 15 had other forms. From 2015 to 2018, the Bank of Russia identified over 685 entities and Internet projects with attributes of pyramid investment schemes. In particular, 200 schemes were identified in 2015, 180 – in 2016, and 137 – in 2017.

According to representatives of the Bank of Russia, the increasing number of identified pyramid investment schemes does not mean that their actual number is growing, it is just a result of an adjusted approach to identification of illegal financial organisations. In particular, the Bank of Russia established a Centre of Competence for Countering Illegal Activity in Krasnodar, as well as 7 specialised units to identify pyramid schemes and illegal activities within regional branches. A Centre of Competence for Countering Pyramid Investment Schemes had been opened in Khabarovsk at the end of 2017³⁴⁸.

One of the largest organisations identified in 2018 that had attributes of a pyramid investment scheme was Cashbery

³⁴⁶ How Banks Ruin Your Credit Record, 05 October 2018 // Banki.ru Information Agency: <https://www.banki.ru/news/daytheme/?id=10687165>.

³⁴⁷ About Pyramid Investment Schemes // The Bank of Russia official website: <https://www.cbr.ru/reception/faq/finp>.

³⁴⁸ Cashbery Story Is Yet To Resolve, 05 February 2019 // PRIME Business News Agency website: <https://1prime.ru/finance/20190205/829680982.html>.

Group of Companies, the Bank of Russia estimated the damage caused by the company at RUB 3 billion.

To engage new clients, Cashbery used an aggressive advertisement technique, however, it targeted social groups with lower financial literacy. For instance, Cashbery promised its clients up to 600% yield per annum, which supposedly could have been gained from investments in securities, cryptoassets, as well as from issuing microcredits.

Now, almost every activity involving the use of peoples' money requires a license. However, if a company has a license, it still does not mean it is 100% reliable.

One of the best examples is Ankor Invest company that raised funds from the wealthy, usually, under a guaranteed interest. Managers of the company promised their clients a high, but not excessively high income from investments in American securities – up to 12% per annum. However, unlike other pyramid investment schemes, Ankor Invest had almost no advertisement, as the company had been paying out the interest it promised for a few years, information about the company's good reputation had been spreading among citizens, thus, attracting new investors.

Total amount of losses incurred by Ankor Invest's clients remains unknown, but experts estimate potential losses of over RUB 13 billion³⁴⁹.

FOR REFERENCE

Russian citizens have become more cautious when it comes to investments, this is confirmed by a survey conducted by NAFI Research Centre in September 2018. However, the percentage of those able to correctly identify a pyramid investment scheme among potential savings and investment instruments remains practically the same.

Within the survey, respondents were asked to find a pyramid investment scheme in the list of various investment instruments: from bank deposits to unit investment funds. The correct answer was: "A financial entity promising a 35% income from investments in one year".

Every fourth respondent gave the right answer (24%). For 18% of respondents it was hard to pick up a right option (the share of such people has been gradually decreasing since 2009); and 15% of participants could not see a pyramid scheme among the suggested options. The largest share of those who identified a pyramid investment scheme is represented by people who live in Moscow and Saint-Petersburg (33%), have a higher education (27%), more rarely these are people living in villages (19%) and unemployed persons (19%).

Furthermore, the share of Russians who mistrust any savings and investment instruments has grown – 22% of respondents believe these instruments to be various forms of a fraud (increase by 5 pp from 2017).

Every 10th Russian citizen (11%) believes that a bank offering deposits with 7% income per annum is a pyramid scheme; 7% of Russians share this point of view on unit investment funds that claim to have a 35% yield over the past year; 3% of respondents see pyramid schemes in bank-managed mutual funds offering certificates of participation³⁵⁰.

In order to minimise financial losses Russian citizens incur when using fraudulent websites, the State Duma of the Russian Federation adopted a Draft Law in the first reading on 24 January 2019³⁵¹. It vests the Bank of Russia with powers to block websites that advertise pyramid investment schemes, as well as financial services of companies that are not authorised to provide such services by law. It is suggested that these websites are recorded into a unified register of pyramid investment schemes and false financial entities' websites.

The Draft Law also vests the Bank of Russia with the right to apply to court to protect rights, freedoms, and legitimate interests of citizens with regard to publication in the Internet of information which may be used to gain access to information systems of financial institutions, electronic payment systems, and clients' devices. Based on the Bank of Russia's written request, the court may decide to apply pre-action remedies before the claim is filed, as well as oblige the defendant and other parties to ensure restricted access to the website on which the said information has been published.

However, experts within the industry claimed that the Draft Law needs major amendments. It contains no criteria based on which the content of any website may be qualified as a financial fraud and blocked. Objectives of the Draft Law may be reached even with the current legal mechanisms.

In 2018, even despite the proactive work of the Bank of Russia and law enforcement authorities against pyramid investment schemes, the so-called "anti-pyramid" articles (Art. 172.2 of the Criminal Code of the Russian Federation and Art. 14.62 of the Code of the Russian Federation on Administrative Offenses) have not been largely used. Only 5 cases had been opened following Art. 172.2 of the Criminal Code of the Russian Federation (Administration of Money and/or Other Property Attracting Activities) in the year under review. No pre-trial investigation on any of the said cases had been completed, thus, no case had been brought to court. Only 1 case had been opened following Art. 14.62 of the Code of the Russian Federation on Administrative Offenses (Administration of Money and/or Other Property Attracting Activities). These articles proved useless and hardly suitable for use in the law enforcement practice. Vast majority of cases filed against pyramid investment schemes are usually investigated under Art. 159 of the Criminal Code of the Russian Federation ("Fraud"). Law enforcement authorities have huge experience in combatting fraud, however, investigations commenced under this article are usually carried out after the fraud had taken place and people had been affected. For pyramid investment schemes, this means that the project completion had been initiated by fraudsters, and all misappropriated funds

³⁴⁹ Damage Caused by Pyramid Investment Schemes to Be Record This Year, 25 November 2018 // Finansovaya Gazeta Electronic Publishing: https://fingazeta.ru/ekonomika/rossiyskaya_ekonomika/452573.

³⁵⁰ Pyramid Investment Schemes Cause Distrust to All Forms of Investments and Savings, 02 November 2018 // Website of NAFI Research Centre: <https://nafi.ru/analytics/finansovye-piramidy-porozhdayut-nedoverie-ko-vsem-formam-investitsiy-i-sberezheniy>.

³⁵¹ Draft Law No. 605945-7 "On Amendments to the Federal Law "On Information, Information Technologies And Protection of Information" and the Civil Procedural Code of the Russian Federation.

had gone already.

Furthermore, as Article 172.2 of the Criminal Code of the Russian Federation provides for a significantly milder punishment, unlike the “Fraud” article, defendants’ lawyers often attempt to reclassify the fraud case into a pyramid investment scheme case. The Federal Fund for Protection of the Rights of Depositors and Shareholders drew attention of the Bank of Russia, the State Duma of the Russian Federation, and the Government of the Russian Federation to the need to amend the wording in Articles 172.2 of the Criminal Code of the Russian Federation and 14.62 of the Code of the Russian Federation on Administrative Offenses at the end of 2017 – beginning of 2018. In particular, it was suggested to establish a maximum punishment provided for by Article 172.2 of the Criminal Code of the Russian Federation in line with that stipulated in Article 159 of the Criminal Code of the Russian Federation. Furthermore, as one of the criteria to define the company’s investment activity due diligence, it was suggested to use not only the fact of carrying out investment or any other business activity, but also a requirement to ensure that such activity could actually provide investors with the promised yield under the project.

In 2018, the Federal Public State Fund for Protection of the Rights of Depositors and Shareholders (hereinafter referred to as the Fund) continued its work. As of 31 December 2018, compensation payments have been paid to 1.47 million Russian citizens for a total amount of RUB 2,055 million.

Compensation payments are paid by the Fund following the Procedure for Compensation Payments to Citizens Suffering Damages in Financial and Exchange Markets of the Russian Federation. Compensation payments are provided only to citizens of the Russian Federation being depositors and shareholders of entities included in the Register of Legal Entities and Individual Entrepreneurs.

There have been 529 entities included in the Register as of 31 December 2018³⁵².

FOR REFERENCE

For instance, MMM is not included in the payment list, as MMM-issued certificates do not state the amounts of money invested. Hence, it is impossible to state the amounts invested by the citizens. The right to Compensation Payments is granted only to those who are able to provide original copies of financial papers confirming their investments. Such papers include agreements, books on operational activity, promissory notes, cash receipts.

Misselling and Other Fraud Schemes in Financial Market

Increased number of transactions, ways of cooperation between non-credit financial institutions and consumers of financial services, and launch of new financial products to the market inevitably result in growth of risks, as well as in continuous “evolution” of improper methods, development of new hi-tech and ambiguous (fraudulent) schemes and unfair practices that strengthen negative influence on both the financial market as a whole, and its participants in particular. In these conditions, the role of Rospotrebnadzor, the Bank of Russia, judicial and law enforcement authorities, as well as other subjects that exert significant influence on shaping the financial relations environment is increasing when it comes to establishment of the environment for constructive cooperation between financial market participants, as well as to development of an effective system to mitigate adverse effects of fraud.

In the Concept for Prevention of Fraud in the Financial Market published on 31 October 2018, the Bank of Russia listed main reasons for unfair practices, their basic schemes, as well as outlined measures to prevent fraud in the financial market.

In particular, the Bank of Russia outlined the following major drivers of fraud in the financial market:

1. Insufficient regulatory and legal control and unbalanced practices;
2. Invalid and biased information used to make decisions; insufficient information exchange;
3. Tolerance of consumers to financial abuses and low level of their financial literacy;
4. Financial entities hiding information about actual situation with assets;
5. Difficulties with identification, investigation, and prevention of financial crimes.

The Bank of Russia mentions that fraud risk spectrum is constantly evolving, therefore, measures to tackle these illegal actions shall be concentrated not only on individual cases³⁵³, but on neutralising sources of issues.

The Concept provides for the following key areas to increase effectiveness of anti-fraud measures in the financial market:

- Identification and remedy of regulation gaps and imbalanced practices in the segment of non-credit financial institutions;
- Solving of issues related to invalid and biased information used to make decisions, and insufficient information exchange;
- Raising financial literacy among financial services consumers;
- Support of actions taken by law enforcement authorities to prevent, investigate, and stop crimes in the financial market;
- Improvement of identification tools used during supervision to find practices related to financial entities hiding information about actual situation with assets.

³⁵² Register of Legal Entities and Individual Entrepreneurs Shareholders Whereof Are Subject to Compensation Payments // The Federal Public State Fund for Protection of the Rights of Depositors and Shareholders official website: http://fedfond.ru/compensation_payments/companies_registry.

³⁵³ Case is a real situation used as a basis for analysis aimed at systemisation of issues and/or review of theoretical ideas.

Among general trends attributable to all financial markets, the Bank of Russia gives special attention to the area related to fraud in provision of financial services, including hard selling financial services to a consumer by applying specific methods (so-called “misselling”). This is common for typical situations when a financial institution representative misrepresents or conceals from a client actual terms and conditions of a transaction while selling a financial product, as well as takes advantage of a low level of the client’s financial literacy.

Such improper execution of a transaction with a product or a service may take place involuntarily, for example, when a person fails to pay proper attention to the terms and conditions of a transaction during its execution, or a consumer misinterprets what the seller says. In other cases, such improper execution of a transaction with a financial product or services may be a result of deliberate actions taken by the seller (in order to gain additional bonuses) or an unscrupulous policy implemented by the financial institution.

In the financial market, such fraud behaviours are inherent to the insurance sector, for example:

- Hard selling of additional services when concluding an OSAGO contract;
- Automatic execution of life investment insurance agreements when opening bank deposits;
- Life or health insurance services are provided without explaining the terms and conditions of the relevant agreement when issuing a microloan to a client.

Furthermore, such fraud behaviours are also attributed to other financial institutions:

- When raising funds from Russian citizens, there are cases when sellers used the word “deposit” while giving an oral consultation to a client and referring to investment products, as well as provided unreliable information about return and “insurance” of investments, thus potentially misinforming the investor of reliability of investments;
- In compulsory pension insurance, fraud practices in selling financial services are observed among intermediaries that are involved in attracting new clients to Private Pension Funds (PPFs). They misinform their clients regarding the need to transfer their savings from the Pension Fund of the Russian Federation to a PPF, however, such intermediaries fail to draw their clients’ attention to negative consequences when executing an agreement, such as a loss of accrued investments income in case of early change of the fund;
- In the securities markets, fraud is also common, as sellers offer financial services of international companies (both in offices of financial institutions subject to control by the Bank of Russia, as well as in consulting/training centres).

Every year, the Bank of Russia’s Consumer Rights Protection and Financial Services Accessibility Service identifies multiple cases of misinformation of clients by financial institutions regarding potential risks of investments, and applies relevant measures to such financial institutions.

Furthermore, the regulator mentioned that a large share of banks focuses on selling investment products when dealing with clients being their potential investors, thus, such banks arrange sales in a way detrimental to their clients’ actual interests and fail to provide potential investors with complete information about the transaction.

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There are more exotic cases of misselling. Job loss insurance policy was sold to an unemployed person³⁵⁴.

The most common cases of misselling are sales of vacuum cleaners during their free-to-charge demonstration held in a potential client’s apartment (house). It is often the case that the sale is arranged through a credit agreement (when the seller uses the services of a partner bank) due to a high sales price of the vacuum cleaner.

However, the quality of such vacuum cleaners is sufficient. Usually, these are ordinary vacuum cleaners of medium price range (in the manufacturer’s country); inflated price is formed due to special sales methods applied and persuasion to buy the product immediately at demonstration of its operation.

According to the Bank of Russia, such practices may not only cause damages to consumers, who have not been informed of such risks, but also result in loss of trust of consumers to the financial market in general³⁵⁵.



In 2018, the Regulator continued strengthening supervision of the financial services market. State authorities plan to further improve regulatory framework and protect consumers from unscrupulous financial market participants. However, stronger regulation often results in development of a “shadow” market, thus, putting clients at new risks and requiring closer attention to be paid by Rospotrebnadzor, including through public awareness campaigns.

³⁵⁴ What Is Misselling? What Bank Fraud Schemes Can Be Tackled With Laws, 05 October 2018 // REGNUM information agency official website: <https://regnum.ru/news/2495403.html>.

³⁵⁵ Letter of the Bank of Russia No. 59-3-5/72149 dated 12 October 2018 “On Credit Institutions Activities and Prevention of Fraud in Selling Financial Instruments and Services (Misselling)”.

3. Participation of Rospotrebnadzor in the International Cooperation for Financial Consumer Protection

3.1. Development of Activities of the United Nations Organization in the Field of Financial Consumer Protection



The United Nations Guidelines for Consumer Protection (hereinafter referred to as the “UN Guidelines”) adopted in 1985 at the meeting of the UN General Assembly is a core document used by most countries in the world to adopt legal framework in the sphere of consumer protection, including consumers of financial services.

It should be noted that the UN Guidelines revised in 2015 cover physical safety; promotion and protection of consumers’ economic interests; safety and quality of consumer goods and services; access to essential goods and services; effective dispute resolution and redress; consumer education and awareness raising programs; promotion of sustainable consumption; measures related to specific areas; e-commerce; financial services, and national consumer protection policy.

Within the framework of the United Nations Conference on Trade and Development (hereinafter referred to as UNCTAD), the new version of the UN Guidelines established the Intergovernmental Group of Experts on Consumer Protection Law and Policy (hereinafter referred to as the “Intergovernmental Group”), which main purpose is assessment of application of the UN Guidelines.

In November 2018 the Ad Hoc Expert Group Meeting on Consumer Protection Law and Policy arranged a forum to discuss emerging global trends and challenges in consumer protection. A major discussion point was consumer protection and digital platforms³⁵⁶.

Head of the Intergovernmental Group, Teresa Moreira pointed out that the variety of online offerings brings both enormous benefits and a risk of harm. Children, vulnerable and disadvantaged people and those without technological savvy are at most risk.

At the moment the main issues are connected with cross-border e-commerce, peer-to-peer transactions, data protection, trust, and digital literacy. According to UNCTAD in 2016 soaring flows of data and information generated more economic value than the global goods trade. For example, in 2014 international flow of data brought \$2.8 trillion to the global economy that was more than a third of all global trade flows. Beyond these issues, the forum stressed a need to protect consumers in online dating, gambling, and booking services cases.

Online consumers’ behavioural patterns often influence on their choices in ways that they may not be aware of being manipulated and encouraged to make purchases they did not plan to make. This is also facilitated by the influence of celebrities and social media stars, which is also a type of unfair marketing. Another problem with online transactions is subscriptions to certain sites, which force a consumer to make purchases or cause pressure with the help of countdown windows in the online shopping window.

To solve these problems, negative examples of consumer actions can be published, for example, in a case of treatment on the hotel booking site, which show how a consumer makes unprofitable transactions, being sure that he received some advantage.

The protection of personal data and consumer privacy are also of concern to regulators in the field of consumer protection. The importance of deciding how to protect existing consumer rights in the digital age and, as a result, develop personal data rights and privacy protection was emphasized. Since consumer confidence in e-commerce is based on data protection, sellers should be interested in considering these issues.

Another important step towards financial consumer protection is minimizing abuse by digital giants such as Facebook and Amazon. Participants of the meeting of Latin American consumer protection and competition agencies in Santo Domingo on June 7-8, 2018 noted that the growth of digital companies leads to abuse. One of the threats for consumers of digital giants — Google, Facebook, Microsoft — is that first, they attract the attention of consumers, and then hold the attention, in the third stage, consumers form the dependence, and in the fourth stage are forced to look in the direction of its commercial benefit, UNCTAD Secretary-General Mukhisa Kituyi stressed³⁵⁷.

In 2018 UNCTAD published the Report “Achieving the Sustainable Development Goals through Consumer Protection”³⁵⁸ (hereinafter referred to as the “Report”). It should be noted that the United Nations General Assembly adopted its resolution on transforming the world on 25 September 2015. Agenda for Sustainable Development 2030 contains 17 Sustainable Development Goals (hereinafter referred to as the “SDGs”) to end poverty, protect the planet’s biosphere, and ensure prosperity for all. It’s assumed to generate a high level of cooperation between businesses and civil society by enhancing awareness in this field.

The SDGs call for participation of responsible and empowered consumers if they are to achieve their targets. According to the Report, the only way to unleash the potential converting power of consumers in domestic and international trade is to provide either a high level of consumer protection or to foster good business practices with the same goal.

³⁵⁶ Sludge, nudge and other consumer trends // https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=1947&Sitemap_x0020_Taxonomy=UNCTAD%20Home.

³⁵⁷ Unity needed to shield people and markets from digital giants, 2018 //

https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=1778&Sitemap_x0020_Taxonomy=UNCTAD%20Home.

³⁵⁸ Achieving the Sustainable Development Goals through Consumer Protection // <https://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=1999>.

The Report aims to provide policymakers and regulators with a basis for consideration on the positive impacts that protecting consumers bears in promoting a more inclusive and sustainable development. This approach will help them improving the consumer protection framework while also devising and implementing development strategies. Equally, it underlines the close link between Agenda 2030 and the UN Guidelines.

This Report begins with a general overview of the contributions made by consumer policies in meeting the SDGs. Main attention is paid to two issues: sustainable consumption related to Goal 12: Responsible Consumption and Production; and consumer protection in health-care delivery, according to Goal 3: Good Health and Well-being.

Consumer protection can be an instrument for achieving the SDGs³⁵⁹. Goal 8: Sustainable economic growth and decent work aims to build productive capacity and create deserving jobs and promotes resilient growth. Goal 10: Reduce inequality promotes shared prosperity, requires reducing disparity, and requires improved international economic governance. Goal 12: Sustainable consumption and production ensures steady consumption and production patterns. Goal 17: Partnership for sustainable development seeks to strengthen and revitalize the global partnership.

In November 2018 the Ad Hoc Expert Group on Consumer Protection on the Emerging Consumer Protection Trends held a meeting on implementing the UN Guidelines and considered several issues in developing consumer protection policies as well as trends in the digital economy³⁶⁰.

The first session was devoted to the ways in which government consumer protection agencies advance consumer policy through public consultations and surveys as well as behavioral insights. These should help to take into account the views of consumers in development of consumer protection framework. Also during the meeting the importance of providing guidance to member states on how to formulate policies in accordance with the social and economic conditions of the country, with particular attention to, inter alia, dispute resolution and redress, good business practices, as well as areas such as e-commerce and financial services, was stressed.

The meeting emphasized the importance of the work carried out under the UNCTAD and the Middle East and North Africa's technical cooperation program, in particular training seminars for government officials, consumer associations, the private sector, and application of a multi-stakeholder approach to development and implementation of consumer protection policies.

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Under the UNCTAD MENA Program in 2018 UNCTAD published the *Guidelines on Consumer Protection: Agency Structure and Effectiveness* (hereinafter referred to as the "Guidelines")³⁶¹. The paper provides an analysis of consumer protection legislation in Algeria, Egypt, Jordan, Lebanon, Morocco, Tunisia and Palestine. These principles emphasize that consumer protection measures are contained not only in special laws, but also in other acts that relate to specific sectors of the economy.

The Guidelines include detailed comments of the UN Guidelines, information on international organizations aimed at consumer protection, legal framework on consumer protection, institutional structure of bodies responsible for consumers, as well as issues of international cooperation.

In addition to the Guidelines the *Guidelines on Consumer Protection: Business engagement in MENA Region* was published which contain some principles of regulation and self-regulation, basics of responsible behavior, as well as a description of possibilities of business involvement in consumer protection.

Under the Ad Hoc Expert Group on Consumer Protection on the Emerging Consumer Protection Trends meeting, the experience of the USA was represented. Federal Trade Commission which is responsible for consumer protection, uses a set of tools, including public hearings and consultations, gathering information about interests of consumers and business, as well as their problems to develop the main directions of implementation of policies in the field of consumer protection. The Federal Trade Commission also organizes public workshops and seminars on data protection for vulnerable consumers and financial technologies.

In addition, during the meeting special attention was paid to the behavioral patterns of consumers. Various examples have shown how consumer behavior deviates from classical economic thinking, which implies perfect rationality and maximizing utility. For example, when buying a ticket online, the abuse of unfavorable circumstances encourages consumers to buy goods that they do not necessarily need or do not need at all, for example, an insurance policy. Therefore, the study of behavioral models is very effective in developing solutions in the field of consumer protection.

An important stage in the discussion of international experience in consumer protection was a topic of personal data. According to Principle No. 6 of the United Nations Fundamental Principles of Official Statistics³⁶², all collected individual data should be treated as confidential and can only be used for statistical purposes. At the same time, there is concern about the willingness of some consumers to sacrifice the confidentiality of their data for discounts from a supermarket or online advertising. The efforts made by the European Union (hereinafter referred to as the "EU") to protect personal data through the general regulation on personal data protection were noted.

³⁵⁹ Moreira T. Consumer education and business guidance in the context of the Digital economy // Eurasian Economic Commission's Round table "Consumer Protection in the Era of Smart Devices", 28 February 2019.

³⁶⁰ Ad Hoc Expert Group Meeting on Consumer Protection on the emerging consumer protection trends: implementing the United Nations Guidelines for Consumer Protection // <https://unctad.org/en/pages/MeetingDetails.aspx?meetingid=1965>.

³⁶¹ UNCTAD Guidelines on Consumer Protection: Agency Structure and Effectiveness for the MENA Region // https://unctad.org/en/PublicationsLibrary/ditccplp2017d4_en.pdf.

³⁶² United Nations Fundamental Principles of Official Statistics adopted by the General Assembly in 2014 // <https://unctad.org/en/pages/MeetingDetails.aspx?meetingid=1965>.

FOR REFERENCE

In May 2018 the EU General Data Protection Regulation³⁶³ became effective. It can be seen as a major change in the regulation of data privacy over the past 20 years. The new Regulation has fundamentally changed the way data is processed in all sectors — from health care to banking.

The Regulation aims to improve the following tasks:

- To harmonize data privacy laws in the EU.
- To protect and empower all EU citizens.
- To change the approach of organizations to privacy.

Key changes were made to the following provisions:

- **Extension of territorial coverage** (extraterritorial application). The regulation applies to all companies processing the personal data of residents of the EU, regardless of the company's location.
- **Penalties.** Organizations violating the Regulation may be fined up to 4% of the annual world turnover or 20 million euro (whichever is greater). This is the maximum penalty that can be imposed for serious violations, for example, if there is a sufficient consent of a client to process the data or violation of the basic principles of confidentiality through design.
- **Consent.** A request for a consent shall be submitted in an understandable and easily accessible form for processing the data annexed to the consent. Withdrawing consent should be as easy as giving it.
- **Notification of violations** is mandatory for all EU member states, where it may "put people's rights and freedom at risk". This should be done within 72 hours after the violation has been reported.
- **Right of access** — a right of data subjects to receive confirmation from a data controller whether their personal information is processed, where and for what purpose it is done. In addition, the controller must provide a copy of a personal data in electronic format free of charge.
- **Right to be forgotten** gives to a data subject a right to erase and stop a controller from disseminating his / her personal data.
- **Data transferring** — a right of a data subject to receive personal data that he previously provided in a "widely used and machine-readable format" and a right to transfer this data to another controller.
- **Targeted protection of personal data** requires inclusion of data protection from the beginning of system designing, not from its complement. Article 23 stipulates the storage and processing of those data that is necessary for performance of duties of a controller.

Data protection officers must comply with requirements of the Regulation.

At the meeting of the Ad Hoc Expert Group on Consumer Protection on the Emerging Consumer Protection Trends it was discussed why the "open data" movement focused only on government or public information, without attempting to disclose data on consumers held by the private sector. Following the discussion, it was stressed that as consumers were creating more and more data, their privacy needs should be taken more seriously.

The second session was devoted to consumer protection in the digital age. Issues of digital platforms, vulnerable and unprotected consumers, and personal data protection were discussed during the meeting.

Consumer data protection issues in the digital age include algorithms and cookies designed to collect data that some experts believe are "new oil". If a consumer does not know and cannot control the use of its data, he may suffer identification based on gender, race and personalized prices. Two key elements of consumer data protection are transparency and information on the use of consumer personal data, as well as informed and voluntary consumer consent. Digital literacy, online fraud, dispute resolution and redress are factors that need to be considered when addressing needs of vulnerable and unprotected consumers.

The results of the meeting formed a basis for a preparation of the Eighth UN Conference to Review All Aspects of the Multilaterally Agreed Principles and Rules for the Control of Restrictive Business Practices, which will be held in 2020.

Under the third session of the Intergovernmental Group of Experts on Consumer Protection Law and Policy taken place in July 2018 key issues such as financial consumer protection, ensuring safety of consumer goods, development of alternative mechanisms for settlement and dispute resolution were discussed. In addition, an overview of UNCTAD's work on capacity building and technical assistance on competition law and policy and consumer protection on the implementation of national and regional projects in developing countries was provided³⁶⁴.

Thus, in the framework of the UNCTAD's Program on Competition and Consumer Protection Policies in Latin America (COMPAL)³⁶⁵ in May 2018 it was planned to start distribution of the guidelines prepared in order to improve application and understanding legislation in the field of competition in Peru and Colombia by companies.

To strengthen the culture of competition among business, COMPAL has prepared two types of guidelines: one on

³⁶³ 2018 reform of EU data protection rules // https://ec.europa.eu/commission/priorities/justice-and-fundamental-rights/data-protection/2018-reform-eu-data-protection-rules_en.

³⁶⁴ Intergovernmental Group of Experts on Consumer Protection Law and Policy, third session // <https://unctad.org/en/pages/MeetingDetails.aspx?meetingid=1674>.

³⁶⁵ In 2018 Brazil and the Andean community joined COMPAL and now COMPAL unites Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Multi-ethnic State of Bolivia, Nicaragua, Panama, Paraguay, Peru and Uruguay // https://unctad.org/meetings/en/SessionalDocuments/cicplp14_ru.pdf.

competition law and consumer protection, and the other on liability mitigation programs. In February 2018, a consumer protection training centre was opened in Egypt, working in conjunction with the training centre in Lebanon. The training centre is designed to provide English capacity building activities for beneficiaries in the Middle East and North Africa region.

In November 2018, COMPAL organized a three-day intensive learning on principles of consumer protection for 60 judges of the 17 beneficiary countries of COMPAL. The course was attended by representatives of the highest courts of Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, the Multi-ethnic State of Bolivia, Nicaragua, Panama, Paraguay, Peru and the Andean community. This course laid a basis for the exchange of judicial experience in consumer protection cases. The course also aims to promote consistent and uniform application of consumer protection laws in Latin America within the framework of the laws of each country.

The third session of the Intergovernmental Group of Experts on Consumer Protection Law and Policy also presented the issue of dispute settlement and redress in the light of the UN Guidelines. The session discussed the rationale and legal nature of dispute resolution and redress, as well as existing opportunities to achieve settlement and legal protection, including: judicial protection, collective redress, government regulation and enforcement, protection of the Ombudsman institution, alternative dispute resolution mechanisms, online dispute resolution and business customer support and complaints functions.

In addition, quality criteria was considered to assess and regulate the resolution of consumer disputes and provide them with legal protection³⁶⁶:

- accessibility: procedures for dispute resolution and redress should be easily accessible, inexpensive or free for consumers, so consumer group can represent their interests;
- awareness: governments, businesses and consumer groups should make efforts to raise consumer awareness of dispute resolution and redress through education and information programs;
- expertise, independence and impartiality of third parties: entities providing dispute resolution and redress should have expertise, be independent and should have high standards of ethical conduct;
- transparency: procedures and decisions should be transparent so that all stakeholders can assess the fundamental fairness of dispute resolution and redress procedures;
- effectiveness, efficiency and enforceability: these criteria should include online accessibility, prompt notification of the parties by the dispute resolution and obtaining of legal protection, obtaining results in the short term, such as 90 days;
- fairness: participants should have a reasonable opportunity to express their views, as well as to withdraw and due process;
- voluntariness: decisions should be binding if the parties are notified in advance, and in some cases legal protection systems should be binding on businesses, such as utilities and banking services, which may be useful for improving access to dispute resolution and redress;
- legality: strict compliance with the law, development of rules on conflict of laws and jurisdiction, the ability to appeal to the judiciary to clarify issues of law and respect for consumer rights;
- coverage: dispute resolution and legal protection systems should be sufficient to cover all sectors in a systematic manner in order to increase awareness, confidence and understanding;
- special consideration for the needs of vulnerable and disadvantaged consumers: special education and information programs and special advisory services;
- accountability: regulators and law enforcement should have access to aggregated data on dispute resolution and redress, particularly those provided by alternative dispute resolution mechanisms, to ensure evidence-based policy-making and adequate market surveillance.

Representatives of Rospotrebnadzor among other international experts took part in the meeting of the Intergovernmental group of Experts on Consumer Protection Law and Policy. During the meeting Rospotrebnadzor shared the Russian experience in the creation of legal mechanisms to reduce the debt level of consumers and to combat unfair practices for collecting debt. Special attention was paid to the issues of financial literacy and legal education of consumers. The participants of the session expressed a high degree of interest in the Russian practice.

The participants of the discussion also emphasized the growing problem of safety of goods sold online, including in the context of increasing volumes of cross-border trade. In turn, the participants of the meeting discussed the existing initiatives at the regional and global level to ensure the safety of consumer goods, considered ways of further development of existing information portals for the notification of products withdrawn from the market.

Russia has taken the initiative on the need to develop effective approaches to solving significant problems — primarily with regard to goods and services that are complex (especially in the field of e-commerce).

It should be noted that the first meeting of the Intergovernmental group of Experts on Consumer Protection Law and Policy was held in 2016, while Rospotrebnadzor acted as the Vice-Chairman of the session³⁶⁷.

It also should be noted that in 2018 the Manual on Consumer Protection was published in Russian on the UNCTAD's official website. The publication is the first comprehensive international guide in this area to assist developing countries and countries with transitional economies in the selection of policy measures and to provide practical tools to assist the competent authorities to strengthen capacity in the implementation of the UN Guiding principles.

³⁶⁶ Dispute resolution and redress. Note by the UNCTAD secretariat. Trade and Development Board Trade and Development Commission Intergovernmental Group of Experts on Consumer Protection Law and Policy Third session Geneva, 9 and 10 July 2018.

³⁶⁷ On the Intergovernmental group of Experts on Consumer Protection Law and Policy Meeting // https://rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=10396.

3.2. Activities of the Group of Twenty and Organisation for Economic Cooperation and Development



In November-December 2018, the Group of Twenty Leaders Summit took place in Argentina. A G20 Leaders' Declaration. Building Consensus for Fair and Sustainable Development as well as Buenos Aires Action Plan have been developed³⁶⁸ as a result.

The Declaration aims at building consensus for fair and sustainable development. Therefore, to maximise the benefits of digitalisation and emerging technologies for innovative growth and productivity, it is needed to promote measures to boost micro-, small, and medium enterprises and entrepreneurs. Furthermore, it is required to bridge the digital gender divide and further digital integration, support consumer protection, and improve the digital government. Special attention shall be paid to support the free flow of information, ideas and knowledge, while respecting applicable legal frameworks, and working to build consumer trust, privacy, data protection and intellectual property rights protection. Participants also recognised the importance of the interaction between trade and digital economy.

The Declaration also approves of the G20 Financial Inclusion Policy Guide, which provides recommendations to facilitate digital financial services, taking into account country contexts, and the Global Partnership for Financial Inclusion Roadmap.

In addition to the said document, G20 leaders adopted the G20 Policy Guide. Digitisation and Informality: Harnessing Digital Financial Inclusion for Individuals and MSMEs in the Informal Economy³⁶⁹ (hereinafter referred to as the Policy Guide). The Policy Guide is mostly developed for those social groups and entities that have no access to financial services and remain in the informal economy sector at the same time.

Digitisation offers an unprecedented opportunity to ease barriers to financial inclusion faced by population groups and entities of the informal economy sector. Due to digitisation, it may become easier to facilitate identity verification, promote digital payments, improve the information environment, as well as facilitate financial consumer protection and raise financial literacy.

The Policy Guide presents a set of key policies that support financial inclusion of individuals and entities operating in the informal economy sector. It focuses on recommendations in four key areas (Table 3.1).

Table 3.1. Key policies that support financial inclusion of individuals and entities operating in the informal economy sector.

Area	Recommendations
Digitisation framework. Improvement of identification and verification of new clients	<p>A digital legal identity system could perform the recognition and authentication functions.</p> <p>Adaptation and upgrade of the regulatory framework.</p> <p>Establishment of a robust and secure digital identity infrastructure in the financial sector.</p> <p>Fostering development of private sector services</p> <p>Monitoring of new developments and approaches to identification.</p>
Digital payments infrastructure. Building of open and inclusive payment ecosystems	<p>Prioritising development of market, secure and efficient payment systems enabling instant payments.</p> <p>Creating incentives for acceptance of digital payments by merchants.</p> <p>Creating incentives for day-to-day use of digital financial services.</p> <p>Support of cross-border payment systems.</p>
Use of alternative data for credit reporting improvement	<p>Improving accessibility and accuracy of information. The main categories of alternative and reliable data should be identified.</p> <p>Expanding credit information sharing, including alternative data.</p> <p>Cross-border data exchanges.</p> <p>Balance market integrity, innovation, and competition. Requirements should be set to ensure quality of alternative data processing.</p>
Financial consumer protection, financial literacy, and personal data protection. Enhancing protection and mitigating risks	<p>Financial consumer protection:</p> <ul style="list-style-type: none"> • Adaptation of supervision mechanisms for financial consumer protection • Enhancing disclosure and transparency through technology <p>Financial literacy:</p> <ul style="list-style-type: none"> • Fostering data collection, coordination and identification of new core competencies on digital financial literacy • Strengthening the system of financial education for digital financial services and its evaluation <p>Data protection:</p> <ul style="list-style-type: none"> • Development of secure and effective data protection models

³⁶⁸ G20 Leaders' Declaration: Building Consensus for Fair and Sustainable Development // <http://www.g20.utoronto.ca/2018/2018-leaders-declaration.html>.

³⁶⁹ G20 Policy Guide. Digitisation and Informality: Harnessing Digital Financial Inclusion for Individuals and MSMEs in the Informal Economy // http://www.g20.utoronto.ca/2018/g20_policy_guide_-_digitization_informality.pdf.

Area	Recommendations
	<ul style="list-style-type: none"> Consumers should be given options to access and change their own data Ensuring data security

Despite significant measures taken to improve financial consumer protection system worldwide, there are still economic issues that have a material effect on the sphere. For instance, the Buenos Aires Action Plan developed based on the results of the G20 Summit in Argentina contains measures aimed at mitigation of global risks for the economy development. Thus, the South Africa implements a new regulatory model, in which a prudential control body is to monitor reliability and security of financial institutions, and the Financial Sector Department is to control the activities of financial institutions and the way they treat their clients. The US, in their turn, evaluate and improve the financial regulation system to increase its efficiency, reduce unnecessary difficulties in carrying out financial transactions in order to enable liquidity of the market, investments, and credits in real economy.

The Action Plan highlights that technology is a key to performance gain and improvement of the quality of life. For instance, the EU provides financial aid to adult population with poor skills in order to enable them to acquire at least a minimum level of financial literacy, calculation and digital skills.

Special attention in the Action Plan is given to financial inclusion. The Action Plan supports the collection of gender disaggregated data on financial inclusion. Furthermore, it is mentioned that the United Kingdom is launching a consultation on a Global Financial Innovation Network that would support more cooperation and trade in financial services by bringing together financial regulators from around the world.

In addition to the events held within the Summit, there has been a huge work done in form of interministerial meetings in 2018. For example, the Ministerial Declaration. G20 Digital Economy was prepared in August 2018³⁷⁰. The document says that a thriving digital economy relies on quality, affordable, secure, accessible, and inclusive digital infrastructure, an environment that supports innovation, appropriate policy frameworks, the capacity of people and businesses to adapt to digital transformations, and the free flow of information, ideas, and knowledge, while respecting applicable legal frameworks, and working to build consumer trust, privacy, data protection, and intellectual property rights protection. Therefore, it is important to ensure access to digital markets for individual consumers and businesses, especially in developing countries.

The Digital Economy Declaration also notes that Argentina chairing the G20 strives to facilitate improvement of the digital government and digital infrastructure, reinforce digital skills of people, improve in-depth analysis of digital economy, as well as puts its efforts to close the digital gender divide and ensure sharing of experience and lessons learned from implementation of new digital technologies.

The Digital Economy Declaration has several Annexes, including: G20 Digital Government Principles and Bridging the Digital Gender Divide – Delivering Impact³⁷¹.

For example, Digital Government Principles include:

- **Services.** Foster user-driven approaches to the digital government, designing services that meet user needs. Encourage the adoption of ways to collect users' feedback and promote the inclusion of citizens in the design of digital services wherever possible.
- **Data.** Promote an open data management culture in the public sector, as well as the use of data as a key strategic asset to improve service delivery, and projects and programs performance.
- **Security.** Promote trust and security as vital for harnessing the potential of the digital government, by adopting a risk management approach to address security risks, data loss concerns, privacy, threats and vulnerabilities in the use of ICT. Promote international cooperation in regard to this matter.
- **Digital Skills.** Strengthen the readiness of public servants, citizens and businesses for the digital government by promoting digital skills, digital literacy and the accessibility of digital public services. Promote public-private partnerships when beneficial.
- **Standards.** Foster the application of the digital government standards developed using principles of openness, transparency, and consensus.
- **Strategy.** Prioritise and facilitate funding and implementation of the digital government strategies.
- **Evolution.** Establish a framework to introduce digital technologies and services in ways that accommodate the fast-paced change in the digital environment. Provide standards for ordering (design, build and buy) of digital technologies, ensuring that the processes are compatible with modern ways of developing and deploying digital technologies across the public sector. Apply these principles to procurement and contracting in digital, data, and technology products and services in support of the digital government evolution.

The Annex Bridging the Digital Gender Divide – Delivering Impact encourages member countries to take action in the following areas:

- Increase awareness of the digital gender divide and address gender stereotypes that hinder full participation of women in the digital economy.
- Encourage gathering sex-disaggregated data.
- Promote digital skills for women to help ensure inclusion and also support them in the labour market.
- Target women lagging in digital technology access and use.

³⁷⁰ G20 Summit documents 2018 // <https://g20.argentina.gob.ar/en/documents>.

³⁷¹ G20 Digital Economy Ministerial Declaration 2018 // <http://www.g20.utoronto.ca/2018/2018-08-24-digital.html>.

- Support women’s entrepreneurship in digital businesses.
- Encourage cooperation between the public and private sectors to strengthen girls’ interest and women’s participation in the STEM (Science, Technology, Engineering, Mathematics) and high-technology sectors.
- Address cyber-violence towards girls and women to facilitate their online participation.
- Use digital tools that provide new opportunities to connect women to addressing the digital divide while ensuring quality jobs and a safer environment.
- Renew, coordinate, and encourage participation in joint initiatives among G20 countries and international organisations to empower girls and women in the digital era.

FOR REFERENCE

One of exacerbating problems for financial service consumers is cybersecurity issue arising when consumers use mobile financial services³⁷². Mobile phones are helping millions of low-income clients to access financial services for the first time, but they are also exposing them to new cyber threats they could never have imagined.

In countries where mobile money is gaining popularity, mobile money stealing is becoming a more wide-spread issue. For example, the Cybersecurity Report published by Serianu company in 2017 says that cybercrimes related to mobile transactions cost African businesses USD 140 million per year in Africa.

Abusers gain access to a client’s account and transfer all the money to a group of their friends by transactions up to USD 10 each, for instance. After the transfer is complete, each of such friends goes to a bank and withdraws the money from his/her account. The largest part of the sum is given to the abuser, the rest is kept by the “friend”. This is a pretty common fraud scheme.

To commit such a crime, a criminal needs to know the mobile account number of a victim (usually it is a mobile phone number) and a PIN-code. Full-scale collection of PIN-codes is systematic taking over individual PIN-codes collection schemes. There are many possibilities to get DFS account numbers and PIN-codes to these accounts. To do it, one does not even need to know a person whose money is about to be stolen, neither there is a need to have a personal contact. USSD-service is the most wide-spread form of access to mobile money services in developing countries. It is not sufficient to ensure security of confidential personal data of accounts.

There are several ways to get required personal data of which both financial service providers and policymakers should know. For example, a criminal wants to target a specific group of people, businessmen, participating in a conference in a hotel, to collect their data, the criminal may just install a fake mobile phone tower and connect a laptop and a mobile phone to it, the devices will look like they were put on charge. Then, the criminal may misinform all mobile phone users and make them connect to a fake tower, thus, providing the criminal with an access to their transactions.

But receiving the required personal data may be just the first stage of a more sophisticated attack. Then, the criminal may substitute a SIM-card, transfer the required mobile phone number from an original SIM-card to a new one. This is an important service that allows users to keep their mobile phone number and account after receipt of a new SIM-card. Unfortunately, the same service may be used to transfer the victim’s mobile phone number to a new SIM-card, without the user’s consent or knowledge. A new SIM-card is placed in a mobile telephone, and the criminal uses an intercepted PIN-code to get access to the user’s account and transfer the money for further cash withdrawal or laundering. After that, a SIM-card replacement process is aborted and the victim’s mobile phone is returned to normal operation, but the money is already stolen.

However, there are several simple measures that financial service providers and authorities may take to protect mobile financial service users from cyberattacks, including implementation of mandatory data protection standards, strengthening liability of mobile providers, as well as of the regulatory authorities.

For the Conference on the Role of Financial Education and Consumer Protection in Supporting Financial Inclusion in Southeast Asia³⁷³, that took place in Lao People’s Democratic Republic on 26-27 November 2018, the OECD prepared the G20/OECD Policy Guidance. Financial Consumer Protection Approaches in the Digital Age³⁷⁴ (hereinafter referred to as the Policy Guidance).

The Policy Guidance is intended for consideration and application of key elements of the G20/OECD High-Level Principles on Financial Consumer Protection in a digital environment and G20 High-level Principles on Digital Financial Inclusion with respect to a principle that focuses on areas related to the role of supervision bodies and disclosure and transparency.

When applying the approaches to consumer protection in the digital environment, one shall consider the following:

- Ensuring that regulations are neutral as to the services distribution (i.e. the technological neutrality principle);
- Ensuring that regulations reflect the business model, size, systemic significance, as well as the complexity and cross-border activity of the regulated entities (i.e. the proportionality principle);
- Wherever practicable, using insights gained from data analysis to understand market issues, policy and decision-

³⁷² Paul Makin. Cybersecurity for Mobile Financial Services: A Growing Problem // <https://www.cgap.org/blog/cybersecurity-mobile-financial-services-growing-problem>.

³⁷³ Conference on the Role of Financial Education and Consumer Protection in Supporting Financial Inclusion in Southeast Asia, November 2018 // <http://www.oecd.org/daf/fin/financial-education/conference-on-financial-education-and-consumer-protection-in-southeast-asia.htm>.

³⁷⁴ G20/OECD Policy Guidance. Financial Consumer Protection Approaches in the Digital Age <http://www.oecd.org/finance/G20-OECD-Policy-Guidance-Financial-Consumer-Protection-Digital-Age-2018.pdf>.

- making, understand the behaviour of consumers, including consumers who may be vulnerable, and market participants;
- Aiming to strike the right balance between the potential benefits to financial service consumers when considering new business or distribution models and using good practice of financial consumer protection;
- Maintaining flexibility and continuous learning;
- Cooperation with other government agencies and supervision bodies, including those responsible for data protection and non-financial sectors, such as telecommunications, to promote consistency in financial consumer protection.

Consumer protection approaches in the digital environment are focused on the following:

- Supervision mechanisms and capabilities (i.e. the powers, structure, and institutional mechanisms required to control and enforce financial consumer protection, including response measures as to changes in business models and offers of services to consumers as a result of digital innovations).
- Disclosure and transparency (i.e. developing service provider requirements for digital financial services relating to disclosure and transparency of the key elements of the service, so as to assist consumer understanding and exercising of rights).

For the G20 Summit in May 2018 the Toolkit for Protecting Digital Consumers³⁷⁵ was prepared.

This toolkit provides a set of principles and practices for protecting digital service consumers and enhancing trust in ecommerce. It is designed to serve as a practical resource for policymakers in G20 economies and all stakeholders, which can inform and support their endeavours to create, adapt or maintain a consumer protection framework that is effective in:

- Ensuring consumers are empowered to take advantage of the opportunities e-commerce offers, while being adequately protected from the risks it presents;
- Covering the wide variety of forms that e-commerce now takes, including transactions between consumers, those via mobile devices, and those that do not involve a monetary payment;
- Supporting the further growth of competitive e-commerce markets and continued innovation in this respect, for the benefit of consumers and businesses.

The toolkit consists of three Chapters.

Chapter 1 offers an overview of the drastic changes in the e-commerce landscape during the last quarter century.

Chapter 2 is organised around six high-level general principles to be used by G20 economies in their measures for the protection of digital services consumers' rights and expansion of their opportunities (Table 3.2). These principles contain an overview of the OECD Recommendations on Consumer Protection in E-commerce (2016) and the United Nations Guidelines, as well as issues addressed in each principle, with reference to examples and damages each issue may bring to consumers.

Table 3.2. Principles of protection of digital services consumer rights.

Principle	Attributes
Fair business and advertising practices	E-commerce businesses should act in accordance with fair business and advertising practices. They should not make any representations that are likely to be deceptive, fraudulent or unfair.
Appropriate disclosures	E-commerce businesses should provide clear and accurate disclosures about themselves, the goods or services offered, and the transaction conditions, so that consumers have information sufficient to make an informed decision about a transaction.
Effective mechanisms for transaction confirmation and payment	E-commerce businesses should not process a transaction unless the consumer has given express consent thereto, and should provide easy-to-use payment mechanisms with appropriate limitations on consumer liability for unauthorised uses.
Measures to address privacy and security risks	E-commerce business practices regarding consumer data should be lawful, transparent, and fair, enable consumer participation and choice, and include reasonable security safeguards.
Product safety across e-commerce supply chains	E-commerce businesses should not offer or advertise goods or services that pose an unreasonable risk to the health or safety of consumers; Such businesses should cooperate with competent authorities to address such risks.
Full access to effective mechanisms to resolve disputes	Consumers should be provided with full access to fair and easy-to-use mechanisms to resolve disputes and receive compensation without undue cost or burden.

Chapter 3 focuses on the regulatory framework and institutional supervision.

FOR REFERENCE

In 2015, the World Bank published an initiative on Universal Financial Access by 2020³⁷⁶. The UFA 2020 initiative stipulates that adults worldwide will be able to have access to a transaction account or an electronic tool to store money, send

³⁷⁵ Toolkit for Protecting Digital Consumers: A Resource for G20 Policy Makers // <https://www.oecd.org/internet/consumer/toolkit-for-protecting-digital-consumers.pdf>.

³⁷⁶ UFA2020 Overview: Universal Financial Access by 2020 // <http://www.worldbank.org/en/topic/financialinclusion/brief/achieving-universal-financial-access-by-2020>.

payments, and receive deposits as the basic building block to manage their financial activities.

The initiative is focused on 25 priority countries, including Brazil, China, South Africa, and Turkey. Within the initiative, the World Bank Group has committed to enabling 1 billion people to gain access to a transaction account.

In 2018, the World Bank Group published the data collected as of December 2017, showing that consultations regarding technical assistance funding may cover 738 million new account holders.

The Action Plan under the initiative has been developed based on 2015 Payment Aspects of Financial Inclusion and G20 High-Level Principles for Digital Financial Inclusion. The World Bank Group approach relies on:

- Creating a regulatory environment to enable access to transaction accounts;
- Expanding access points;
- Improving financial capability;
- Driving scale and viability through high-volume government programs, such as social transfers to those transaction accounts;
- Focusing on reaching vulnerable population groups, such as women and rural producers;
- Encouraging use of financial services, to move from access to finance to transaction accounts use;
- Working through value chains in priority countries to digitise payments and create access to other financial services such as savings, insurance, and lending.

OECD developed the Draft Recommendation of the OECD Council on Financial Literacy and Education³⁷⁷ in 2018.

The Draft Recommendation includes provisions for developing financial education programs to support insurance, saving, investment, allowances, as well as credits. For instance, the following tasks have been defined for lending:

- Promote awareness of alternatives to credit use and practical approaches to avoid or reduce the credit burden;
- Provide individuals with appropriate information and tools to understand their credit profile and needs, to compare the costs and characteristics of various credit options, and to shop around for the best credit product;
- Alert individuals to the features and risks of short-term credits provided through traditional and digital platforms, including potentially very high interest rates, hidden fees and charges, and the risk of increasing debt burden in case of repeated use;
- Provide information and guidance on ways of managing the existing credit commitments to minimise overall cost and risk of default;
- Make individuals aware of the information contained in their credit record; ensure that they know how a credit record can be used by banking institutions, what they can do to improve their own record, and the risks and implications of making poor credit decisions and having a bad credit record.

Representatives of Rospotrebnadzor took part in a meeting of G20-OECD Task Force on Financial Consumer Protection held in March 2018. The meeting was dedicated to discussions of the current and new risks effecting consumers in various countries due to digital transformation of financial services and implementation of new technologies.

Among major topics discussed by participants were consumer lending, collection and use of personal data without the consumers' consent, ensuring personal information security, as well as protection of proprietary interests of individuals investing in cryptocurrencies.

Participants paid great attention in their reports to consumer protection to unbound disposition of their personal information. In particular, representatives of authorities for financial consumer protection mentioned an increasing amount of undue collection and processing of consumers' personal data, including excessive personal information transfer. Nevertheless, many countries are able to manage such issues successfully. Japan, for example, added industry legislation norms and regulations to a base law on personal data protection to implement stricter regulations for various sectors.

Furthermore, participants discussed microfinancing development at the meeting. A representative of Rospotrebnadzor highlighted similarity of such issues in various countries. For example, due to financial technologies development, there is an option to apply for and receive microloans online, however, sometimes users may not receive valid information about the terms and conditions of such microloans in due time. Hence, it is vital for regulatory authorities in any country to ensure that consumers properly receive such information.

A search request formed in the Russian online network for an option to receive a loan without providing an earnings certificate was mentioned as an instance. Six of ten results of the search provided links to information aggregators, of which three were registered by individuals with no information disclosure, thus, making consumer protection to valid information a difficult task.

Furthermore, Rospotrebnadzor claimed it was ready to be a part of a task force that will be dealing with unification of international financial dispute resolution and consumer indemnification practices, in view of the relevance of such issues for Russia in light of pre-trial dispute resolution mechanisms and national experience with this regard, as Rospotrebnadzor is directly involved in consumer indemnification processes³⁷⁸.

It should be noted that Rospotrebnadzor took an active part in work of various OECD committees in 2018. For instance,

³⁷⁷ Draft Recommendation of the OECD Council on Financial Literacy and Education // <http://www.oecd.org/daf/fin/financial-education/Recommendation-on-FL-and-FE.pdf>.

³⁷⁸ On the Meeting of G20/OECD Task Force for Financial Consumer Protection // https://rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=9724.

a regular meeting of the Committee on Consumer Policy took place on 8-19 April; participants actively discussed issues related to functioning of e-trading platforms providing services for comparison of prices and consumer properties of goods and services, as well as to online advertisement and approaches to consumer protection during collection and processing of online services consumers' personal data.

The EU representatives are concerned about lack of legal frameworks regulating the work of large online platforms providing consumers with information about goods or services, their prices, as well as with the feedback from other consumers. According to the EU representatives, such online platforms providing the said services shall operate based on principles of maximum transparency ensuring that a consumer understands the liability of such platforms to various participants, how personal data provided by the client are used, disclosure terms and conditions for sellers and providers of services. This is just one more confirmation of relevance and validity of the work performed in Russia to prepare and adopt a law on establishing a legal status and obligations of goods and services information aggregators.

A still highly debated and relevant topic is protecting the rights of users of peer-to-peer platforms, on which goods and services are generally provided by non-professional participants (real estate rent, sale of personal or crafted goods). For this matter, a separate meeting has been arranged, the results whereof are to be published soon. Many delegates suggested that such platforms' activities shall be subject to general consumer protection principles.

The Russian party presented a report with information about large-scale projects implemented within the National Program "Digital Economy of the Russian Federation", as well as about steps taken to protect consumer rights in e-commerce³⁷⁹.

Representatives of Rospotrebnadzor took part in discussions dedicated to development of the Good Practice Guide on Online Advertising within the scope of the OECD Committee on Consumer Policy in November 2018. The Document contains references to the most often misleading marketing practices, such as activation of paid subscription to digital content and an automatic switch to provision of certain services on a paid basis after a free trial period.

Regulators expressed concerns regarding a wide-spread practice of hidden advertisement in social networks, video-blogs, and media materials.

Still, the issue of consumers' personal data protection is relevant, as well as the issue of protection of information about their preferences and behaviours in cases when such data are used to "pay" for digital services or software. The main recommendation made by the OECD was to bring the level of protecting non-financial services consumers to the same or higher level of protecting consumers of paid goods and services.

Special attention shall be given to new approaches to regulation of consumer loans within the reviewed OECD Consumer Loan Recommendations, prepared with active participation of Rospotrebnadzor. Rospotrebnadzor repeatedly mentioned that it is often difficult for consumers of financial services to understand legal information given in large volumes, thus, it is hard to ensure consumers rights to a correct choice of services in full. Therefore, Recommendations have been subject to a significant revision, with the recent financial market developments, best practices in consumer protection during financial crises, and financial services digitisation taken into account.

It should be noted that during the meeting, the UNCTAD representative gave a high esteem to the International Conference on Best Practices for Financial Consumer Protection: Regulation and Cooperation in the Digital Economy that took place in September 2018 in Moscow³⁸⁰.

Another meeting also attended by Rospotrebnadzor representatives was the meeting of the G20/OECD Task Force on Financial Consumer Protection that took place in October 2018. The meeting focused on issues related to cryptocurrencies regulation, short-term credits issue, as well as on digital financial services development. Rospotrebnadzor presented its suggestions regarding a set of documents on consumer protection in the sphere of lending that regulate information disclosure, development of lending best practices, fair client treatment, prompt consideration of claims, and relevant regulatory and supervisory measures to be taken.

Rospotrebnadzor representatives presented a report on Russian best practices in raising financial literacy and implementing major changes in consumer interests protection regulation. Examples of informational materials for school children and youths prepared within the Project "On Raising Public Financial Literacy and Development of Financial Education in the Russian Federation" (run jointly by the Russian Federation and the World Bank) have been highly appreciated by the meeting participants.

Furthermore, Rospotrebnadzor has presented its Report "On the Status of Financial Consumer Protection in 2017". The secretariat of the G20/OECD Task Force for Financial Consumer Protection has expressed its interest in studying the Russian practices and suggested distributing an English version of the report among the group members.

Moreover, at the meeting the Task Force discussed the trend for material income decline of the retired and their social and technical isolation. The financial consumer protection programs must incorporate these challenges. Rospotrebnadzor agrees that financial institutions should be interested in offering products with fewer risks to the senior citizens and in avoiding aggressive advertising or abuse, and must account for their lack of financial/digital literacy, low mobility, and

³⁷⁹ On Participation in a Regular Meeting of the Committee on Consumer Policy of the Organisation for Economic Cooperation and Development // https://rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=9945.

³⁸⁰ The Committee on Consumer Policy of the Organisation for Economic Cooperation and Development Discussed Consumer Misleading Practices of Online Sales of Goods and Services// https://rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=10911.

3.3. Efforts by the Member States of the Eurasian Economic Union



As per the Treaty on the Eurasian Economic Union (hereinafter referred to as the EEU) dated 29 May 2014, the member states have been furthering a concerted consumer protection policy stemming from the national law harmonisation. In 2018, the EEU members continued to proactively develop the common financial environment.

The Eurasian Economic Commission (hereinafter referred to as the EEC) has appointed an Advisory Committee for Consumer Rights Protection that now acts as a unique platform for a common dialogue between the state authorities, the public, and the businesses of the EEU members on developing a civilised consumer market. Any joint decisions by the five EEU members aim to incorporate the interests of all the consumer market players for the benefit of the EEU development.

Presently, the member states have streamlined a common approach to the consumer protection in remote sales/e-trade and documented it in the Recommendation of the EEC Board No. 27 dated 21 November 2017. Furthermore, they have determined the common focus areas for the cooperation between the state authorities in consumer protection and listed them in Recommendation of the EEC Board No. 2 dated 22 March 2016.

In implementing the EEU concerted consumer protection policy, particular attention is given to the most vulnerable groups, i. e. senior citizens, children, and the disabled who are less informed of their rights and protection mechanisms due to their physical disadvantages or age. In 2018, the member states and the Commission streamlined a common specific approach to the protection of these vulnerable consumers. The EEC Recommendation draft is to be approved in 2019.

Together with the authorised bodies of the EEU states, the Commission has been continuously monitoring the implementation of the concerted consumer protection policy within the EEU. In 2018, issues related to non-governmental consumer organisations have been studied, and the state of affairs concerning e-trade consumer protection in the member states has been analysed.

When taking actions under the umbrella of the specialised Advisory Council platform, the experts of the member states and the Commission incorporate the best global practices and up-to-date trends in consumer rights assurance.

Unified service markets are gradually emerging within the EEU. On 6 November 2018, the Agreement for Harmonisation of Legislation of the EEU Member States in Regard to Financial Market was signed. This Agreement will set the focus areas and the manner of harmonising the legislation of the member states in regard to the financial market (including the banking and insurance sectors, and the sector of services provided in the securities market). Furthermore, the Agreement also prescribes the actions required for harmonising the requirements to protection of rights and interests of financial services consumers.

Together with the EEC, the Agreement parties (governments and central banks of the EEU states) are developing a harmonisation scheme for the member state legislation that will list the actual milestones and deadlines for the harmonisation.

Protection of digital market consumers within the EEU also remains a priority. In February 2018, a round table was held where it was determined that a further study of high-priority issues on the EEC platform was required in relation to consumer protection in e-trade, e-payments, and developing general authentication instruments for Internet sellers and aggregators, and that unified programs have to be developed for furthering consumer/user culture of the EEU nationals, ensuring equal conditions for the e-money flow within the EEU, determining principles of a streamlined e-payment system.

To establish an efficient common financial market, a draft Agreement on Credit Record Data Exchange Within the EEU was approved by Executive Order of the EEC Board No. 102 dated 25 May 2018. The draft Agreement makes it possible for the EEU nationals to request and obtain their credit history reports when applying to a financial institution for credit products in a different member state.

In addition, it also establishes a mechanism for interaction between the authorised institutions (legal entities collecting, processing, and storing credit histories and issuing credit reports), the procedure and conditions for the credit record data exchange, and the minimal scope of the data exchanged between the states.

The draft Agreement also determines the founding principles for the protection of rights and legal interests of the consumers and financial service providers for the lending procedure and the powers of the authorities regulating the financial market of the member states.

Pursuant to the draft Agreement, the EEC will develop requirements to the administrative and technical support of the data protection for the inter-state exchange together with the authorised bodies and member state authorities governing data protection. The requirements will be approved by the Eurasian Intergovernmental Council. It is planned to submit the draft to the member states for national procedures required for its signing in 2019.

Liaison between the member states of the Commonwealth of Independent States (hereinafter referred to as the CIS) is growing stronger.

The legal environment in all areas of economic growth is being advanced with allowance for the current processes taking place within the two integrated unions in scope of the Memorandum on Further Cooperation between the EEC and the CIS Executive Committee dated 25 July 2018.

³⁸¹On Attending the Meeting of the G20/OECD Task Force on Financial Consumer Protection // https://rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=10747.

The Commission is supporting and widening communication with industry cooperation authorities in the CIS. That being said, a Memorandum on Cooperation Between the EEC and the Advisory Council for Consumer Rights Protection of the CIS States was entered into in 2018. The Memorandum will enable closer cooperation between the two economic unions in consumer protection, including financial services provision.

The Commission attended the meeting of the Regional Consultative Group for the Commonwealth of Independent States of the Financial Stability Board held in the Central Bank of Armenia, Yerevan in 2018.

Furthermore, the Commission participated in the meeting of the International Executives Board for Coordination of Insurance Supervision Bodies in the CIS that was held in Belarus in 2018 at the platform shared with the Executives Board for Security Markets Regulation in the CIS. The International Board meeting agenda included actions for strengthening cooperation in insurance in compliance with the CIS Strategy of Economic Development for the Period Until 2020.

The draft Memorandum was adjusted as per the meeting results to enable unified approaches to electronic OSAGO (compulsory third party car insurance) within the CIS states. The parties have determined the cooperation areas to prevent international insurance frauds, thus putting an end to insurance fraud in the future by exchanging data on damage evaluation and insurance events/settlement between the regulators.

Nominating the first observer state in the EEU in 2018 became a landmark. This status was awarded to Moldova as per Decision of the Supreme Eurasian Economic Council No. 9 dated 14 May 2018. The observer state status allows Moldova to participate in the operations of the EEU authorities at any levels, with no right of vote.

Even now, pursuant to Decision of the EEC Board No. 114 dated 17 July 2018, representatives of the authorised bodies in consumer protection may attend the Advisory Council for Consumer Rights Protection in the EEU Member States.

International cooperation with the UN working bodies in consumer protection is widening.

Thus, the EEC attended the Third Meeting of the UNCTAD Intergovernmental Group of Experts on Consumer Protection Law and Policy in July 2018. Regional practices of the concerted consumer protection policy effective in the EEU have been detailed in the deliverables of the held meeting.

In September 2018, in Moscow, the EEC representatives attended the International Conference on Best Practices for Financial Consumer Protection: Regulation and Cooperation in the Digital Economy, where a report was presented on the important issues and prospects of the EEU inter-state cooperation under the umbrella of the Advisory Council for Consumer Rights Protection in the EEU Member States.

The EU remains a key foreign-trade partner for the EEU. The formats and prospects of the EEU/EU cooperation in finance were discussed at the Fifth Moscow International Financial and Economic Forum held by the EEC in cooperation with the Financial & Banking Association of Euro-Asian Cooperation in November 2018 and at the European Commission Seminar “Budgeting in the EU” in November 2018.

The history of legal governance in finance, establishment of currency and banking unions and capital market unions in Europe, development of financial instruments for cooperation are of the most interest as these data can be applied to improve and harmonise the banking and insurance legislation in the EEU.

On 6 December 2018, Declaration on Further Development of Integration Processes in the EEU was signed. The Declaration calls for the maximum possible efficiency of the Union’s common market and use of its opportunities for business and consumers. Among other things, it emphasises the need for information awareness and due consumer protection.

Therefore, it is of great importance to nurture the EEU capacity by establishing a special-purpose organisational unit that will serve as a united interface for the consumer protection in all the economic areas.

Studying the history of the financial ombudsman institute is another high-priority focus area in financial consumer protection. It is important for the EEU to harmonise the requirements to financial consumer protection by incorporating the respective practices of the EEU member states.

It seems that the EEC may grow into a platform for dialogue, searching for ways to eliminate any economic imbalances, establishing unbiased “rules of the game” and preventing the consumers, their rights and interests from staying outside of the hotspots for the joint advancement of the Eurasian countries.

3.4. Further Efforts by the Member States of the Commonwealth of Independent States



Offering equal opportunities in consumer protection for the public, raising the level of public literacy in law, and encouraging sustainable and reasonable consumer behaviour – those are the priorities for liaison among the CIS countries.

On 6 April 2018, Yerevan hosted the Fourteenth Meeting of the Advisory Council for Consumer Rights Protection in CIS Member States (hereinafter referred to as the Advisory Council) chaired by Anna Popova, Head of Rospotrebnadzor, and attended by representatives from Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Russia, the EEC, and the

CIS Executive Committee.

Special emphasis was placed on the consumer protection in e-commerce. As proposed by Rospotrebnadzor and unanimously approved by the Council members, the Advisory Council is to develop a summary report listing actions required to establish consumer rights in e-commerce within the CIS member states (with Russia serving as an example).

A lot of attention was paid to a report on the practice of incorporating the EU directives and regulations governing consumer rights into the national law of the Republic of Moldova, the analysis of the demand for state information resources on the consumer protection, the current organisational chart of the authorities protecting the consumer rights, and the results

of their optimising by certain CIS member states.³⁸²

On 25 October 2018, Dushanbe hosted the milestone 15th Meeting of the Advisory Council attended by the public authorities, non-governmental organisations, and consumer unions of Armenia, Belarus, Kazakhstan, Tajikistan, Uzbekistan, Russia, representatives of the CIS Executive Committee and the EEC.

The meeting attendees exchanged up-to-date expertise in priority enhancement areas for the legal governance of consumer relations at the national level, best practices for protecting the consumer rights in various industries, outstanding issues related to public complaints in consumer protection, blocking websites that offer information on illegal sale of goods and services to prevent fraud, etc.

The current status and state policy trends in consumer protection in Tajikistan and the National Bank of Tajikistan's role in raising public financial literacy have aroused great interest.

Russia has presented the results of implementing measures as part of the Strategy of State Consumer Rights Protection Policy of the Russian Federation for the Period Until 2030, including the amendments to the Law "On Consumer Rights Protection" defining the legal status of a new consumer relations player, i.e. an owner of Internet goods & services information aggregator, and the most important supervisory functions in consumer protection, including those aimed at compliance control in e-commerce. Therefore, the attendees had an opportunity to once again express their common interest in a special-purpose report on the efforts for protecting consumer rights in e-commerce within the CIS member states. A draft report covering the above issue was reviewed at the meeting and then by the Economic Issues Commission of the CIS Economic Council on 19 December 2018.

FOR REFERENCE

The 81st Meeting of the CIS Economic Council was held in Moscow on 5 March 2019. Its agenda included the review of the Report "On Protection of Consumer Rights in E-Trade in the CIS Member States" developed by the Advisory Council for Consumer Rights Protection in the CIS Member States. The Report contained the analysis of furthering e-trade within the CIS, the legislation governing the respective consumer protection issues and proposed recommendations for their further development. As online-trade is growing, the first priority issue is now to determine the goals and objectives and develop the common principles of state policy in consumer protection within the CIS member states taking into account the risks brought by the rapidly changing world; in particular, harmonising the consumer legislation was named as one of the key short-term focus areas³⁸³.

It has also been noted that high-priority issues associated with various formats of cooperation in consumer protection at both the national and the inter-state levels within the CIS have to be discussed. The cooperation framework is determined by the Agreement on Key Consumer Rights Protection Cooperation Areas of the CIS Member States dated 25 January 2000, and the Agreement on the CIS Member States Cooperation in Legal Awareness of Consumers dated 28 October 2016³⁸⁴.

It must be emphasised that for the first time ever, the Republic of Uzbekistan participated in the Advisory Council the most urgent task whereof is to develop an efficient consumer policy within the CIS member states. Consumer protection authorities or public consumer unions of the Republic of Azerbaijan have not yet joined the Advisory Council.



The following key events associated with the interests of consumers of financial services that took place in 2018 may be highlighted for Azerbaijan.

Signing of the Instruction of the President of the Azerbaijan Republic on 20 April 2018 became one of the landmark events. The Instruction prescribes establishing the State Antimonopoly Agency for Consumer Market Supervision in the Azerbaijan Republic within the State Antimonopoly Policy and Consumer protection Service of the Ministry of Economics of the Azerbaijan Republic³⁸⁵.

Furthermore, in September 2018, the President of Azerbaijan signed an executive order to approve the "State Program for Digital Payment Advancement in the Azerbaijan Republic for 2018-2020". The strategic goal of the State Program is to substantially widen the non-cash payments between the citizens, economic entities, and state institutions, minimise the cash flows and, as a result, strengthen the financial resources in banking. Thus, widening the range and application scope and enhancing the quality of digital payment services by strengthening the institutional and legal databases for such services, offering more infrastructure options, and encouraging mass use thereof remain the most urgent strategic priorities for the country³⁸⁶.

The Program proposes a decrease in cash transactions in the country from 74% to 40%. According to the Program, widening access to the financial services requires banking services to be offered in all the regions, a wider banking product/service range, higher quality, lower costs, and higher public awareness in digital payments. To ensure growth of digital payments, the State Program specifies four strategic focus areas and 16 priorities³⁸⁷.

In September 2018, the Azerbaijan Post Service declared issue of their own Visa International bank cards. Partner bank selection is underway. Azerpoc LLC post service operator began offering financial services in 2012. At the moment, more

³⁸² Results of the Meeting of the Advisory Council for Consumer Rights Protection in the CIS Member States // https://rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=9861.

³⁸³ https://rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=11517.

³⁸⁴ https://rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=10789&sphrase_id=1674518.

³⁸⁵ <https://ru.president.az/articles/28139>.

³⁸⁶ <http://economics.com.az/ru/index.php/meropriyatiya/sobytiya/item/925-gosudarstvennaya-programma-po-rasshireniyu-tsifrovoykh-platezhej-v-2018-2020-godakh-v-azerbajdzhanе-znachitelno-rasshirit-usloviya-beznalichnoj-vyplaty.html>.

³⁸⁷ <https://news.day.az/economy/1046316.html>.

than 1.2 thousand Azerpocht offices have an opportunity of offering all types of banking services, with the exception of granting credits/attracting bank deposits. In January-July 2018, the total number of active payment cards issued by Azerpocht LLC grew by 62.5% and exceeded 114.9 thousand. Within the previous period, the cards' number increased by over 43.7 thousand.

Amendments to the Law "On Electronic Trade" introduced in 2016 resulted in a substantial increase of the payment cards number. As a result, non-banking credit institutions and pawn shops are now responsible for working with banks directly. Azerpocht does not offer credits and therefore cannot compete with non-commercial banking institutions or pawn shops. That is why they were selected as Azerpocht partners and helped to increase the card issue³⁸⁸.

By the end of 2018, the Chamber for Supervision of Financial Markets of Azerbaijan resolved to regulate the credit interest ceilings, as set forth by the amended Law "On Banks". The amendments will also allow the Chamber to prescribe banking fees and other service rates.

It is worth noting that retail credits make up the major share of credit facilities. In the past several years, their number has been growing. While in 2016 the share amounted to 35% (39% in 2017), in 2018 the retail credit percentage rose to 42.2%. US dollar credits share also continued to gradually fall in 2018. Compared to the beginning of the year, their number decreased by 131.3 mln manats (2.7%) to 4.67 bln manats, and the share shrank from 40.86% to 37.2%³⁸⁹.

As per the Central Bank of Azerbaijan, interest rates for credits issued in the country averaged at 14.4% for credits in manats and at 7.89% for credits in foreign currencies for January 2019. Loan rates for individuals were at 17.3% for manats, and at 14.5% for foreign currencies³⁹⁰.

At the press conference covering the launch of the first private Credit Reporting Agency in Azerbaijan held in February 2018, Asim Zulfugarov, a representative of the Chamber for Supervision of Financial Markets of Azerbaijan, stated that its establishment would result in a major increase of public financial responsibility in Azerbaijan. Earlier, in December 2017, banking market players resolved to establish Azerbaijan Credit Reporting Agency LLC. Its founding members include International Bank of Azerbaijan, Bank Respublika, Xalq Bank, Kapital Bank, PASHA Bank, Rabitabank, Unibank, and Ziraat Bank Azerbaijan. As compared to the Centralised Credit Register, the Credit Reporting Agency will maintain more data and cover a higher number of borrowers. The Agency will receive data not only from the banks but also from insurance and leasing companies, municipal institutions, mobile operators, etc.³⁹¹

It is worth noting that in April 2018, the President of Azerbaijan approved the Regulation "On Mortgage, Credit, and Guarantee Electronic System"³⁹².

At the 14th Meeting of the Advisory Council for Consumer Rights Protection in the CIS Member States held on 6 April 2018, Suren Karayan, Minister for Economic Development and Investment of Armenia, stated that for Armenia, a priority task consists in furthering and developing the legal and regulatory framework, which shall be used as a basis for forming business and partner relations between the public authorities and the business for efficient protection of the domestic consumers.



The Armenian Government is taking efforts to establish an efficient system for consumer protection stemming from the international best practices, including a concerted policy for compliance with technical and metrology regulations and standards in the CIS and the EEU. Moreover, both the structure and functions of controlling authorities are being thoroughly enhanced, including decrease of their number and increase in their operating efficiency. As planned, special-purpose non-governmental organisations (there are 14 of them in the country) will play a bigger role in consumer protection³⁹³.

In September 2018, the Armenian Government adjusted the mortgage subsidising procedure in scope of the Scheme "Affordable Housing for Young Families". After the adjustment, the annual mortgage rate in scope of the Scheme will lower from 10.5-11% to 9.5%, of which the state is subsidising 2 to 4%, depending on the location of the purchased housing; thus, beneficiaries of the Scheme will be offered credit at 7.5% annual rate in Yerevan and at 5.5% in the regions. In addition, the combined age of the spouses applying for the mortgage will be increased. Previously, the Scheme was available for spouses of 65 years of age in sum, but now the cap has been moved to 70 years. New amendments also introduce a pre-payment insurance mechanism. As of now, the pre-payment is 30% of the housing cost, but after the change the beneficiaries will be able to pay 10% in cash and obtain an insurance guarantee for the remainder. The guarantee will cover 20% calculated as the difference between the minimum of 30% and the actual pre-payment of 10%³⁹⁴.

In February 2018, the Central Bank of Armenia kick-started the training course for financial literacy coaches in scope of the Programs "Financial Literacy in Rural Communities" and "Financial Education in Schools". As planned, the training sessions will be attended by trainees from Yerevan, Artsakh, and all the regions of Armenia. After successfully finishing the training, the trainees will arrange trainings for personal finance management in rural communities, and teachers in particular³⁹⁵.

In the 2017/2018 academic year, the Centre for Consumer Rights Protection and Financial Education of the Central Bank of Armenia launched a pilot project in financial literacy for 13 schools in cooperation with the Ministry of Education. The project lasted until May 2018. As planned, the program will be gradually implemented in all schools starting from the

³⁸⁸ <https://news.day.az/economy/1042424.html>.

³⁸⁹ <https://news.day.az/economy/1081490.html>.

³⁹⁰ <https://news.day.az/economy/1103292.html>.

³⁹¹ <https://news.day.az/economy/976141.html>.

³⁹² <https://news.day.az/politics/1001056.html>.

³⁹³ <https://news.am/rus/news/444943.html>.

³⁹⁴ <https://newsarmenia.am/news/koshelek/premer-skazal-premer-sdelal-stavki-na-ipoteku-dlya-molodykh-semey-v-armenii-snizyatsya/>.

³⁹⁵ <https://newsarmenia.am/news/koshelek/tsentrobank-armenii-podgotoviti-trenerov-po-upravleniyu-lichnymi-finansami/>.

new academic year. Forty-six teachers have been involved in the project, teaching 1,725 schoolchildren of grades 2 to 11 in 69 classrooms. Teacher manuals and guidance have been developed by a special-purpose working group that included experts in education and finance, teachers, and a psychologist³⁹⁶.

On 16 April 2018, the Central Bank of Armenia launched a program named “My Finance Month 2018”. Its purpose was to generate new financial knowledge and skills covering 7 subjects, such as personal budget, savings, loans, purchases, rights protection, fraud, and counterfeit. The event was attended by the representatives of the Central Bank of Armenia, the Bank Union of Armenia, the Financial Ombudsman Office, the Fund for Guaranteed Deposit Repayment of Armenia, NASDAQ OMX Armenia, and other institutions. The Month included financial role play, a quiz, contests, and other events³⁹⁷. In particular, the Fund for Guaranteed Deposit Repayment of Armenia has developed a mobile game “12 Steps” for the players to check their financial knowledge³⁹⁸.

The International Conference “Financial Education for School Students and Youth” held in Yerevan on 11 and 12 July 2018 became a landmark event. The Conference was attended by experts in financial education from France, Belgium, Germany, Portugal, and the CIS, including Russia. The event included discussion of raising financial literacy for the youth, including by incorporating financial literacy lessons into school curricula. The attendees also discussed state-of-the-art solutions and approaches in financial education, and the results of children/youth surveys conducted in Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan as compared to the similar data obtained in Russia³⁹⁹.

In December 2018, effective amendments to Law of the Republic of Belarus No. 90-3 dated 09 January 2002 “On Consumer Rights Protection” became one of the end-of-the-year milestones. As of now, the Law governs services offered by banks, non-bank lending financial institutions, and other institutions carrying out bank transactions. The latest amendments include right protection for consumers with complaints related to the services offered by banks, non-bank lending financial institutions, and other institutions carrying out bank transactions as per the legislation. The Law specifies the right of the consumer for both cash and non-cash settlements. Moreover, setting different prices that depend on the payment method is now prohibited for the service providers. In addition, the consumer may no longer be requested to show a passport or other ID for the money



refund⁴⁰⁰.

In 2018, the Institute of Sociology of the National Academy of Sciences of Belarus State Research Institution has conducted a survey called “Further Actions for Raising Public Financial Literacy in Belarus: Analysis and Prospects” within the scope of the Project “Wider Access to Financial Resources for Rural Communities of Belarus” implemented by the Republic Microfinance Centre (Belarus) and sponsored by the USAID (United States Agency for International Development). The Respective Report dated 01 March 2018 is available on the website of the National Bank of Belarus⁴⁰¹ and on the Unified Web Portal for Financial Literacy Fingramota.by⁴⁰².

The Report contains analysis of studies in financial literacy and access to finance in the Republic of Belarus, actions taken by the public authorities and financial market players to raise financial literacy, and offers indicators for evaluating the performance.

The Report states that to compare the public financial literacy situation in the Republic of Belarus against other countries, the international study by OECD/INFE “Adult Financial Literacy Competencies” was used. The latter was conducted in 30 countries/areas, including 17 OECD member states. As for general financial literacy (total of the knowledge, approach, and behaviour indicators), the Republic of Belarus is second to last, with only Poland below. For this indicator, the overall evaluation received by Belarus is 11.7. The countries leading in financial literacy are France (14.9), Finland (14.8), Norway (14.6), and Canada (14.6).

The National Bank of the Republic of Belarus has kick-started the study to summarise the preliminary results in raising public financial literacy in the Republic Belarus in scope of Joint Action Plan for the Public Authorities and the Financial Market Participants for 2013-2018 enacted by Resolution of the Council of Ministers and the National Bank of the Republic of Belarus No. 31/1 dated 17 January 2013.

As per Clause 41 of Strategy for Development of Financial Market of the Republic of Belarus Until 2020 enacted by joint Resolution of the Council of Ministers and the National Bank of the Republic of Belarus No. 229/6 dated 28 March 2017, Joint Action Plan in Raising Public Financial Literacy for the Public Authorities and Financial Market Participants for 2019-2024 is being developed⁴⁰³.

On 12 March 2018, the Financial Literacy Week for the Children and Youth of Belarus was launched. The ceremony was hosted by the Belorussian Currency and Stock Exchange, as customary. Fingramota.by covered the Week events in great detail. The closing events within the Financial Literacy Week for the Children and Youth included presentation of the full edition of the book “The World of Money”⁴⁰⁴.

In April 2018, the YouTube channel “Financial Literacy in Belarus” was launched⁴⁰⁵.

On 21 December 2018, the Association of Belorussian Banks convened a meeting of the Financial Literacy Committee.

³⁹⁶ <https://newsarmenia.am/news/koshelek/zhiteli-armenii-nauchilis-luchshe-protivostoyat-finansovym-shokam/>.

³⁹⁷ <https://newsarmenia.am/news/koshelek/finansovye-igry-breyn-ring-i-konkursy-proyduv-v-armenii-v-ramkakh-programmy-mesyats-moikh-finansov/>.

³⁹⁸ <https://newsarmenia.am/news/koshelek/proverte-svoi-finansovye-znaniya-v-mobilnoy-igre-12-shagov-ot-fonda-garantirovaniya-vozmeshcheniya-v/>.

³⁹⁹ http://www.stav.aif.ru/money/finance/molodyozh_iz_erevana_uchitsya_finansovoy_gramotnosti_u_stavropolcev.

⁴⁰⁰ <https://www.belta.by/economics/view/mart-prokomentiroval-izmeneniya-v-zakon-o-zaschite-prav-potrebitel-308302-2018/>.

⁴⁰¹ <https://www.nbrb.by/today/FinLiteracy/Research/Razvitie-deyatelnosti-fg.pdf>.

⁴⁰² <http://www.fingramota.by/files/2018/9/19/636729517843067183.pdf>.

⁴⁰³ <http://fingramota.by/ru/news/post/1537>.

⁴⁰⁴ <http://fingramota.by/ru/news/post/1481>.

⁴⁰⁵ <http://fingramota.by/ru/news/post/1508>.

As usual, results of the actions taken by banks within the year to raise public financial literacy were discussed at the end of the year⁴⁰⁶.



Major amendments were introduced in the Civil Code of Kazakhstan with respect to loan agreements in 2018. Specifically, peculiar features of loan agreements with individual borrowers were specified for borrowing money or fungible things with the borrower fulfilling obligations thereunder by repaying the debt with money, and the consideration, forfeit (fine, penalty), fees, or other amounts provided for by the loan agreement specified and paid in money. Moreover, the loans are to be issued in the national currency of the Republic of Kazakhstan only; Annual effective rates of return stipulated by the loan agreements may not exceed 100% of the provided loan, even when the loan repayment term is adjusted; Any forfeit (fine, penalty) for defaults with respect to loan repayment and/or payment of interest under the loan agreement may not exceed 0.5% of the amount outstanding for each day of delay, but in any case shall not be higher than 10% of the loan provided within a year; Other limitations also apply⁴⁰⁷.

Residential Mortgage Scheme “7-20-25 New Housing Purchase Opportunities for Each Family” was enacted by Resolution of the Management Board of the National Bank of Kazakhstan No. 107 dated 31 May 2018. Any Kazakhstan national may apply for the Scheme, provided he/she has an employment/business income and holds no title to any housing. In scope of the Scheme, mortgage loans will be awarded at a 7% annual interest rate, initial instalment of 20%, and the loan term of up to 25 years. The Scheme will be run by Baspana Mortgage Institution JSC, a subsidiary of the National Bank of the Republic of Kazakhstan. The banks will offer credits in compliance with the Scheme, and Baspana will purchase them from the banks⁴⁰⁸.

Throughout 2018, amendments have been introduced in the Residential Mortgage/Mortgage Loans Refinancing Scheme. As per the Scheme, practically all the foreign currency loans received by individuals in Kazakhstan and secured by real estate or other immovables will be recalculated in tenge⁴⁰⁹.

In October 2018, the National Bank of the Republic of Kazakhstan declared its support of the World Investor Week 2018. In scope of the International Investor Week, the National Bank of the Republic of Kazakhstan together with the Association of Financiers of Kazakhstan ALE (Association of Legal Entities) and Kazakhstan Stock Exchange JSC hosted a round table for the mass media on development of the stock market⁴¹⁰.

The International Organisation of Securities Commissions (IOSCO) held the second annual World Investor Week in October 2018. To emphasise the importance of raising financial literacy and protecting investor rights, the key objective of the World Investor Week was to widen investor training offers. This is especially important at the time of rapidly appearing innovative solutions and interlinks between the financial markets. The World Investor Week 2018 promoted not only the basics of intellectual investing, but also awareness by individual investors of the risks associated with the initial public offerings of coins, cryptoassets, and other online investments.

It should also be mentioned that on 01-07 October 2018, security regulators, stock markets, international organisations, investor associations, and other interested parties from more than 80 countries hosted various events in the respective jurisdictions to raise financial literacy and protect investor rights. The events included seminars and conferences, local and national awareness campaigns for investors, quizzes and contests, most of the events lasted until the end of 2018.

On 15-16 November 2018, Almaty hosted the Kazakhstan Financiers Congress VIII that coincided with the 25th anniversary of tenge, the national currency of the Republic of Kazakhstan. The event was arranged by the National Bank of the Republic of Kazakhstan and the Association of Financiers of Kazakhstan. The agenda included the issue “Financial Consumer Protection in the Modern World. A Look into the Future”. At the same time, the event included the 7th Meeting of the Advisory Council for Financial Consumer Protection and Financial Accessibility⁴¹¹.



In February 2018, as prescribed by Resolution of the Kyrgyz Republic Government No. 82 dated 08 February 2018, the Coordination Council for Consumer Rights Protection was established by the Ministry of Economy of the Kyrgyz Republic to replace a similar council established by the Kyrgyz Republic Government.⁴¹²

In addition, Program for Raising Public Financial Literacy in the Kyrgyz Republic for 2016-2020 was amended by Resolution of the Kyrgyz Republic Government No. 143 dated 19 March 2018, including an approval of the Action Plan for the Second Stage of the Program.⁴¹³

In April 2018, the National Bank of the Kyrgyz Republic established a Consumer Rights Protection Department⁴¹⁴ to protect the rights of consumers of banking and microfinance services. The Department objectives include raising consumer confidence in finance and credit institutions; Promoting transparency and full disclosure of services, complying with the responsible lending and financial accessibility principles. The Department functions include review of complaints by the consumers of banking and microfinance services; analysing the consumer complaints to identify risks associated with the relations between the providers and consumers of banking and microfinance services; advising consumers on banking and microfinance services; preparing proposals and participating in development of draft regulations governing the protection of rights of banking and microfinance services consumers; attending meetings and negotiations with international financial

⁴⁰⁶ <http://fingramota.by/ru/news/post/1559>.

⁴⁰⁷ https://total.kz/ru/news/finans/stavka_voznagrazhdeniya_po_dogovoru_zaima_ne_mozhet_previshat_100_natsbank_rk_date_2018_08_16_12_54_00.

⁴⁰⁸ <https://nationalbank.kz/?docid=3555&switch=russian>.

⁴⁰⁹ <https://www.nationalbank.kz/?docid=1552&switch=russian>.

⁴¹⁰ <https://nationalbank.kz/document/?docid=6465&switch=rus>.

⁴¹¹ <https://nationalbank.kz/document/?docid=6190&switch=rus>.

⁴¹² <http://cbd.minjust.gov.kg/act/view/ru-ru/11704>.

⁴¹³ <http://cbd.minjust.gov.kg/act/view/ru-ru/11843?cl=ru-ru>.

⁴¹⁴ <https://www.nbkr.kg/contout.jsp?item=4&lang=RUS&material=89906>.

institutions regarding consumer protection⁴¹⁵.

Please be reminded that a dedicated section “Information for Consumers of Finance Services” and its subsection “FAQ” are available on the website of the National Bank of the Kyrgyz Republic⁴¹⁶.

In 2018, the web-portal “Financial Literacy”⁴¹⁷ established by the National Bank of the Kyrgyz Republic in scope of the program for raising public financial literacy was updated. Now all the sections of the web-portal are functioning, including the section “Useful Links” that helps to navigate the system for financial consumer protection of Kyrgyzstan. In particular, there are links to:

- the Financial Literacy section on the website of the State Service for Regulation and Supervision of the Financial Market of the Kyrgyz Republic Government <http://www.fsa.kg/#/finance/grammotnost>;
- Official website of the Deposit Protection Agency of the Kyrgyz Republic <http://www.deposit.kg>,
- Financial Literacy Project of 24.kg Information Agency: https://24.kg/sjuzhety/50_finansovaya_gramotnost.

The World Money Week, a highlight among the events devoted to financial consumer protection, was held on 12-18 March 2018. Overall, more than 70 events were held throughout the country by approximately 30 commercial banks, state and financial institutions.⁴¹⁸ The events were covered in detail, for example, by the dedicated Facebook page⁴¹⁹.

The Agency for Consumer Rights Protection and Market Supervision⁴²⁰ is responsible for financial consumer protection in the Republic of Moldova. The Agency reports to the Ministry of Economy and Infrastructure of the Republic of Moldova.

In September 2018, the Agency representatives attended the International Conference on Best Practices for Financial Consumer Protection: Regulation and Cooperation in the Digital Economy held in Moscow. At the Conference, a report “Advancing Interaction between the Financial Services Consumers and Financial Institutions in the Republic of Moldova in 2018” was presented⁴²¹.



Starting from 2019, the National Bank of Moldova and Expert-Group Independent Think-Tank launched “Learn! Give Sense to Money”, the first national financial awareness project⁴²².

In 2018, the National Bank of Tajikistan kick-started awareness efforts for financial consumer protection.



At the 15th Meeting of the Advisory Council for Consumer Rights Protection in the CIS Member States, the National Bank of Tajikistan presented a review report on the respective progress.

As stated in the “Strategic Priorities of the National Bank of Tajikistan in Introducing Protection Mechanisms for Financial Consumer Protection in the Republic of Tajikistan for 2017-2019”⁴²³ available online, in October 2016, the Government of the Republic of Tajikistan resolved to empower the National Bank of Tajikistan to control and supervise insurance institutions. A number of provisions for financial consumer protection have been defined in the National Development Strategy of the Republic of Tajikistan until 2030 enacted in October 2016.

The Department for Protection of Consumer Rights in Banking of the National Bank of Tajikistan has provided Global Money Week international company with visual information and other materials, i. e. drawings and videos, showing the results of the World Finance Week. Global Money Week international company has also published a report on Tajikistan⁴²⁴.

Turkmenistan is now chairing the CIS. This could boost the consumer protection and raise public financial literacy in Turkmenistan.



In 2016, during a forum held by the Central Bank of Turkmenistan jointly with the Savings Banks Cooperation Fund (the Federal Republic of Germany), the attendees exchanged their opinions on the importance of raising financial literacy and savings culture. The roles of financial statistics, monetary management, transforming savings to investments, and the currency system improvement

were assessed.⁴²⁵



To comply with Resolution of the President of the Republic of Uzbekistan No. PP-3620 dated 23 March 2018 “On Further Actions to Facilitate Access to Banking Services”, the Service for Protection of Rights of Banking Services Consumers has developed the draft “Provisions on Minimal Requirements to Interaction of Commercial Banks with Banking Services Consumers” and made the document available on the Central Bank’s website for comments.⁴²⁶

In July 2018, the Central Bank of the Republic of Uzbekistan, the International Finance Corporation, the Chamber of Industry and Commerce and Norma Professional Growth Centre launched the Program “Raising Financial Literacy of Entrepreneurs and the Public”. The Program consists of two elements:

- Free access to the online course “Financial Literacy Fundamentals” (direktor.uz) for small businesses and sole

⁴¹⁵ https://rospotrebnadzor.ru/deyatelnost/zpp/?ELEMENT_ID=10707.

⁴¹⁶ <https://www.nbkr.kg>.

⁴¹⁷ <http://finsabat.kg>.

⁴¹⁸ <https://www.akchabar.kg/ru/news/money-week-2018/>.

⁴¹⁹ <https://web.facebook.com/pg/GlobalMoneyWeekKyrgyzstan/posts>.

⁴²⁰ <http://consumator.gov.md>.

⁴²¹ https://www.fbk.ru/upload/medialibrary/bfc/8_Jakot.pdf.

⁴²² <https://www.bnm.md/ru/content/nbm-i-expert-grup-zapuskyut-pervyy-proekt-finansovogo-obrazovaniya-na-nacionalnom-urovne>.

⁴²³ http://www.nbt.tj/files/Protection/strategiya/strategiya_ru.pdf.

⁴²⁴ <https://globalmoneyweek.org/countries/64-tajikistan.html>.

⁴²⁵ <http://turkmenpetroleum.com/ru/2016/11/02/%D0%B2-%D1%82%D1%83%D1%80%D0%BA%D0%BC%D0%B5%D0%BD%D0%B8%D1%81%D1%82%D0%B0%D0%BD%D0%B5-%D0%BE%D0%B1%D1%81%D1%83%D0%B4%D0%B8%D0%BB%D0%B8-%D0%B2%D0%BE%D0%BF%D1%80%D0%BE%D1%81%D1%8B-%D1%84%D0%B8%D0%BD/>.

⁴²⁶ <http://www.cbu.uz/ru/deposit-and-credit/news-and-regulatory/news/2018/03/106999/>.

proprietors;

- Arranging certification exams for the course.

In 2018, the Program was launched in the Karakalpakstan Republic, the Samarkand, Jizzakh, Qashqadaryo, Andijan, Fergana, Namangan Regions, and Tashkent.⁴²⁷

In November 2018, the Central Bank announced taking comprehensive efforts for raising public financial literacy. Earlier, the promotion was carried out jointly with the Financial Industry Development Agency and German Corporation for International Cooperation (GIZ). The joint work resulted in the development of a higher education curriculum and family budget brochures.

The International Finance Corporation, the World Bank, and the Finance Inclusion Alliance that was joined by the Central Bank in the summer of 2018 plan to collaborate on the scheme. The global partners will assist with the strategy development. The Central Bank of the Republic of Uzbekistan already finished negotiations with the World Bank. As a result of the negotiations, the World Bank will evaluate the public financial literacy in Uzbekistan.⁴²⁸

3.5. Key Results of the Joint Project of the Russian Federation and the International Bank for Reconstruction and Development

PUBLIC FINANCIAL LITERACY

Starting from 2011, Rospotrebnadzor took part in the Joint Project of the Russian Federation and the International Bank for Reconstruction and Development “On Raising Public Financial Literacy and Development of Financial Education in the Russian Federation” (hereinafter referred to as the Project). Raising financial literacy of consumers is viewed as part of large-scale practical efforts to facilitate the consumer right to education, as prescribed by Article 3 of the Law “On Consumer Rights Protection”.

An Action Plan/Road Map for the Strategy for Raising Financial Literacy in the Russian Federation for 2017-2023 (hereinafter referred to as the Strategy) became a major success in scope of the Project in 2018 (for more details please see Subclause 7.1 of the Report). The actions taken in scope of the Strategy and the Road Map lay the foundation for the financially aware behaviour of the public, as a pre-requisite for higher quality of life and better financial standing for the community who will be able to select financial services of proper quality, among other things.

In 2018, the Good Ideas Fund successfully continued its work by offering support to local initiatives on improvement of the financial literacy of the population. Within the fourth round of competitive selection of the initiatives of the Good Ideas Fund, the Ministry of Finance of Russia has accepted applications⁴²⁹ for financing of the projects aimed at raising the level of financial literacy, protecting the rights of consumers of financial services and conducting an awareness-raising campaign⁴³⁰. On 19 March 2019, the Sixth Stage of Competitive Initiative Selection was announced⁴³¹.

As part of the Strategy actions taken to develop information/consulting materials for financial services consumers, in the summer and autumn of 2018, the departmental standards and materials for consulting the consumers were updated. The materials detail the structure of advising on the key issues encountered by the financial market consumers and include templates of all the required documents.

In 2018, all information materials available at the stalls in the public reception offices and counselling centres of Rospotrebnadzor were updated. A further update will take place before the end of 2019. 2 infographics (i.e. step-by-step flow charts for using the key financial services adapted for unassisted printing or study in e-format) and 2 videos were developed as well, and the infographics included in the remaining 10 materials based on the consumer rights brochures issued in 2016-2017 also underwent an update.

Moreover, in 2018, 10 new teenager comics were created, and the development of materials explaining digital finance services and materials for the retired and for parents of underage children began. These materials will be published in e-format in 2019⁴³².

In addition, Rospotrebnadzor representatives attended a number of events promoting wider public awareness in the issues of raising financial literacy and ways of protecting personal rights and interests of financial consumers. For example, in 2017-2018, a major series of inter-region school awareness festivals “The Independence Day” was held, where both school students and teachers could learn about responsible consumer behaviour in the financial market, and an online school contest was arranged in more than 600 schools throughout the country. Moreover, experts of territorial bodies and counselling centres of Rospotrebnadzor took direct part in such customary national events in Russia as the Financial Literacy Week and the Savings Week (for details please refer to Subclause 7.3 of the Report).

To widen the reach and improve financial education and awareness of the public, the II All-Russian Financial Literacy Online Academic Competition was held in 2018 for the students of grades 5-11 and those of secondary vocational education studying in the 2018-2019 academic year.⁴³³

The Academic Competition had two long-distance rounds, the qualifications that took place from 5 November to 19



⁴²⁷ <http://www.banklar.uz/potrebitelyam/povyshenie-finansovoj-gramotnosti-naseleniya.html>.

⁴²⁸ <https://www.spot.uz/ru/2018/11/29/cb>.

⁴²⁹ <http://goodideafund.ru>.

⁴³⁰ <http://goodideafund.ru/2018/11/06/uvazhaemye-uchastniki-pyatogo-raunda-konkursnogo-otbora-iniciativ-v-oblasti-razvitiya-finansovoj-gramotnosti-i-zashhity-prav-potrebitelej/>.

⁴³¹ <http://goodideafund.ru/2019/03/19/informaciya-o-nachale-priema-zayavok-v-ramkax-shestogo-raunda-konkursnogo-otbora-iniciativ-podproektov/>.

⁴³² Anna Popova, Head of Rospotrebnadzor Spoke of Actions Taken by the Federal Service for Raising Public Financial Literacy

https://rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=11306&sphrase_id=1680110.

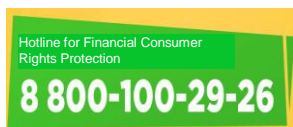
⁴³³ <https://olimpiada.oc3.ru>.

November 2018; and the finals that lasted from 3 December to 17 December 2018, and was intended for the following age groups:

- Students of grades 5-6 (10-12 years old);
- Students of grades 7-8 (12-14 years old);
- Students of grade 9 (14-16 years old);
- Students of grades 10-11 (15-18 years old);
- Secondary vocational education students (15-18 years old).

More than 26,000 contenders from 85 constituent entities of the Russian Federation registered for the Second All-Russian Financial Literacy Online Academic Competition 2018-2019. As per the qualifications, almost 13,000 contenders from 370 towns and cities and 4,000 schools successfully finished the tasks and were admitted to the finals where more than 4,500 participants contested. There were 56 winners and 1,301 awardees in the finals.

As compared to the first online academic competition, there were 3.5 times more contestants overall, and 10 times more contenders who finished the tasks successfully and were admitted to the finals. Only 31% of the contestants finished the qualification tasks successfully during the first financial literacy online academic competition, but more than 87% contenders were successful in the qualifications of the second one.



Efforts taken in scope of the Strategy to improve consumer awareness in financial services, for example, by introducing feedback instruments, included a fully functional 24/7 free hotline launched by Rospotrebnadzor for financial services consumers that was launched in the autumn of 2017 that continued to operate in 2018. Telephone consulting scenarios were developed in full compliance with the departmental standards of Rospotrebnadzor and

incorporated all the other information materials of the Project. There are approximately 3.5-4 thousand calls received per month on the average.

In addition to the hotline, Rospotrebnadzor launched an online feedback portal in the autumn of 2018⁴³⁴ for financial consumers to file complaints or receive automated advice remotely.

Furthermore, on 12-25 March 2019, Rospotrebnadzor operated the All-Russian Hotline for Consumer Protection in anticipation of the World Consumer Rights Day.⁴³⁵ This is the third consecutive year when both the public and the professional counsels protecting consumer rights have focused on the transition from traditional to digital markets. Rospotrebnadzor has offered consultations to consumers in various regions employing new formats. Such consultations were available not only for those coming in person or calling the hotlines, but also in shopping centres of major cities, in Multifunctional Centres in pilot regions and via messenger applications.

In total, Rospotrebnadzor experts provided 31,373 consulting sessions, of them 1,763 ones – on financial services, 91 – on personal data confidentiality breaches associated with digital products and smart devices, and 15 – on face recognition and fingerprint scan solutions. As a result of the reviewed complaints, Rospotrebnadzor experts composed 2,797 draft claims. Some on the complaints served as grounds for administrative proceedings or inspections⁴³⁶.

Now, specific mechanisms are being developed to integrate the hotline and the online feedback portal of Rospotrebnadzor into an interface for interaction of the authorities and consumers.

In scope of the Strategy events, the Project members, including Rospotrebnadzor, have proactively liaised with global organisations and participated in multinational events.



The Second International Conference on Best Practices for Financial Consumer Protection: Regulation and Cooperation in the Digital Economy held with support from FBK Grant Thornton became one of the milestones of the Project in 2018. The Conference was attended by the Minfin of Russia, Rospotrebnadzor, the Bank of Russia, the Chief Financial Ombudsman in Russia, banks, public unions of consumers, national regulators in the CIS, the World Bank, and the UNCTAD. The members learned about the current issues associated with the interaction between financial services consumers and financial institutions in the context of digital growth and discussed prospects of introducing the world

best practices in Russia.

In addition, the annual public report on consumer protection in the financial sector was presented at the Conference, which was also prepared with the participation of FBK Grant Thornton. The Report focuses on the key issues of financial market consumers and best practices for their rights protection and offering consultations. This was the sixth report, which was highly appraised by both Russian and foreign experts, as all the previous reports were. An e-version of the Report is available on the official website of Rospotrebnadzor⁴³⁷. The English version is available on the website of the UNCTAD⁴³⁸.

After the Conference was over, a round table “Measures Aimed at Strengthening Mechanisms of Interaction of Public Authorities, Financial Market Regulators, and Public Unions for Financial Consumer Protection” was held on 27-28 September 2018 and joined by Rospotrebnadzor, its territorial offices and organisations, the Russian Ministry of Finance, financial market players, associations for consumer protection, and the Project experts.

⁴³⁴ State Consumer Rights Protection Information Resource <http://zpp.rospotrebnadzor.ru>.

⁴³⁵ Celebrated on 15 March every year. In 2019, the motto was “Trusted Smart Products”.

⁴³⁶ Results of the All-Russian Hotline for Consumer Rights Protection https://www.rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=11687.

⁴³⁷ Report “On Status of Consumer Rights Protection in Financial Sector in 2017” //

<https://rospotrebnadzor.ru/bitrix/redirect.php?event1=file&event2=download&event3=doklad-2017.pdf&goto=/upload/iblock/096/doklad-2017.pdf>.

⁴³⁸ <https://unctad.org/en/pages/MeetingDetails.aspx?meetingid=1960>.

World experts from the Consumers International, CUTS International, India, Consumer protection Office of Department of Economic Development and Tourism in Western Cape (South Africa) shared their best practices with the Russian attendees of the round table.



The round table covered practices of financial consumer protection, up-to-date instruments for simplification of filing public complaints, specifics of consumer protection for vulnerable social groups, and encouraging greater involvement in consumer protection in the sector of financial services of non-governmental organisations.⁴³⁹

On 4-5 October 2018, the OECD Symposium “Raising Financial Literacy Globally: Promotion and Innovation” was held with the assistance of the Russian Ministry of Finance for the first time in Russia.

The Symposium was joined by managers of national financial literacy programs, ministries of finance and central banks of the G20, OECD, CIS, and other leading experts in financial education. Overall, more than 250 delegates from 60 countries attended the Symposium.

The attendees discussed reforms in financial education, risks for consumers of financial services associated with their digitisation, financial awareness of the vulnerable social groups, such as youth or migrants. Innovative approaches to facilitating financial education, actions promoting financial awareness, and protecting the consumer rights in crediting became the key items on the Symposium agenda as well.⁴⁴⁰

2018 saw the continued implementation of the Plan for Advancing Institutional Potential of Rospotrebnadzor based on diagnostics and analysis of the legal and regulatory framework. All the proposed actions in scope of the Project aimed to further the qualifications of Rospotrebnadzor employees and to advance the material and technical facilities used by Rospotrebnadzor for financial consumer protection have been completed successfully.

To enhance the internal interaction between Rospotrebnadzor regional departments and counselling offices and centres throughout the country, and to arrange Rospotrebnadzor on-site consulting and field awareness-building events within the Project, a great deal of various computer and presentation equipment items have been supplied. Such equipment installation was completed before the summer of 2018.

The Project results have been widely acknowledged. Professional organisations value highly the social importance of the Project, its objective of raising public financial literacy, introduction of basic financial education programs and development of special-purpose manuals promoting financial literacy for school students.



It is also worth noting that the Project was awarded with the bronze prize at the annual advertising and marketing communications contest held during the Festival “Silver Mercury”.

The Project was included in the nomination “Social Campaigns for Non-Profit Organisations and Fundraising”. There were 13 projects in the nomination in total.

FOR REFERENCE

The core idea of the Festival “Silver Mercury” is that projects should be judged not only by professionals in communications, but also by the advertising clients.

The Festival is a close collaboration between its participants that allows to study their capacity and advantages. The “Silver Mercury” awards are viewed as proof of high competency by the professional community.

As emphasised by the “Silver Mercury” organisers, its mission comprises education, development, inspiration, evaluation, and acknowledgement by advertising professionals. These principles are followed both in the master classes, presentations, panel discussions on the Festival agenda, and in the contest nominations.

The Festival serves as a cross-functional platform for collaboration between the major clients and players in marketing communications: agencies, corporate advertisers, and professional mass media.⁴⁴¹

Moreover, on 01 June 2018, the results of the VI Regional Award “Financial Prestige” were announced. The Award nominees included banks, investment companies, and insurance institutions from five regions of Russia as follows: the Altai Republic, the Kaliningrad Region, the Novosibirsk Region, the Tomsk Region, and the Yamal-Nenets Autonomous District.

FOR REFERENCE

“Financial Prestige” is the first and, as of now, the only regional high-profile award in Russia for financial institutions based on public voting, inspections, and independent assessment by the Expert Council. The first “Financial Prestige” ceremony was held in the Tomsk Region in 2012. The Kaliningrad Region joined the Award in 2015, the Altai Republic – in 2016, and the Novosibirsk Region and the Yamal-Nenets Autonomous District – in 2017.

There were three contestant nominations: “Banking Services”, “Insurance Services”, and “Investment Services”.

⁴³⁹ <http://rb-centre.ru/news/1934/>.

⁴⁴⁰ Global Symposium “Advancing Financial Literacy Globally: Promotion and Innovation” // <https://vashifinancy.ru/oesr>.

⁴⁴¹ Project on Raising Financial Literacy Received an Award at the Festival “Silver Mercury” https://vashifinancy.ru/for-smi/press/news/proekt-po-povysheniyu-urovnya-finansovoy-gramotnosti-poluchil-nagradu-na-festivale-serebryanyy-merku/?sphrase_id=11303.

According to Andrey Bokarev, Head of Department of International Financial Relations of the Russian Ministry of Finance, “the award promotes awareness”⁴⁴².

Therefore, all the events and efforts in scope of the Project contribute to raising public financial literacy and financial education improvement, and strengthen the regulation and guidance for financial consumer protection in general, and ensuring accessibility and greater transparency of financial services in the Russian Federation.



In 2018, world organisations focused on such important issues as digitisation of financial services, financial education of consumers, and potential risks associated with smart devices used by consumers for receiving various every-day services.

Rospotrebnadzor is continuing its efforts to demonstrate the best Russian practices to the world community by actively participating in working groups and committees of the UNCTAD, OECD, EEU, CIS, and other unions to develop practical steps to advance public awareness of consumer rights and enable access to financial services for all social groups and come up with new approaches to regulation of the financial services sector.

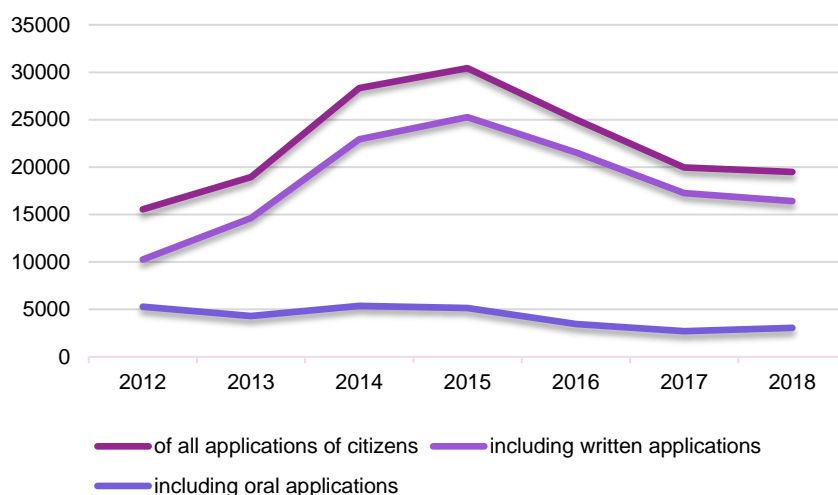
⁴⁴² Nominees of Award “Financial Prestige” Have Been Selected by Public Vote https://vashifinancy.ru/for-smi/press/news/narodnoe-golosovanie-opredelilo-nominantov-premii-finansovyy-prestizh/?sphrase_id=11299.

4. Rospotrebnadzor's Performance Results and Court Practices in Financial Consumer Protection

4.1. Consideration of Complaints and Applications of Consumers

In 2018 Rospotrebnadzor and its territorial bodies received 22,879 applications related to the rights of consumers of financial services (4,9% less than in 2017), 19,477 of which came from citizens: 16,407 written and 3,070 oral applications (Figure 4.1). In total Rospotrebnadzor and its territorial bodies considered 22,391 applications, 16,664 of which came from citizens.

Figure 4.1. Dynamics of the number of citizens' application to Rospotrebnadzor on the issues of financial consumer protection



Source: Rospotrebnadzor

In recent years, verbal public complaints made up just 10-15% of the total applications. In 2018, the share of verbal complaints in the total volume of public complaints associated with the rights of financial services consumers grew by 2.21 pp as compared to 2017.

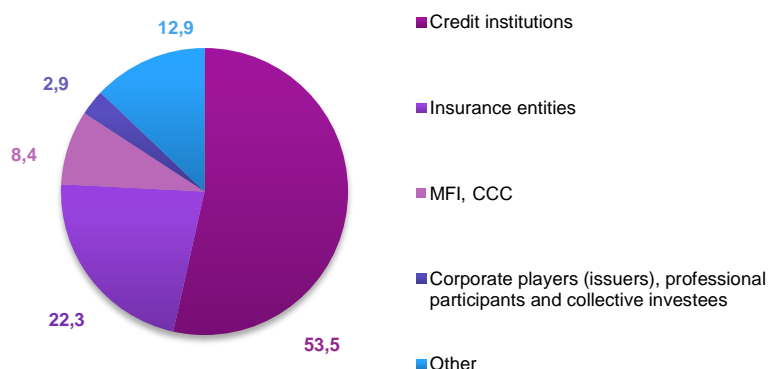
The share of financial services consumers in the overall complaints received by Rospotrebnadzor remains small: it decreased to 3.9% in 2018, whereas in 2017, the share was 4.5%.

The decrease trend with respect to the financial services complaints forwarded by Rospotrebnadzor to other agencies for review in scope of their authority continued in 2018. Thus, such complaints decreased by 13.6% (5,454 complaints) within a year, while in 2017, the number of forwarded complaints reached 6,315.

Additionally, in 2018, the Bank of Russia also recorded the decrease in complaints of financial services consumers by 5.8 thousand applications, i.e. 2.3%, for the first time in recent years; thus, there were 243.6 thousand complaints received. This scenario can be explained by the decrease of 28.2% (87.4 thousand) in complaints against non-credit financial institutions (NFIs). The mega-regulator received 130.3 thousand complaints against credit institutions (6.6% more than in 2017). Figure 4.2 shows the distribution of complaints received by the Bank of Russia in 2018 by types of the supervised service providers.

The highest number of complaints received by the Bank of Russia with respect to credit institutions is still associated with consumer lending (39.7% of all the complaints against credit institutions, or 51.8 thousand complaints), with the main subject matters related to loan repayment (10.3%) and hard selling of additional services during the agreement signing (8.8%). Furthermore, 14.9% of complaints against credit institutions were associated with mortgage facilities.

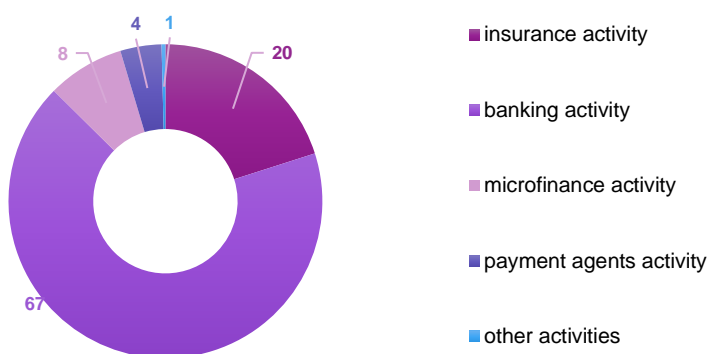
Figure 4.2. Distribution of Complaints in 2018 by Supervised Service Providers (%)



Source: the Bank of Russia

The flow of the public complaints dealt with by Rospotrebnadzor mostly contained those related to consumer rights violations by banking institutions (11,223 complaints, or 67.4%) and insurance institutions (3,345 complaints, or 20.1%). 707 complaints (4.2%) against paying agents were examined in 2018, while there were 764 respective complaints last year. With respect to other financial market services, 66 complaints were reviewed (0.4%). See Figure 4.3 for the dynamics of complaints examined by Rospotrebnadzor in 2018 by types of financial services.

Figure 4.3. Distribution of applications by types of financial services in 2018 (%)



Source: Rospotrebnadzor

FOR REFERENCE

In 2018, DIA provided public consultations on issues related to banking services and insurance, including a weekly face-to-face reception, hotline calls (86 thousand calls processed) and postal/electronic complaints via the feedback forms available on the official website of the Agency. More than 76 thousand responses were generated via automated information services on the DIA website that make it possible for the deposit owner to track the processing and to receive details of the agent bank nominated for the compensation payment.

Additionally, deposit owners also can use the Agency official website to submit their statements of disputed insurance compensation electronically using an enhanced encrypted and certified digital signature.⁴⁴³

The Bank of Russia recorded substantial increase in complaints against microfinance institutions. In 2018, 16.8 thousand complaints were received, which exceeded the number received in 2017 by 4.1 thousand (or 32.8%). The mega-regulator has attributed the trend to the growing number of microloans. As in the preceding period, the largest number of complaints received against MFIs relates to the repayment of debt under microloan agreements (68.4% of the total complaints against MFIs) or to disputed execution of the agreements (10.7%).

According to Rospotrebnadzor, the number of the reviewed complaints against MFIs went down by 3.7% in 2018. However, the share of complaints in the total amount of examined ones filed by the public grew by 0.9 pp to 7.9% (or 1,323 applications, as compared to 1,374 in 2017). To see the review dynamics for complaints against MFIs in certain regions, please refer to Figure 4.4.

In 2018, 44.3% applications of consumers of microloans after consideration were redirected by the territorial bodies of

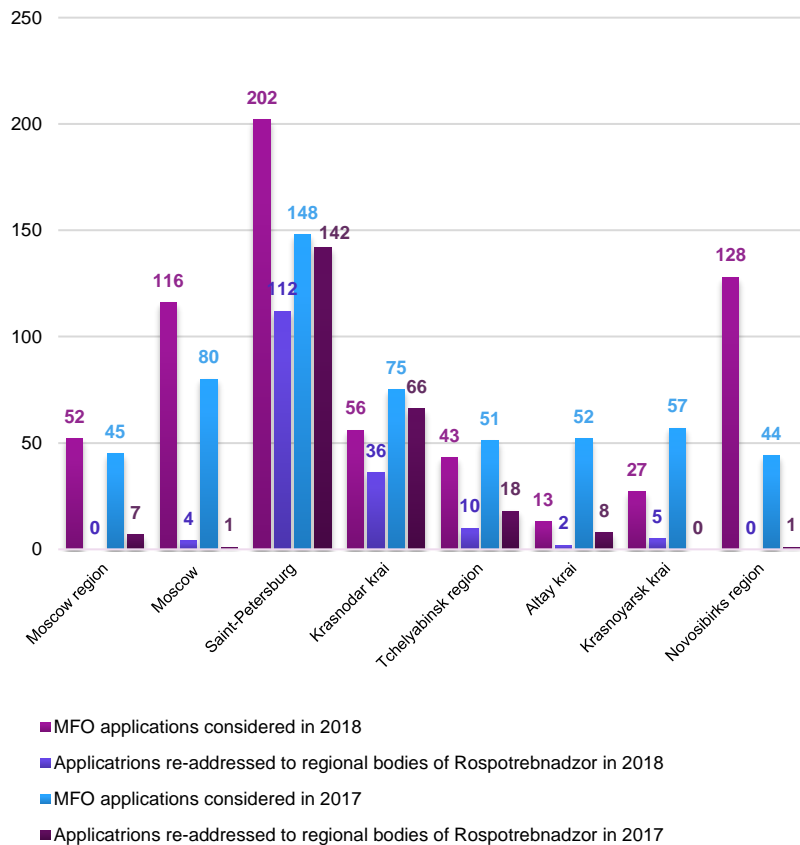
⁴⁴³Annual Report of Deposit Insurance Agency State Corporation for 2018 (Approved by Resolution of the Board of Directors of Deposit Insurance Agency State Corporation on 06 March 2019).

Rospotrebnadzor in accordance with subject matter jurisdiction . A small number of applications of the category in question (11 of 1, 323 applications, or 0.8%) resulted in supervisory activities with respect to MFIs.

The Bank of Russia has received 87.4 thousand consumer complaints against non-credit financial institutions (NFIs), with 62.2% of the same against insurance service providers. Thus, this indicator fell by 12.1 pp as compared to 2017. OSAGO complaints have been responsible for a major decrease, although this matter still prevails in insurance (44.3 thousand complaints, or 81.5% of the overall complaints associated with insurance providers). The main outstanding issues for OSAGO are the Bonus-Malus Factor (BMF) application and e-policies execution, however the number of consumer complaints regarding these issues has considerably decreased: by 40.9% and 62.9%, respectively. At the same time, the Bank of Russia has registered new complaint subjects, such as OSAGO compensation in kind (1.5 thousand complaints registered in 2018).

In this respect, Rospotrebnadzor has recorded slight growth of 1.5% in the complaints filed in relation to insurance services (from 3,298 complaints in 2017 to 3,345 in 2018). However, only 20% of such complaints gave grounds for inspections and administrative proceedings.

Figure 4.4. Appeals of financial consumers on MFIs in several regions of the Russian Federation



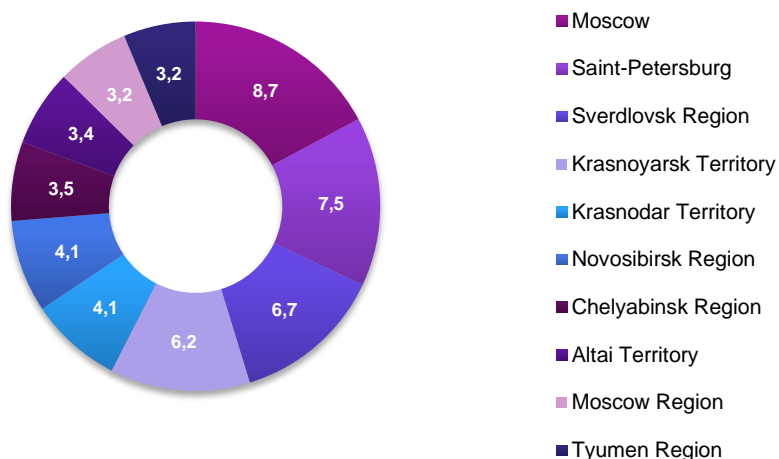
Source: Rospotrebnadzor

Petitions of public associations of consumers on issues of providing financial services to individuals form a separate category of applications.

In 2018, Rospotrebnadzor received from the public associations of consumers 35 applications regarding financial consumer protection, of which 25 (71,4%) - with respect to banking institutions, 4 (11,4%) — with respect to insurance institutions, 1 (6,7%) - with respect to microfinance institutions, herewith there were no complaints received regarding the activities of payment agents. Out of 35 appeals from public associations of consumers, none became the basis for an inspection, and only one became the basis for an administrative investigation. For comparison, there were no complaints by non-governmental organisations in 2017 that would serve as grounds for inspections as well, however, one application resulted in an administrative investigation.

Analysis of the consumer complaints for all types of violations in the regions shows that consumers of financial services in the Sverdlovsk Region, the Krasnoyarsk Territory, and Moscow and St. Petersburg, cities of federal significance are usually the most active (6.7%, 6.2%, 8.7%, and 7.5% of all considered complaints, respectively). The TOP-10 constituent entities of the Russian Federation with respect to the number of complaints account for 8,452 complaints, or almost 50.6% (Figure 4.5). In 2017, the said regions accounted for 8,688 complaints, or almost 44.6% of all the processed consumer complaints. The major share of complaints shown by regions in Figure 4.5 consists of filings against banking or insurance institutions.

Figure 4.5. Complaints by Financial Services Consumers in 10 Regions of the Russian Federation (% of the Overall Processed Complaints in the Russian Federation)



Source: Rospotrebnadzor

Once again, Moscow became the undisputed leader in filing complaints. 71.6% of 1,449 complaints processed by the Moscow Department of Rospotrebnadzor were filed against banking or insurance institutions (781 and 257 complaints, respectively).

Most of complaints regarding paying agents have been processed by Rospotrebnadzor Departments in Moscow, the Stavropol Territory, and the Moscow Region, the Novosibirsk Region (105, 82, 67, and 60 complaints, respectively). To compare with 2017: the highest number of complaints on the subject has been registered in the Moscow Region (66), St. Petersburg (49), and the Krasnoyarsk Territory (26).

In 2018, most complaints against banking institutions were received by Rospotrebnadzor offices in St. Petersburg (795), the Krasnoyarsk Territory (788), Moscow (781), and the Krasnodar Territory (519), with the shares of the total number of complaints against banks amounting to 7.1%, 7%, 6.9%, and 4.6%, respectively. In the preceding period, the complaint maximum with respect to banks was recorded in Moscow (967), the Krasnoyarsk Territory (844), the Sverdlovsk Region (749), and Saint Petersburg (725). Thus, there is a slight shift in the leadership within the category.

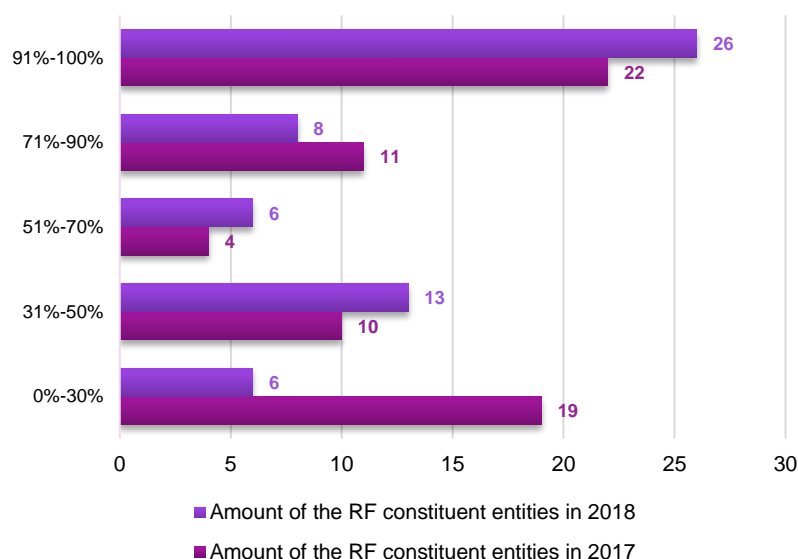
In 2018, the highest number of complaints against insurance institutions was received by Rospotrebnadzor offices in Moscow (257), the Krasnoyarsk Territory (220), St. Petersburg (219), and the Altai Territory (213), with 7.6%, 6.6%, 6.5%, and 6.4% of the total complaints received within the category under review, respectively. In 2017, the Sverdlovsk Region became the leader in complaints against insurance institutions (247 complaints). In Moscow, there were 218 processed complaints (15.2% less than in 2018).

The highest number of complaints against microfinance institutions was filed with Rospotrebnadzor in 2018 by consumers residing in St. Petersburg (159 complaints), the Novosibirsk Region (126 complaints), Moscow (93 complaints), and the Tyumen Region (67 complaints), i. e. 12%, 9.3%, 7%, and 5.1% of all the complaints against MFIs, respectively. In 2017, the complaint maximum with respect to MFIs was also registered in St. Petersburg. In the following period, this share grew by 7.4%.

Analysis of Rospotrebnadzor statistics shows that in 2018, the total applications in the Russian Federation that resulted in inspections and administrative investigations amounted to 749 (4.5% of all the processed complaints), and in 2017, to 823 (3.5% of all the complaints). As a result of inspections and administrative investigations, violations of the financial services consumer rights have been proved in 78.4% cases (587 complaints), which is higher than in the previous reporting period (74.7%). Moreover, in 26 regions no complaints were identified that could give grounds to inspections or administrative investigations. For comparison, in 2017, there were 19 of such cases. This increase in the regions number may mean that the efficiency of administrative decisions by Rospotrebnadzor offices in assessing the validity of the arguments listed in the complaints has increased.

The growing efficiency trend in processing complaints from financial services consumers by the territorial bodies of Rospotrebnadzor and taking the respective administrative decisions is shown for certain constituent entities of the Russian Federation by the share of confirmed complaints from the total complaints that resulted in inspections and administrative investigations (Figure 4.6). The distribution chart does not include the regions with no complaints that resulted in inspections or administrative investigations.

Figure 4.6. Number of the Russian Federation constituent entities by a share of confirmed appeals became a basis for inspections and administrative investigations in a whole number of appeals



Source: Rospotrebnadzor



Therefore, in 2018, the number of complaints by consumers of financial services filed with Rospotrebnadzor and its territorial bodies has decreased as compared to the preceding year. Bank services consumer complaints have decreased, whereas the share of complaints by the consumers of insurance and microfinance services has grown. However, complaints related to consumer right violations by banking institutions still hold a significant share among all the complaints by financial services consumers. It should be noted that Rospotrebnadzor experts became more efficient in taking decisions with respect to the complaints.

4.2. Control Actions

Main indicators of Rospotrebnadzor control activity under financial consumer protection are presented in Table 4.1.

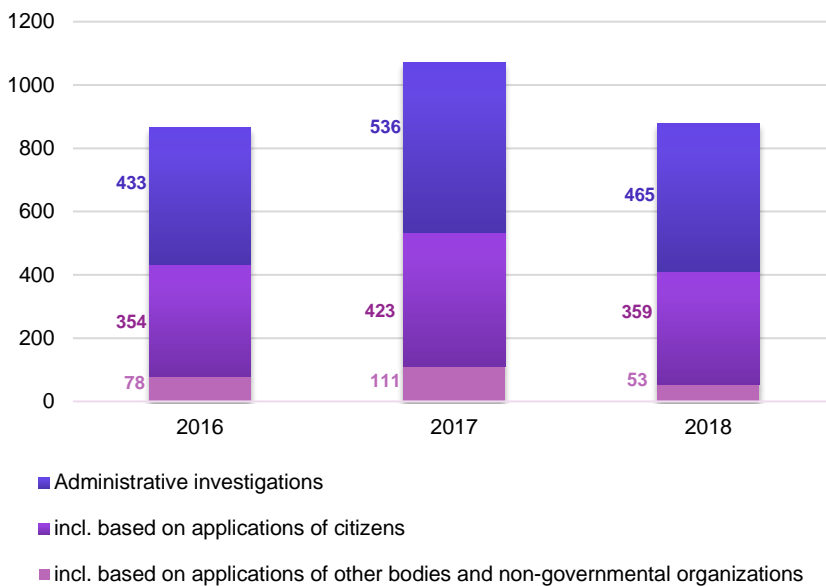
Table 4.1. Dynamics of the key supervisory performance indicators of Rospotrebnadzor

Indicator	2012	2013	2014	2015	2016	2017	2018
Supervisory measures taken	1 785	1 807	1 606	1 461	1 666	1 000	573
including scheduled ones	5 946	8 232	5 575	5 420	7 083	6 443	3 306
Violations revealed	880	721	672	550	433	536	465
Number of administrative investigations	1 644	2 063	2 199	1 866	2 040	2 470	1 812
Administrative offence reports completed	707	589	539	498	360	501	436
including upon the results of administrative investigations	1 353	1 595	1 853	1 999	2 271	2 217	1 580

Source: Rospotrebnadzor

In 2018, Rospotrebnadzor arranged 573 supervisions/control inspections to ensure compliance with consumer protection legislation in the sector of financial services. This is three times less than in 2012–2013. However, the number of violations associated with violated binding requirements of the consumer protection legislation discovered during inspections has decreased to a much lesser extent (3,306 violations in 2018, 5,946 violations in 2012), possibly due to continuously growing administrative supervision efficiency in the market of financial services for consumers. It is also worth noting that there was negligent decrease in the court rulings to hold liable for administrative offences (1,580 in 2018, 1,595 in 2013, and 1,353 in 2012).

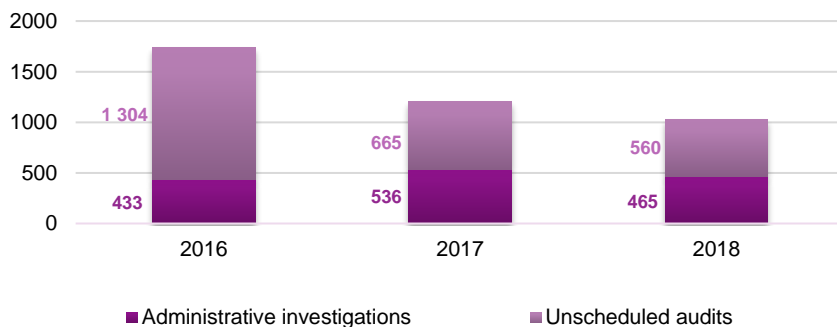
Figure 4.7. Flow Chart of Administrative Investigations by Rospotrebnadzor in 2016-2018 by Sources



Source: Rospotrebnadzor

In 2018, all the administrative investigations were initiated outside of the inspections scope (Figure 4.7). This in itself proves that Rospotrebnadzor experts are highly qualified (inspections and administrative proceedings are fundamentally different institutes that use different and very loosely interlinked legal frameworks). However, the number of the investigations shows slight progress (Figure 4.8). Comparison between the unscheduled control inspections and administrative investigations proves the previous conclusion that Rospotrebnadzor has increased its efficiency: in scope of the complaints analysis, administrative offence cases were rightfully identified, and then actions appropriate for the scenario were taken. Furthermore, changes to the federal state supervision procedures in consumer protection⁴⁴⁴ have led to substantial and factual decrease in the unscheduled inspections with preference given to initiating civil/claim procedures to resolve disputes related to any violations of the consumer rights with only minimal administrative involvement by Rospotrebnadzor. It should also be taken into account that the fundamental purpose of the inspection mechanism is not to hold financial institutions liable for any violated consumer rights, but to remedy the violations of the binding state regulations governing the business of all economic entities, including those operating in the consumer market.

Figure 4.8. Rospotrebnadzor Action Flow Chart in Financial Services for Consumers for 2016-2018 by Action Types

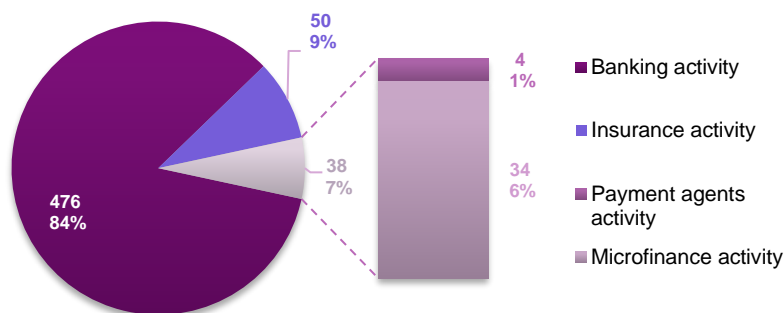


Source: Rospotrebnadzor

Despite the overall rapid reduction of control inspections, the dynamics of inspections in 2018 by the service providers' activity have changed insignificantly (Figure 4.9). As before, the maximum share of control inspections is in banking. At the same time, records show that the number of inspections in banking has reduced by almost two times (from 855 in 2017 to 476 in 2018). Changes in other industries in comparison with the previous year are negligent.

⁴⁴⁴For more details, please refer to the Report "On the Status of Consumer Rights Protection in the Financial Sector in 2017", pp. 275-276.

Figure 4.9. Structure of inspections of financial organisations conducted by Rospotrebnadzor in 2018 by types of financial services



Source: Rospotrebnadzor

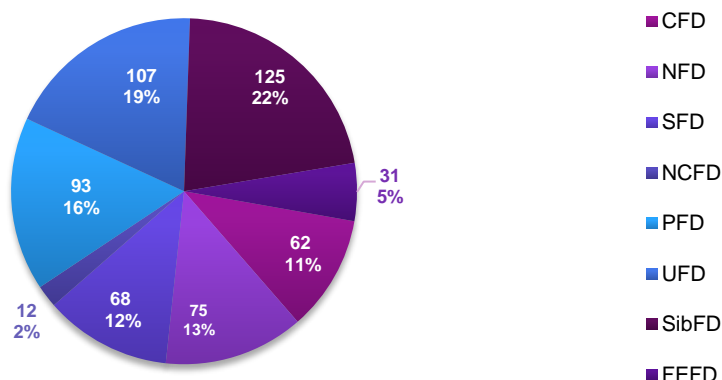
The Inspections by Regions Flow Chart shows relative stability (Figures 4.10 and 4.11). As usual, the most administratively active regions in finance are Volga, Ural, and Siberian Federal Districts.

However, in 2018 (Figure 4.10), the number of inspections in the Volga Federal District fell by more than two times (from 211 to 93) as compared to 2017 (Figure 4.11), the inspections in the Ural Federal District decreased 1.4 times (from 151 to 107), and in the Siberian Federal District – by 1.3 times (from 168 to 125). The most prominent reduction of 3.14 times happened in the Central Federal District (from 195 to 62).

In total, during the inspections arranged in 2018, 3,306 violations were discovered, constituting a 51.3% share of the same indicator for 2016 (6,443 violations).

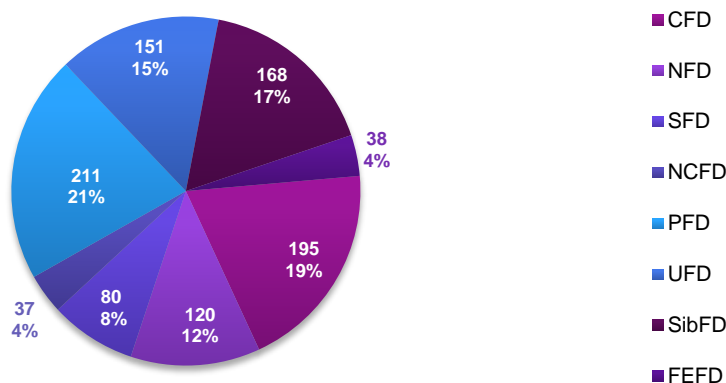
The effectiveness of inspections (the number of findings associated with violated binding requirements as compared to the total number of inspections) has reached 75% (71.8% in 2017, 59.3% in 2016). In 2018, the following violations were found as per separate activities of financial institutions subject to inspections: 366 out of 476 inspections in banking (76.9%), 34 out of 50 inspections (68%) in insurance, 26 out of 34 inspections (76%) in microfinance, 2 out of 4 inspections (50%) in paying agents' activities. The effectiveness of inspections for the last three reporting periods in individual financial activities of the inspected entities is shown in Figure 4.12.

Figure 4.10. Flow Chart of Rospotrebnadzor Inspections of Financial Institutions in 2018 by Federal Regions



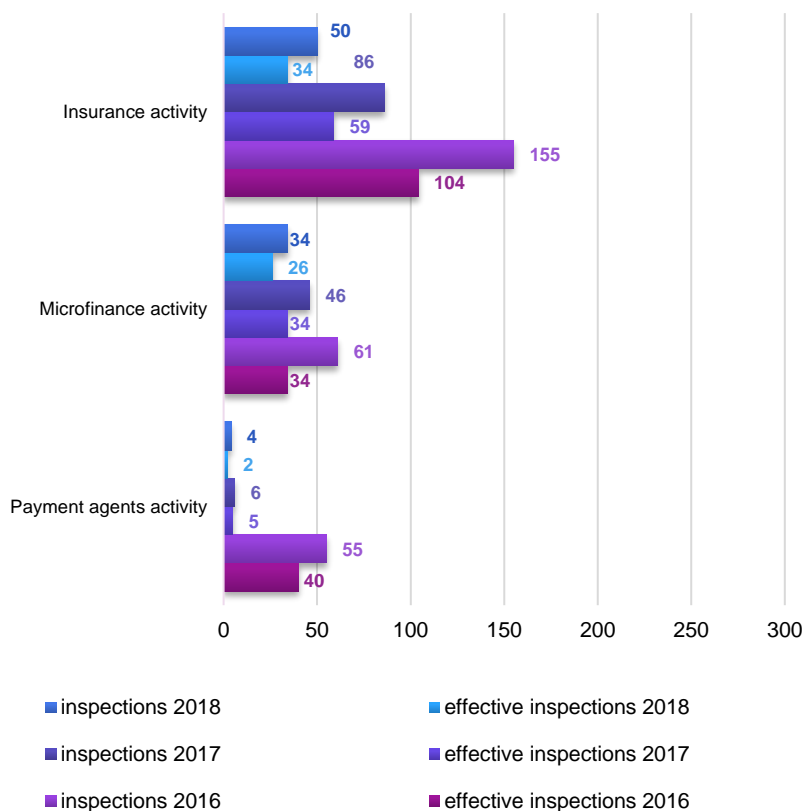
Source: Rospotrebnadzor

Figure 4.11. Flow Chart of Rospotrebnadzor Inspections of Financial Institutions in 2017 by Federal Regions



Source: Rospotrebnadzor

Figure 4.12. Dynamics of violations revealed by Rospotrebnadzor in 2015-2017 by types of financial services



Source: Rospotrebnadzor

In 2018, 1,984 violations, or 60% (57.5% in 2017, 54% in 2016) resulted from nonconformity with respect to the Law “On Consumer Rights Protection”. The remaining 1,322 findings were associated with violated binding requirements set forth by other regulations of the Russian Federation governing the consumer relations.

As in the previous years, most of the violations of rights of financial services consumer fell under Articles 8-10 and 12 of the Law “On Consumer Rights Protection” (Right of Consumers to Information) and Article 16 of the Law “On Consumer Rights Protection” (Free Choice of Goods, Works, Services)

FOR REFERENCE

Violations of purely finance-related Article 16.1 of the Law “On Consumer Rights Protection” (Payment Method and Manner) have been included in the elements of violations of “other Articles of the Law”: no separate statistics data have been generated for these violations in 2018.

The inspection effectiveness (the number of findings associated with violated binding requirements per one inspection) has reached 5.76 violations per 1 inspection in 2018 (to compare, it stayed at 6.4 violations in 2017, and 4.3 in 2016) being considerably higher than the average effectiveness of inspections throughout the consumer market (3 violations per 1 inspection⁴⁴⁵). In 2018, the inspection effectiveness for different types of business activities of the inspected entities was as follows: 5.8 violations per 1 inspection in banking, 4.76 – per 1 inspection in insurance, 7.5 – per 1 inspection in microfinance, 3.75 per 1 inspection in paying agents’ activities (to compare, in 2017, the indicators were 6.3, 5.9, 9.7%, and 6, respectively).

As it was stressed in the Report for 2017⁴⁴⁶ that such indicators of the effectiveness of inspections, in addition to the previous conclusion on improving the effectiveness of federal state supervision in the field of consumer protection at the expense of the internal resources of Rospotrebnadzor, indicate that violations of consumer rights recorded in the financial market are well known and easily qualified (there are no new varieties of offenses, as rule, associated with the emergence of new financial services and products). Herewith, the notability and ease of qualification does not simplify proving the fact of the offense and the guilt of an unscrupulous participant in the financial market, which can be evidenced by the indicators of the Rospotrebnadzor’s practice of establishing administrative offenses.

It seems that the indicators of inspection effectiveness for 2018 contradict the above conclusion on the indicators staying below the 2017 level, however, this is just on the face of it. The observed scenario can be explained by comparative analysis of the inspections/initiated proceedings for administrative offences (Table 4.1).

The actually observed results for 2018 show the re-distribution of manner/type of administrative actions taken by

⁴⁴⁵ According to Rospotrebnadzor data (Form of Industry Statistics No. 1-18).

⁴⁴⁶ Rospotrebnadzor’s Report “On the State of Financial Consumer Protection in 2017” / Ministry of Finance of the Russian Federation – 376 pages.

Rospotrebnadzor with respect to the complaints received from the consumer market, and this trend is especially noticeable in financial services sector. The reasons have been covered in previous reports many times; for example, the 2017 Report stated that “administrative proceedings were initiated by Rospotrebnadzor irrespective of the control actions.”

Thus, it is possible to conclude that all the received complaints (usually, public ones) regarding potential violations of binding requirements served as priority grounds for initiating administrative offence proceedings forgoing any interim factual checks (by an unscheduled inspection), and the 2018 results confirm this. In any cases with insufficient actual evidence, administrative proceedings have been initiated.⁴⁴⁷ This format of administrative actions is particularly simple and prompt from the procedural perspective, as it does not require Rospotrebnadzor to reconcile any efforts with the Public Prosecutor's Office. Therefore, unscheduled inspections were initiated as an exception, considering that the law governing unscheduled checks prescribes pre-court actions to settle the disagreement between the consumer and the economic entity.⁴⁴⁸ It is obvious that under such circumstances, the decrease in the inspection effectiveness may be largely attributed to misunderstanding of the procedure by consumers who request Rospotrebnadzor to conduct specific inspections. At the same time, the actual purpose of such inspections was often to document whether there are any violations by the economic entity or not for Rospotrebnadzor then to give a substantiated response to the applicant to avoid any appeals against the response by the Public Prosecutor's Office.

In the context of the above, some decrease in indicators may also be attributed to the proactive efforts taken by the Bank of Russia's Consumer Rights Protection Service and growing accessibility of financial and other federal authorities affecting the general state of the financial sector on the consumer market.

FOR REFERENCE

To implement Clause 8 of Section XIV “Financial Markets” of the Action Plan/Roadmap to advance competition in the economy sectors of the Russian Federation and to facilitate transition of certain natural monopolies to competitive markets in 2018-2020 enacted by Executive Order of the Government of the Russian Federation No. 1697-r dated 16 August 2018, the Federal Antimonopoly Service and the Bank of Russia have recommended to credit institutions, bank paying agents, bank paying subagents, paying agents to disclose the fee charged to consumers for services offered via ATMs/payment terminals⁴⁴⁹.

The Bank of Russia's efforts to rehabilitate the microfinance market are reflected by the following indicators of Rospotrebnadzor administrative performance: within the year, the number of administrative investigations initiated against MFIs decreased by almost three times (Table 4.2).

Table 4.2. Dynamics of Administrative Investigations by Rospotrebnadzor in 2014-2018 in Respect of Financial Institutions by Business Activities

Business activity of the entity subject to investigation	Completed investigations				
	2014	2015	2016	2017	2018
Banking	484	418	344	366	379
Insurance	148	85	28	38	41
Microfinancing	28	40	53	121	42
Paying agents' activities	3	2	4	3	4

Source: Rospotrebnadzor

In 2018, the share of investigations resulting in determined violations was 85.6% (89.7% in 2017, 79.2% in 2016 and 2015). Traditionally, high indicators can be explained by the administrative investigation specifics: it is initiated when there are grounds to suspect an administrative offense, but at the same time, there is no sufficient evidence for an offence report. Thus, when administrative offence proceedings are initiated after an investigation, there is initially a high probability of proving the offence.

In 2018, regional offices of Rospotrebnadzor drew up 436 protocols on an administrative offence upon termination of administrative investigation concerning a financial institutions, (in 2017 – 501, in 2016 – 360, in 2015 – 498), which constitutes 24% in the total number of protocols on an administrative offence (20.3% in 2017).

In total for the year 2018, regional offices of Rospotrebnadzor prepared 1,812 administrative offence reports (2,470 in 2017, 2,040- in 2016) in respect of financial organizations, including 1,323 reports in respect of agents of banking activities, 315 reports on respect of microfinance organizations, 131 reports in respect of insurance companies and 11 reports in respect of payment agents.

In 2018, 1,580 administrative penalties were imposed on financial institutions as per the findings (2,217 in 2017, 2,271 in 2016, and 1,999 in 2015), including 1,308 administrative fines totalling RUB 21.54 mln and 272 warnings. At the same time, administrative

⁴⁴⁷See the 2017 Report, p. 282, and the Report “On the Status of Consumer Rights Protection in the Financial Sector in 2015” / Ministry of Finance of the Russian Federation, p. 224.

⁴⁴⁸Subclause c), Clause 2, Section 2, Article 10 of Federal Law No. 294-F dated 26 December 2008 “On Protection of Rights of Legal Entities and Individual Entrepreneurs in Scope of State Control (Supervision) and Municipal Control” as amended by Federal Law No. 277-FZ dated 03 July 2016.

⁴⁴⁹Joint Letter of the Bank of Russia (No. IN-06-52/29) and the FAS of Russia (No. AK/25611/19) dated 29 March 2019 “On Disclosure of Fees” supplemented by “Recommendations on Disclosure of Fees Levied by Credit Institutions, Bank Paying Agents, Bank Paying Subagents, Paying Agents for Services Involving ATMs/Payment Terminals” / http://www.cbr.ru/StaticHtml/File/59420/20190329_in_06_52-29.pdf

penalties were charged against 1,065, 130, 345, and 8 institutions, respectively, in such financial areas as banking, insurance, microfinance, and paying agents' activities. Rulings to impose administrative punishment were based on 10 administrative offense grounds, the most applicable being Section 1 of Article 14.4, Sections 1, 2 of Article 14.7, and Sections 1 and 2 of Article 14.8 of the Code of the Russian Federation on Administrative Offenses (Table 4.3).

In contrast to previous periods, Section 1 of Article 14.5 of the Code of the Russian Federation on Administrative Offenses was almost never applied in 2018 due to the published "Digest of Regulatory Enforcement Practices in Control and Supervision by the Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing for Q1 2018"⁴⁵⁰. The Digest, among other things, clarified the differences in actus reus as per Section 1 of Article 14.5 of the Code of the Russian Federation on Administrative Offenses and Section 1 of Article 14.8 of the Code of the Russian Federation on Administrative Offenses, and that led to reclassification of the relevant matters under Section 1 of Article 14.8 of the Code of the Russian Federation on Administrative Offenses with regard to financial services.

Table 4.3. Certain Elements of Administrative Offences Used by Rospotrebnadzor Against Financial Institutions in 2018 by Business Activities

Administrative punishment rulings issued	Including under the Articles of the Code of the Russian Federation on Administrative Offenses				
	14.4 S. 1	14.7 S. 1	14.7 S. 2	14.8 S. 1	14.8 S. 2
Total	42	46	61	258	891
Including business activities of the entities subject to investigation:					
Banking	36	44	57	164	687
Insurance	2	2	1	42	60
Microfinancing	1	0	3	49	126
Paying agents' activities	3	0	0	2	0

Source: Rospotrebnadzor

As shown by the administrative offence cases in the financial services market considered in 2018, Rospotrebnadzor delivered 574 demands to remedy both the causes and the conditions contributing to the administrative offence, with 413 ones addressed to banking institutions, 39 – to insurance institutions, 120 – to microfinance institutions, and 2 – to paying agents.

As compared to the previous years, the offences flow chart remains unchanged. Violations of the consumer rights to information and agreement provisions that infringe the legal rights of consumers prevail, with both violations most common for banks and MFIs. This is evidenced by the relevant court cases by Rospotrebnadzor (Table 4.4).

Table 4.4. Consumer Right Violations Used as Grounds for Court Decisions in Favour of Financial Services Consumers in Scope of Challenged Administrative Actions of Rospotrebnadzor Territorial Bodies in 2018

Case category	Examples of court practice
On cancelling the ruling to hold liable for agreement provisions that infringe the statutory rights of the consumer as per Section 2, Article 14.8 of the Code of the Russian Federation on Administrative Offenses.	<p>Decision of the Supreme Court of the Russian Federation No. 304-AD18-1178 dated 20 March 2018 with respect to Case No. A27-3199/2017</p> <p>Demanded: On initiating appeal on cassation of the court orders for invalidation/cancellation of the administrative offence ruling under Section 1, Article 14.8 of the Code of the Russian Federation on Administrative Offenses to hold liable for violated consumer right to receive the required and reliable information on the product/work/service offered, manufacturer, seller, contractor, and the operating mode (small font makes the loan agreement illegible and prevents the consumer from obtaining full information and making a motivated choice),</p> <p>Ruled: To decline transfer of the case to the Judicial Board for Economic Disputes of the Supreme Court of the Russian Federation as the courts resolved that the actions of the bank contained administrative offence elements.</p>
	<p>Ruling by the Arbitration Court of the Ural District No. F09-5909/18 dated 29 October 2018 Regarding Case No. A60-64211/2017 (confirmed by Decision of the Supreme Court of the Russian Federation No. 309-AD18-26436 dated 28 February 2019)</p> <p>Demanded: On cancelling the ruling to hold the bank liable under Section 2, Article 14.8 of the Code of the Russian Federation on Administrative Offenses for loan agreement provisions that infringe the statutory rights of the consumer, namely, the stipulated assignment of rights/claims to third parties without the borrower's consent.</p>

⁴⁵⁰ https://rospotrebnadzor.ru/deyatelnost/org/?ELEMENT_ID=10629&sphrase_id=1677566.

Case category**Examples of court practice**

Ruled: To decline the demand as the imputed offence elements have been proved: the provision included in the individual terms and conditions of the disputed agreement prevents the borrower from expressing the will to allow/decline the right to the bank to assign the right of claim, thus, the borrower is deprived of the right to reconcile the relevant provision of the loan agreement, and his/her rights are infringed.

Ruling of the Arbitration Court of Moscow District No. F05-12164/2018 dated 06 September 2018 regarding Case No. A40-211550/2017

Demanded: On cancelling the ruling to hold liable under Section 2, Article 14.8 of the Code of the Russian Federation on Administrative Offenses for loan agreement provisions that infringe the rights of the consumer and the instruction to remedy the violation.

Ruled: To decline the demand as the credit institution failed to entitle the borrower to select the method of payment under the loan agreement, namely, to choose either cash or bank transfer.

Ruling of the Arbitration Court of Moscow District No. F05-10141/2018 dated 05 July 2018 regarding Case No. A40-193516/2017

Demanded: On cancelling the ruling to hold liable under Section 2, Article 14.8 of the Code of the Russian Federation on Administrative Offenses for consumer loan agreement provisions that infringe the rights of the consumer prescribed by the consumer protection legislation and the instruction to remedy the violation.

Ruled: To decline the demand as the bank's right to demand debt repayment in full or in part stipulated in the lending agreement in certain situations specified in the agreement will infringe the rights of the consumer as compared to the rules established by the laws or other legal regulations of the Russian Federation.

Ruling of the Arbitration Court of the West Siberian District No. F04-2453/2018 dated 25 June 2018 regarding Case No. A75-5755/2017

Demanded: 1. On declaring invalid the instruction to remedy the violations; 2. On cancelling the ruling to hold the bank liable for draft agreement provisions that infringe the rights of the consumer under Section 2, Article 14.8 of the Code of the Russian Federation on Administrative Offenses.

Particulars of the claim: The bank was obliged to exclude from all the agreement templates any requirements for verification of PoAs issued by persons/entities other than the bank, and to include mandatory information, including provisions on the financial liability of the bank for violation of the agreement.

Ruled: 1. To partly decline the demand, as the contested clauses of the instruction follow the legislation and do not violate any rights or legal interests of the bank; 2. To decline the demand.

Ruling of the Arbitration Court of the Volga District No. F06-37043/2018 dated 20 September 2018 Regarding Case No. A55-28508/2017 (as confirmed by Decision of the Supreme Court of the Russian Federation No. 306-KG18-22822 dated 21 March 2019)

Demanded: On cancelling the instruction by the administrative authority and the ruling to hold liable for bank agreement provisions that infringe the rights of the consumer under Section 2, Article 14.8 of the Code of the Russian Federation on Administrative Offenses.

Ruled: To partially accept the demand to cancel the instruction: the courts refused to cancel the ruling to hold administratively liable as prescribed by Section 2, Article 14.18 of the Code of the Russian Federation on Administrative Offenses as requested by the bank, having determined that the bank may neither adjust the payment term for the borrower who partially repays a consumer loan early, nor to write off any erroneously credited monies from the borrower account unless so instructed by the client.

Ruling of the Arbitration Court of the North-Western District No. F07-16670/2017 dated 13 February 2018 regarding Case No. A44-6557/2017

Demanded: On recognising null and void the demand to remedy both the causes and conditions that contributed to the offence prescribed by Section 2, Article 14.8 of the Code of the Russian Federation on Administrative Offenses.

Particulars of the claim: the bank included provisions in the loan agreement that infringe the rights of the consumer.

Ruled: To decline the demand as the bank was instructed to remedy both the causes and conditions that contributed to the offense detailed in the offence report and the ruling to hold administratively liable; the ruling shall not be appealed.

Case category	Examples of court practice
	<p>Ruling of the Arbitration Court of the North Caucasus District No. F08-10382/2017 dated 17 January 2018 regarding Case No. A53-14338/2017</p> <p>Demanded: On deeming illegal the ruling to hold liable under Section 2, Article 14.8 of the Code of the Russian Federation on Administrative Offenses for agreement provisions that infringe the rights of the consumer and to deem invalid the instruction to remedy the detected violations.</p> <p>Ruled: To decline the demand as it was proved that the company actions contained the imputed administrative offence elements.</p>
	<p>Ruling of the Arbitration Court of the North-Western District No. F07-14295/2017 dated 16 January 2018 regarding Case No. A56-19787/2016</p> <p>Demanded: On cancelling the ruling by the Rospotrebnadzor Department to hold the bank liable under Section 2, Article 14.8 of the Code of the Russian Federation on Administrative Offenses for including provisions that infringe the rights of the consumer (non-repayment of monies paid to the bank when cancelling the insurance early) in the consumer loan agreement.</p> <p>Ruled: To decline the demand, as the bank does not provide insurance services; thus, the insurance premium imposed on the borrower/consumer contains elements of hard selling of services and infringes the consumer rights.</p>
<p>On cancelling the ruling to hold liable under Section 1, Article 14.8 of the Code of the Russian Federation on Administrative Offenses for violating the consumer right of access to the required and true details of the offered product/work/service, manufacturer, seller, contractor, and the operating mode.</p>	<p>Decision by the Supreme Court of the Russian Federation No. 305-AD18-19855 dated 07 December 2018 Regarding Case No. A40-199822/17</p> <p>Demanded: On initiating appeal on cassation of the court orders contesting the ruling to hold administratively liable under Sections 1-2, Article 14.8 of the Code of the Russian Federation on Administrative Offenses.</p> <p>Ruled: To decline the transfer of the appeal on cassation for consideration by the Judicial Board for Economic Disputes of the Supreme Court of the Russian Federation, as, having assessed the evidence as prescribed by the Civil Code of the Russian Federation, Law of the Russian Federation No. 2300-1 dated 07 February 1992 "On Consumer Rights Protection", Federal Law No. 395-1 dated 02 December 1990 "On Banks and Banking", the courts have determined that failure to include the said conditions violates the right of the consumer to access the required and true details of the services offered.</p>
	<p>Decision of the Supreme Court of the Russian Federation No. 305-AD18-14990 dated 01 October 2018 Regarding Case No. A40-224928/2017</p> <p>Demanded: On initiating appeal on cassation of the court orders with respect to the motion to contest decision to hold administratively liable under Section 1, Article 14.8 of the Code of the Russian Federation on Administrative Offenses following the consideration of the complaint by K.S.V., an individual, and the administrative investigation by the administrative authority, where the violation by the company of Article 10 of the Law "On Consumer Rights Protection" when entering into the loan agreement with the said individual has been determined.</p> <p>Ruled: To decline transfer of the case to the Judicial Board for Economic Disputes of the Supreme Court of the Russian Federation, as the court came to the correct conclusion that the bank's actions contained elements of the imputed administrative offense.</p>
	<p>Ruling of the Arbitration Court of the Volga District No. F06-37206/2018 dated 23 October 2018 regarding Case No. A06-10424/2017</p> <p>Demanded: On cancelling the ruling to hold liable for violation of the consumer right to access the required and true details of the services offered under Section 1, Article 14.8 of the Code of the Russian Federation on Administrative Offenses.</p> <p>Ruled: To decline the paying agent's demand, as the offence has been proved.</p>
	<p>Ruling of the Arbitration Court of the Moscow District No. F05-15302/2018 dated 27 September 2018 regarding Case No. A40-18936/2018</p> <p>Demanded: On deeming illegal the rulings to hold liable for the loan agreement provisions that infringe the consumer rights under Section 2, Article 14.8 of the Code of the Russian Federation on Administrative Offenses, the ruling to hold liable for violation of the consumer right to access the required and true details of the services offered under Section 1, Article 14.8 of the Code of the Russian Federation on Administrative Offenses, to deem null and void the instruction to remedy the violations of the consumer protection legislation and the demands to remedy both the causes and conditions that contributed to the offense.</p> <p>Ruled: To decline the demand, as the company actions contain elements of the imputed offence, and the procedure and term for initiating the proceedings against it have been observed.</p>

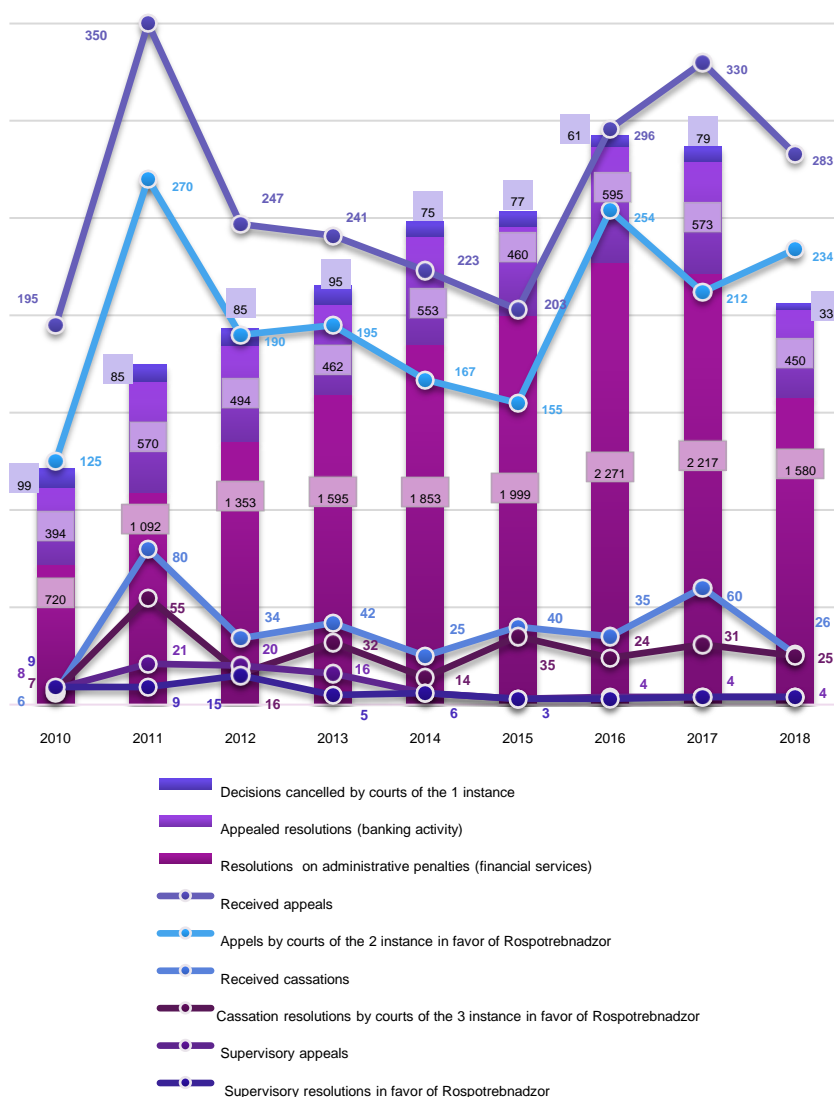
Case category	Examples of court practice
<p>On cancelling the ruling to hold liable for misleading consumers with respect to the usefulness/quality of goods/works/services in the manufacture of goods for sale or during the sale of goods/works/services under Section 2, Article 14.7 of the Code of the Russian Federation on Administrative Offenses.</p>	<p>Decision of the Supreme Court of the Russian Federation No. 309-AD18-19714 dated 06 December 2018 Regarding Case No. A60-42296/2017</p> <p>Ruled: To decline referring the case to the Judicial Board for Economic Disputes of the Supreme Court of the Russian Federation as the courts acknowledged that the administrative authority had rightfully determined the violations by the bank that stipulated agreement provisions that infringe the rights of consumers and misled them as to the usefulness of financial services for the consumer.</p>
	<p>Ruling of the Arbitration Court of the Far Eastern District dated 31 October 2018 No. F03-4609/2018 regarding Case No. A04-1964/2018</p> <p>Demanded: On cancelling the ruling to hold liable under Section 2, Article 14.7, Sections 1-2, Article 14.8 of the Code of the Russian Federation on Administrative Offenses for disregard by the bank of the consumer right to access the required and true details of the service, for the loan agreement provisions that infringe the consumer rights, for failure to offer to the consumer an option to either agree to or decline additional paid insurance services in the loan application, for the failure to include the insurance provisions in the individual loan terms and conditions.</p> <p>Ruled: To decline the demand as the bank actions contained the elements of the imputed offences, including proved fault.</p>
	<p>Ruling of the Arbitration Court of the Ural District No. F09-6163/18 dated 16 October 2018 regarding Case No. A50-12414/2018</p> <p>Demanded: On cancelling the ruling to hold liable for misleading consumers with respect to the usefulness of financial services, violating the consumer right of access to the required and true details of the services, and including in the consumer loan agreement provisions that infringe the consumer rights under Sections 1-2, Article 14.8, Section 2, Article 14.7 of the Code of the Russian Federation on Administrative Offenses.</p> <p>Ruled: To decline the demand as the offences have been proven.</p>
	<p>Ruling of the Arbitration Court of the Ural District No. F09-1624/18 dated 19 April 2018 regarding Case No. A50-39690/2017</p> <p>Demanded: On deeming illegal the demand of the authorised body and the ruling to hold liable for misleading the consumer, violating his/her rights to access true data, using agreement provisions that infringe the consumer rights under Section 2, Article 14.7, Sections 1-2, Article 14.8 of the Code of the Russian Federation on Administrative Offenses.</p> <p>Particulars of the claim: The Bank has been accused of misleading the borrower with respect to the true interest cost and the loan purpose, failing to declare the true cost of the insurance services, failing to offer the option to refuse the same or to select another insurer, including the fee for joining the insurance program in the loan amount.</p> <p>Ruled: To decline the demand as the violations have been proven.</p>

According to the data of Rospotrebnadzor⁴⁵¹, in 2018, credit institutions had appealed against 450 determinations out of 1.580 determinations on the imposition of administrative punishment issued by Rospotrebnadzor's territorial bodies in respect to financial institutions, or 28.5% (for comparison: in 2017, 2016, 2015 banks had appealed against 25.8%, 26.2%, 23%, of determinations, respectively). Of the total 450 complaints from banking institutions with respect to Rospotrebnadzor rulings to impose administrative punishment that have been heard by the court of the first instance, 33 (or 7.3%) resulted in rulings cancelled by the court (79 rulings, or 13.8% of the total number of bank complaints filed with the court were cancelled in 2017, 61, or 10.2% in 2016, and 77, or 16.7% in 2015, respectively). The court ruled in favour of Rospotrebnadzor 234 times (82.7%) with respect to 283 appeals (compared to 64.2% in 2017, 85.8% in 2016, and 76.3% in 2015). The court ruled in favour of Rospotrebnadzor 25 times (96.1%) with respect to 26 appeals on cassation (51.7% in 2017, 68.6% in 2016, 76.3% in 2015). As in the previous year, all courts of the supervisory instance ruled in favour of Rospotrebnadzor (4 supervisory appeals have been filed).

The results of 2018 show that financial institutions are still willing to infringe the interests of consumers, and supervisory authorities make efforts to prevent violations of consumer rights. It can be assumed that the ongoing Project "On Raising Public Financial Literacy and Development of Financial Education in the Russian Federation" will change the situation.

⁴⁵¹ According to internal statistics (letter from Rospotrebnadzor, dated 10 November 2008, No. 01 / 12725-8-32 "On the Practice of Applying by Courts of the Legislation on the Protection of Consumer Rights (in the Cases Involving the Territorial Bodies of Rospotrebnadzor)").

Figure 4.13. Dynamics of Rospotrebnadzor's administrative activities in financial consumer protection



Source: Rospotrebnadzor

At the same time, readiness of consumers to defend their rights should be encouraged by widening the public reach of administrative efforts taken by Rospotrebnadzor, the Bank of Russia, and other government agencies and authorities of relevant competencies, including by publication of Reports on the Status of Financial Consumer Protection. For example, publications available on the Rospotrebnadzor website (websites of its territorial bodies and organisations) and on the State Information Resource for Consumer Rights Protection (SIRCRP) contribute to this goal. In addition to raising awareness, such publications offer practical guidance for consumers, public unions of consumers, experts in consumer protection by timely classifying any systemic violations in the consumer market, covering all emerging controversies arising due to the development of the financial services market and digitisation of financial products.

The infographics of the dynamics of the court practice of Rospotrebnadzor in the area of administrative decisions in the market of financial services is shown in Figure 4.13.



In 2018, the general trend of growing efficiency and effectiveness of administrative efforts taken by Rospotrebnadzor in the sector of financial services for consumers continued. In alignment with the changing requirements to federal state supervision in consumer protection, departmental procedures used in administrative violation cases have been streamlined. This was facilitated to a large extent by the consistent guidance offered by Rospotrebnadzor to its territorial bodies.

Moreover, it seems reasonable to separately record the statistics of violations of Article 16.1 of the Law "On Consumer Rights Protection".

4.3. Court Practice

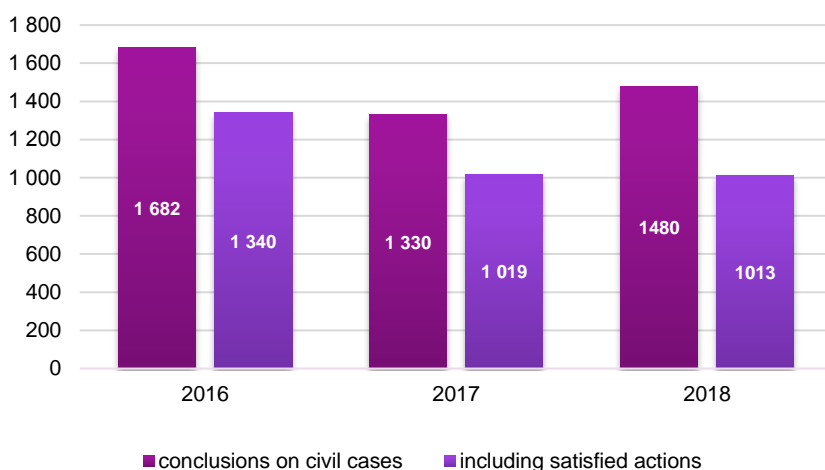
At one of the meetings by the G20/OECD Task Force on Financial Services Consumers Protection held in 2018, its attendees listened with great interest to the Rospotrebnadzor report on the national practices in financial consumer protection. The report assessed the most common issues faced by Russian consumers in finance and the respective efforts taken in regulation, raising financial literacy, and judicial protection. The history and positive performance in judicial protection of consumer interests with engagement by the Federal Service for Surveillance on Consumer Rights Protection have been described in the report. Despite the fact that litigations initiated by consumers and non-governmental consumer organisations have been decreasing for the third year in a row, the number of cases with Rospotrebnadzor involvement is growing every year, thus indicating the extreme demand for this power, especially on the part of socially vulnerable consumers⁴⁵².

In Subclause 4.2 “Control Actions” of this Report, a trend in reduced number of unscheduled inspections has been recorded. Instead, preference is now given to response to violations of consumer rights by resorting to the civil law (filing claims) with minimal administrative involvement by Rospotrebnadzor. The “minimal administrative involvement” means that Rospotrebnadzor exercises its special procedural powers in the court proceedings on consumer protection. Such involvement mostly entails offering opinions in scope of the civil cases in the capacity of the empowered federal executive authority in consumer protection.

In 2018, Rospotrebnadzor issued 1,480 opinions in scope of civil cases for financial consumer protection (hereinafter referred to as the opinion). This is 11.3% more opinions than in 2017 (1,330). The share of court rulings in favour of financial services consumers in the cases where Rospotrebnadzor offered its opinion reached 68.4% in 2018, or 1,013 favourable decisions per 1,480 opinions (76.6% in 2017, 77.9% in 2016) (Figure 4.14).

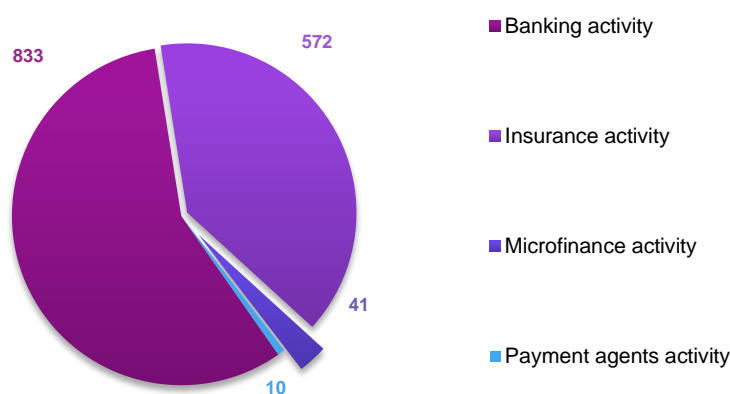
The practice of Rospotrebnadzor territorial bodies offering opinions in consumer protection court cases in 2018 did not change much compared to the previous years; as before, litigations with banking and insurance institutions prevail (Figures 4.15 and 4.16).

Figure 4.14. Dynamics of Rospotrebnadzor’s conclusions for financial consumer protection in 2016-2018



Source: Rospotrebnadzor

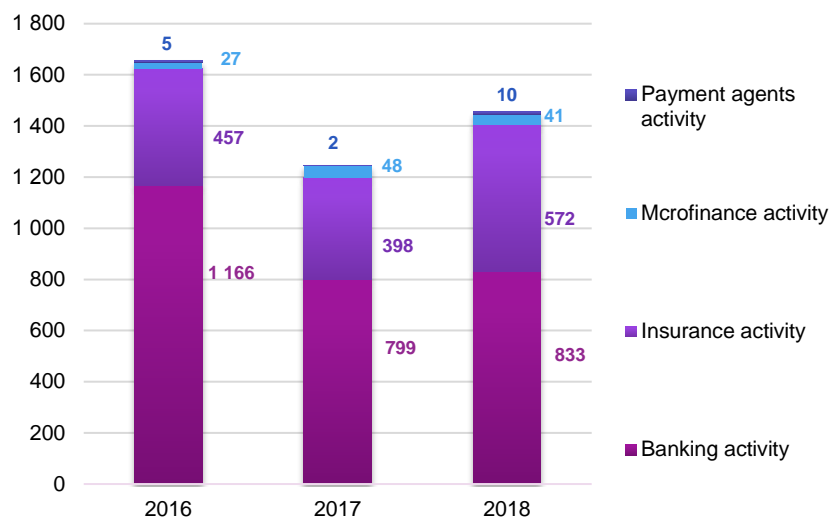
Figure 4.15. Structure of regional offices’ conclusions by types of financial activities in 2018



Source: Rospotrebnadzor

⁴⁵² <http://zpp.rospotrebnadzor.ru/news/federal/162639>

Figure 4.16. Dynamics of regional offices' conclusions by types of financial activities in 2016-2018

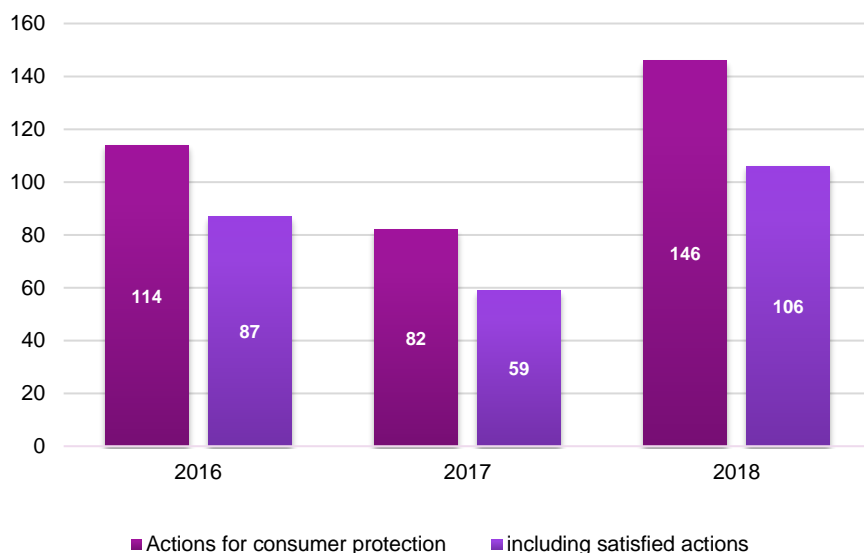


Source: Rospotrebnadzor

In 2018, Rospotrebnadzor territorial bodies filed 146 claims with the courts to protect the rights of specific consumers of financial services, and that is 78% more than in 2017 (82 claims). Of these, 106 claims (72.6%) were sustained by the court in full or in part (72% in 2017, 76.6% in 2016, and 60.8% in 2015) (Figure 4.17).

As for judicial protection of the rights and legal interests of consumer groups, as in the previous years, there have only been singular instances of Rospotrebnadzor involvement. This can be attributed to the undeveloped procedures for the consideration of such civil cases (Draft Federal Law No. 596417-7⁴⁵³ introduced by the Government of the Russian Federation to the State Duma of the Russian Federation on 28 November 2018 and approved on its first reading on 13 February 2019). Overall, Rospotrebnadzor filed one claim to protect a group of consumers of banking services in 2018. There has been no decision issued with respect to the claim as of the end of 2018. At the end of the last year, 9 favourable court decisions were made (in favour of Rospotrebnadzor and consumers).

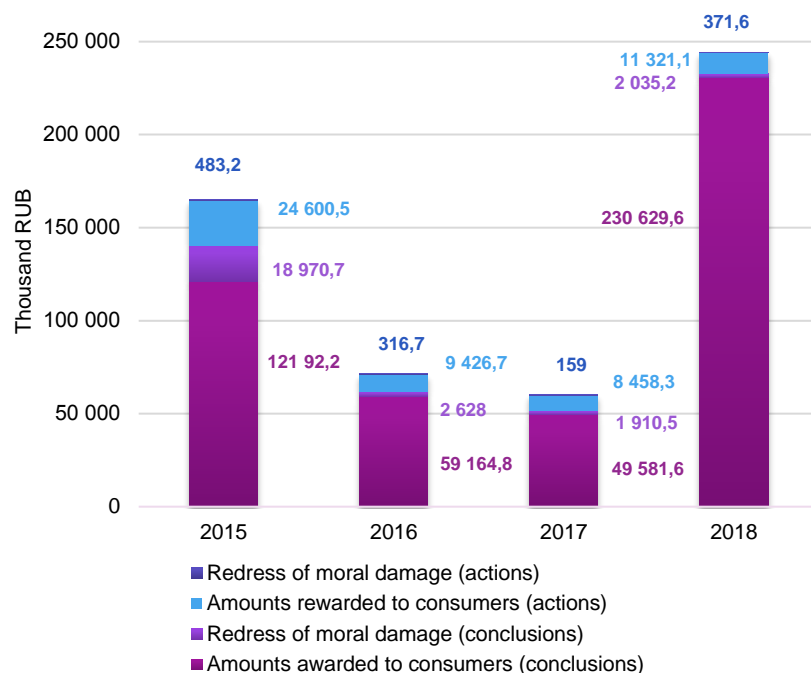
Figure 4.17. Dynamics of Rospotrebnadzor's actions for financial consumer protection in 2016-2018



Source: Rospotrebnadzor

⁴⁵³ Draft Law No. 596417-7 "On Amendments to Certain Legal Acts of the Russian Federation to the Extent of Settling the Procedure for Considering Claims with Respect to Protection of Group Rights and Legal Interests".

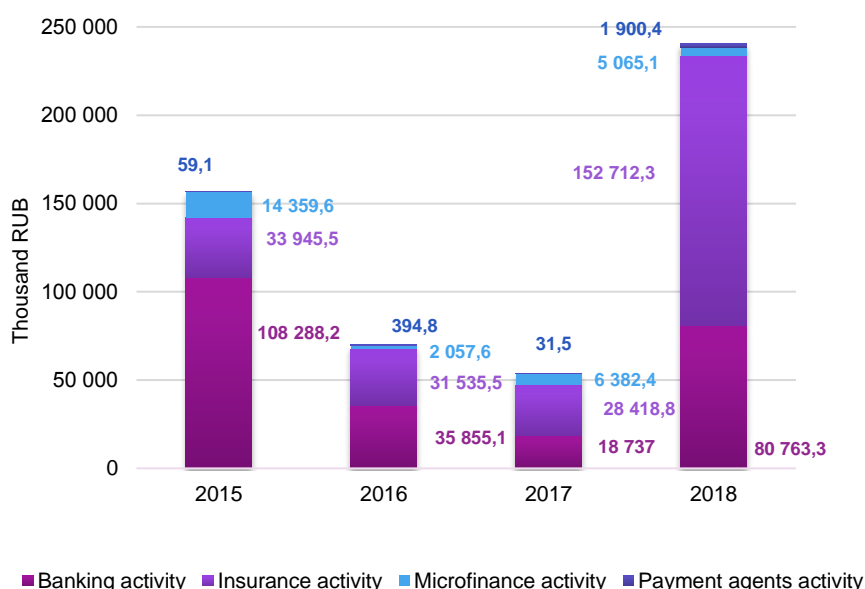
Figure 4.18. Allocation of funds awarded to financial consumers in 2015-2018 by forms of Rospotrebnadzor's participation



Source: Rospotrebnadzor

In civil cases on financial consumer protection with the involvement by Rospotrebnadzor territorial bodies heard in 2018, consumers were awarded almost RUB 242 mln, including RUB 2.4 mln as indemnity for moral harm (RUB 60.1 mln and 2.1 mln in 2017, RUB 71.5 mln and 2.9 mln in 2016, RUB 165 mln and 19.5 mln in 2015, respectively). Thus, the damages awarded to consumers in cases with Rospotrebnadzor involvement in 2018 rose 4 times as compared to the previous year, breaking the downward trend of 2016-2017 and exceeding the 2015 figures. On the one hand, the performance has improved mainly due to Rospotrebnadzor offering opinions in scope of the consumer rights protection proceedings, on the other hand, due to damages paid out by banks and particularly insurance institutions. This trend is clearly visible in the flow charts showing distribution of amounts awarded to the consumers by Rospotrebnadzor involvement format (Figure 4.18) and by the disputed financial services (Figure 4.19). Thus, damages paid out by banks and insurers to consumers who won in the court proceedings with the assistance by Rospotrebnadzor grew by 4.3 and 5.3 times, respectively, as compared to 2017.

Figure 4.19. Allocation of funds awarded to financial consumers in 2015-2018 by types of financial activities



Source: Rospotrebnadzor

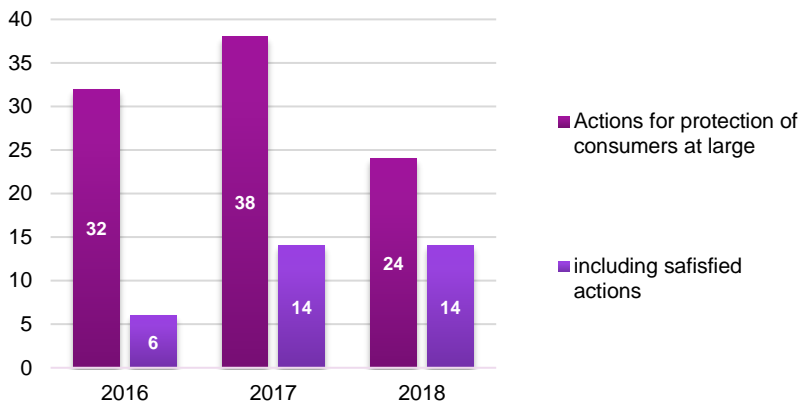
It can be concluded that the efforts of the insurance community to reduce the number of lost court cases have not led to the desired result. In this context, it is necessary to point out that earlier, the insurers had been blaming the "hyperactivity" and "underhandedness" of the so-called "traffic lawyers" for their lost court cases against consumers. As a result, a number of amendments have been introduced into the law to tighten the requirements for the consumer counsels in courts. However, as the

results of 2018 demonstrate, the conclusion that disputes with unscrupulous insurers are financially attractive for professional human rights counsels was more correct⁴⁵⁴.

Unlike claims by individual consumers/consumer groups, protection of the rights and legal interests of the public at large is purely non-proprietary, and for this reason alone cannot attract lawyers engaged in commercial counselling. As a rule, such claims are filed by public unions of consumers to fulfil their statutory objectives and exercise respective powers set forth by the Law “On Consumer Rights Protection” or by Rospotrebnadzor.

In 2018, Rospotrebnadzor territorial bodies filed 24 claims with courts to protect the rights and legal interests of financial services consumers at large (38 claims were filed in 2017, 32 in 2016, 37 in 2015), with 14 (58.3%) of them satisfied by the court (36.8% in 2017, 18.8% in 2016, 24.3% in 2015) (Figure 4.20).

Figure 4.20. Dynamics of Rospotrebnadzor’s actions for protection consumers at large in 2016-2018



Source: Rospotrebnadzor

Judicial practice of cases on consumer protection, including cases with Rospotrebnadzor’s (its regional offices’) participation in all statutory forms of such participation, will be published on the State consumer protection data resource at the “Judicial practice”⁴⁵⁵.

The integrated picture proves that reducing inspections in scope of the federal state supervision in consumer protection has allowed Rospotrebnadzor to free resources for more active engagement of its counsels in the judicial protection of the consumer interests. In absolute terms, increase of the offered opinions, *claims for* protection of specific consumers has been recorded, breaking the trends of the last two years. Therefore, administrative responses have been efficiently redeployed due to integrated internal and external reasons, including the amended legislation.

As before, documents adopted by the Supreme Court of the Russian Federation play a key role in the accurate classification of violations in the consumer market: rulings by the Plenum of the Supreme Court of the Russian Federation, digests of case law issued by the Supreme Court, and other track records of the Supreme Court.

At the beginning of 2018 the RF Supreme Court drafted and submitted to the State Duma of the Russian Federation draft federal law No. 383208-7 "On Amendments to the Code of Civil Procedure of the Russian Federation, the Arbitration Procedural Code of the Russian Federation, the Code of Administrative Proceedings of the Russian Federation and Certain Statutes of the Russian Federation", which, inter alia, provides for an increase in the maximum amount of claims for property disputes arising in the field of consumer protection, up to 100 thousand rubles.

As a result, Federal Law No. 451-FZ “On Amendments to Certain Legal Acts of the Russian Federation” dated 28 November 2018 has been enacted to raise the fees-free cap on consumer claims to the specified level (currently, the Law has not yet entered into force)⁴⁵⁶.

The Draft Federal Law “On Amendments to Certain Legal Acts of the Russian Federation to Advance Conciliation Procedures” serves as another example of the Supreme Court law-making efforts that may well have a positive impact on consumer disputes with economic entities⁴⁵⁷.

The explanatory note to the Draft Law states the following: the Arbitration Procedural Code of the Russian Federation and the Code of Administrative Court Procedure of the Russian Federation set forth the provisions for conciliation of the parties. However, due to their brevity and fragmentation this mechanism could not become an effective lever for dispute resolution.

In particular, between 2011 and 2017, conciliation involving mediators was used in a negligent number of cases.

⁴⁵⁴See pages 130-134 and 292 of the Report “On the Status of Consumer Rights Protection in the Financial Sector in 2017” / Ministry of Finance of the Russian Federation.

⁴⁵⁵ <http://zpp.rospotrebnadzor.ru/adjudications/federal>.

⁴⁵⁶Federal Law 451-FZ dated 28 November 2018 will enter into force from opening of cassation courts of general jurisdiction and courts of appeal of general jurisdiction as determined by Section 3, Article 7 of Federal Constitutional Law No. 1-FKZ dated 29 July 2018.

⁴⁵⁷ Ruling of the Plenum of the Supreme Court of the Russian Federation No. 1 dated 18 January 2018.

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According to the Supreme Court of the Russian Federation, 138 disputes filed with respect to consumer protection were settled by mediation in 2017, with 4 of the cases relating to financial services⁴⁵⁸.

At the same time, there is high demand for accessible and effective dispute settlement mechanisms in Russia, provided that the same will contribute not only to the quality of justice by aligning the judicial burden but, above all, to minimising the habit of resorting to conflict, strengthening social and business ties, establishing and maintaining partnerships, encouraging respect for the law, and increasing legal awareness and social commitment.

The draft law has been prepared with a view to introduce conciliation procedures as an instrument of court dispute resolution, including court-assisted conciliation.

Ruling of the Plenum of the Supreme Court of the Russian Federation No. 48 dated 25 December 2018 “On Certain Issues of Identifying and Distributing Bankruptcy Estate of Individuals” provided explanations to courts and touched upon mortgage being the most important issue for individuals.

In accordance with Clause 3 of the Ruling, “the immunity from execution in respect of the only habitable dwelling not burdened by mortgage shall also apply to the debtor bankruptcy (Clause 3, Article 213.25 of the Law on Bankruptcy, Paragraph 2, Section 1, Article 446 of the Civil Procedural Code of the Russian Federation⁴⁵⁹).

When the debtor holds title to several residential premises, the court considering the bankruptcy case shall select the dwelling to be immune from execution by endeavouring both to meet the demands of creditors and to protect the constitutional housing right of the individual debtor and his/her family, including dependent minors, seniors, or disabled persons to ensure normal life conditions for the same and guarantee their social and financial rights.”

Clause 5 of the Ruling clarifies that “as per the special legal status of the only habitable dwelling in mortgage, the courts should take into account the following.

If the creditor failed to deliver to the debtor in the bankruptcy case the demand secured by mortgaging the only habitable dwelling of the debtor and his/her family, or the creditor applied to confirm the status of the mortgage creditor after the term defined in Clause 1, Article 142 of the Law on Bankruptcy, and the court declined to renew the missed term, the court shall not sustain the creditor’s claim to the mortgaged dwelling, including by levying the execution on such property outside of the bankruptcy case.

The said demand shall be recorded into the creditor demand register as unsecured.

In this case, the dwelling shall be deemed as not included in the bankruptcy estate by virtue of Clause 3, Article 213.25 of the Law on Bankruptcy, and the respective right of pledge shall cease after the sale of the property, subject to the debtor being released from further liabilities.”

It should be assumed that this interpretation by the Supreme Court of the Russian Federation will facilitate legal protection of individuals caught in indentured servitude and forced to initiate personal bankruptcy procedures.

Ruling of the Plenum of the Supreme Court of the Russian Federation No. 49 dated 25 December 2018 “On Certain Applications of General Provisions of the Civil Code of the Russian Federation with Respect to Entering Into and Interpreting Agreements” provides some important general clarifications.

In particular, Clause 15 of the Ruling states that “loan agreements (Clause 1, Article 819 of the Civil Code of the Russian Federation) and voluntary property insurance agreements (Clause 1, Article 927 of the Civil Code of the Russian Federation) in particular shall not be deemed as standard form agreements.”

Clause 17 of the Ruling should also be highlighted, as it will have an obvious impact on the enforcement of the purely financial Article 16.1 of the Law “On Consumer Rights Protection”. In particular, it clarifies that “pursuant to Clause 2, Article 426 of the Civil Code of the Russian Federation, standard form agreement prices of goods, works, or services may differ for consumers of different categories, for example, students, the retired, or large families. Categories of consumers may be established by the law or any other regulation or determined by the entity obliged to enter into a standard form agreement, for example, stipulated in the loyalty program as per unbiased criteria, including those related to the personal characteristics of consumers, unless these criteria conflict the law.

When the categories of consumers are defined by the entity obliged to enter into the agreement, the respective information shall be available to the consumers, for example, posted on the official website of the entity.”

The interpretation of preliminary agreements is not directly related to financial services that have compensatory nature a priori. However, the interpretation is crucial for settlements as they form an integral part of any consumer agreement. The Supreme Court of the Russian Federation has emphasised the essential attribute of the preliminary agreement: only a good-faith deposit or a forfeit may be used for settlements thereunder (Clause 26 of the Ruling). That is, the preliminary agreement is not a paid services agreement as defined by the Law “On Consumer Rights Protection” and therefore is not covered by the Law. Meanwhile, the consumer market regularly faces situations with consumers misled as to the essence of the executed agreements, including by the principal agreement being substituted with the preliminary agreement (on its face).

Interpretation by the Supreme Court of the Russian Federation with respect to offers and their acceptance is of similar importance (Clauses 7-14 of the Ruling). There is a practice of misleading consumers in the financial services market, when banks, for example, aggressively market their services by distributing mass issued credit cards and passing them off as “offers” initiated

⁴⁵⁸Page 294 of the Report “On the Status of Consumer Rights Protection in the Financial Sector in 2017” / Ministry of Finance of the Russian Federation.

⁴⁵⁹Civil Procedure Code of the Russian Federation

by the consumers to enter into agreements, with the banks just “accepting” their own distributed offers. As a result, financially unaware individuals may become involved in credit relations without understanding that they have entered into a deal with long-term obligations. This practice is currently much less common, however, it has not yet been removed from the business practice.

In accordance with the above, Clause 45 of the Ruling states that “the agreements shall be interpreted in favour of the party other than the agreement drafter/party that proposed the relevant terms and conditions. Unless proved otherwise, it is assumed that such a party was a professional specialising in the discipline requiring special expertise (e.g. a bank under a loan agreement, a lessor under a leasing agreement, an insurer under an insurance agreement, etc.).”

Interpretation of agreements crucial for judicial consumer protection has been given in Clause 43 of the Ruling. In particular, it states that “the agreement shall be interpreted in such a way as to prevent any party to the agreement from benefiting from undue or unfair conduct thereof (Clause 4, Article 1 of the Civil Code of the Russian Federation).” Equally important is the instruction to the courts provided in Clause 46 of the Ruling: “In the decision, the court shall indicate the grounds for giving preference to the respective interpretation of the agreement in a particular case.” This interpretation is crucial as only a reasoned judging by the court documented in its decision may be escalated.

Clauses 47 to 49 of the Ruling deal with the hybrid agreements. The relevance of the hybrid agreements can be attributed to the development of the consumer market. It is well known that legal innovations always catch up with the economic innovations. For example, many consumers now face negative consequences associated with investment life insurance (ILI) agreements, as the relations thereunder cannot be reduced to just the insurance and investment amounts. The relations are a different matter subject to a separate classification followed by introduction of a legal treatment appropriate for the novelty deals/agreements.

Until the ILI deals are treated, in full or in part, separately under the consumer protection regulations, the respective rights and obligations of the agreement parties in scope of such deals shall be construed as per the hybrid agreement regulations. Therefore, the interpretation given by the Supreme Court of the Russian Federation was very timely.

Thus, Clause 47 of the Ruling states that “first of all, it is necessary to take into account the substance of the statutory regulation for the relevant obligations and the agreement essentials prescribed by the law or any other legal regulation, notwithstanding the name of the agreement to be classified given by its parties, the name of the parties, the fulfilment method, etc.” Pursuant to Clause 49 of the Ruling, “if the content of the agreement is not sufficient to classify the agreement in full or in part (non-defined agreement) as one of the agreement types/categories established by the law or any other regulations, the rights and obligations of the parties thereunder shall be established by construing the terms and conditions thereof.”

Example: B. entered into a life insurance agreement (Alliance Strategy insurance program) under which the insurance object was some property interest related to the survival of the insured up to a certain term or death of the insured.

At the same time, the insurer issued advertising leaflets showing various schedules, charts, and calculations implicating that the petitioner was guaranteed a high additional investment income. In March 2012, B. inquired regarding the investment income charged under the policy in the preceding period. The response contained a graph showing the Russian Trading System Stock Exchange Index (RTS Index) dynamics from 03 August 2011 to 01 March 2012 and stated that the additional investment income of the petitioner both in percent and in roubles equalled to zero.

B. filed a court claim for insurance compensation.

The court decision to dismiss the petitioner’s claim was based on the fact that the agreement between the parties met the requirements of Articles 934, 935, 940, 942 of the Civil Code of the Russian Federation and the fundamental principle of the civil law – freedom of agreement (Article 421 of the Civil Code of the Russian Federation). The nature and legal implications of the agreement were explained to the petitioner when the same signed the agreement.

The Alliance Strategy insurance agreement is an investment life insurance agreement with the RTS Index serving as the underlying asset. Delivery by the insurer of the insurance policy signed by the insurer to the policy holder constitutes the insurance agreement. The policy holder accepts the offer by paying the insurance premium.

The court took into account that the petitioner provided no evidence that the same had been misled as to the deal party and the terms and conditions of the executed agreement or did not wish to enter into the agreement as per its terms and conditions, or that the defendant intended to mislead the petitioner when executing the agreement. There is no evidence in scope of the case that the insurer had warranted to the petitioner to pay a guaranteed interest when executing the agreement.

Having examined the agreement between the parties, the court judged that the petitioner’s argument that the defendant had failed to fulfil its obligations thereunder and to pay to the petitioner a guaranteed income of 4% per annum by virtue of Clause 4.2 of the Investment Declaration was unfounded.

The court presumed that a “guaranteed income” is a mathematical and theoretical definition used to calculate additional investment income, as the contested insurance agreement was an agreement with additional investment income, if any⁴⁶⁰.

Starting from 2017, the Supreme Court of the Russian Federation has been regularly digesting court practice in consumer protection, including cases associated with financial services.

In 2018, the Presidium of the Supreme Court of the Russian Federation approved the “Digest of Case Law with Respect to Consumer Rights Protection in Sale of Goods and Services” on 17 October 2018, with Clauses 13-15 devoted to financial services.

Federal Law No. 167-FZ dated 27 June 2018 “On Amendments to Certain Legal Acts of the Russian Federation on Countering Money Theft” entered into force on 26 September 2018. It sets forth the right of credit institutions to postpone any transaction

⁴⁶⁰Appeal Decision of the Moscow City Court dated 02 April 2018 Regarding Case No. 33-13775/2018.

orders if there are grounds to suspect that the client has not consented to the transfer. This might lead to a scenario where “the bank may limit the banking services to the client if a dubious transaction has been identified by blocking the bank card until the events that caused the suspicion of card fraud or of the legislation of the Russian Federation being violated cease to exist, and decline to follow the client transaction order” (Clause 13 of the Digest).

The Supreme Court of the Russian Federation explained that “if the debt under the loan agreement has been early repaid, the consumer may decline any and all prepaid but not actually provided additional banking services” (Clause 14 of the Digest). This court reasoning is important as there is a wide range of packaged services sold to consumers. For the purposes of consumer protection, the following reasoning by the Supreme Court of the Russian Federation outlined in the Digest is particularly useful: “If the bank retains the costs of the additional services reimbursed by the consumer, but not actually provided upon early termination of an agreement for the additional banking services due to the consumer declining to further use the same, or upon early termination of a consumer loan agreement due to the borrower fulfilling his/her credit obligations, the bank actions shall be construed as unjustified enrichment by the latter, provided that the parties have not agreed to continue their relations with respect to additional services outside of the credit agreement scope and subject to these costs exceeding the actual expenditures incurred by the bank for the performance of the additional banking services agreement.”

Provisions of Clause 15 of the Digest examine the procedures for consumer protection by imposing fines as prescribed by Clause 6, Article 13 of the Law “On Consumer Rights Protection”. Originally, the nature of this fine was not strictly defined in the Law. In 2012, the Supreme Court of the Russian Federation specified that the fine should be considered a legal penalty imposed by the court. As all the court fines have been listed in the Civil Procedural Code of the Russian Federation, there are usually no issues connected with their imposition and subsequent collection. In 2018, the Supreme Court of the Russian Federation once again clarified the legal procedure for imposing this unusual “consumer” fine having essentially a “hybrid” civil-judicial nature.

Thus, in this case, the Supreme Court of the Russian Federation has emphasised that the fine in favour of the consumer (½ of the fine was awarded to the consumer protection society that acted as a court counsel for the affected consumers under this case) is imposed by the court on the economic entity for refusal to settle the dispute out of court. Therefore, the claim filed with the court serves as a “red line”, i.e. a preclusive term for the economic entity to satisfy the due demands of the consumer. Only the consumer’s withdrawing of the claim may serve as a waiver with respect to the fine, as was explained earlier in Clause 47 of Ruling of the Plenum of the Supreme Court of the Russian Federation No. 17 dated 28 June 2012

The Digest of Case Law of the Supreme Court of the Russian Federation No. 3 (2018)⁴⁶¹ examines two court cases related to insurance services without specifying whether the insured is a consumer.



In 2018, increased participation of Rospotrebnadzor in judicial protection of financial services consumer rights was observed, resulting in tangible benefits for certain consumers, as they were awarded damages as a result. It is also necessary to note that the Supreme Court of the Russian Federation makes systematic efforts to strengthen the legal protection of consumers.

⁴⁶¹http://www.vsrif.ru/documents/own/?category=resolutions_plenum_supreme_court_russian&year=2018.

5. Awareness Building in Financial Consumer Protection

5.1. Implementation of Awareness Function by Rospotrebnadzor

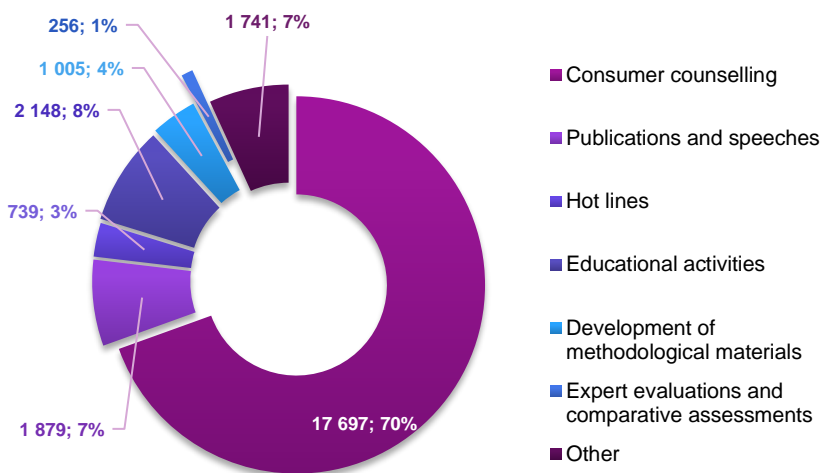
In 2018, as part of the system of notifying and advising the population on issues of protecting consumer rights (hereinafter the “System”), there exist 85 counselling centres and 551 counselling points for consumers in 85 constituent entities of the Russian Federation that explain the rights and duties of consumers, as well as the issues of law enforcement practices in the financial sphere. Counselling centres and points are operated by 789 employees (in 2017, there were 557 counselling points involving 809 specialists, in 2016 – 564 counselling points involving 795 specialists).

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Consumer consultation centres in federal budget-funded healthcare institutions⁴⁶² are designed by Rospotrebnadzor to ensure implementing its awareness-building function by providing the necessary information and consultations to consumers of financial services.

In 2018, 25,465 events in financial services sector arranged by Rospotrebnadzor counselling centres and offices accounted for 5.8% of the total events (22,248, or 5% in 2017, 24,544, or 5.3% in 2016, and 20,737, or 4.7% in 2015). The events included 17,697 consultations, with 1,741 of them being document drafting sessions (statements, complaints, claims, etc.); 3,878 awareness-raising events, among them 1,849 publications, 739 hotlines, 1,486 educational presentations, 1,005 guidelines, and 256 expert examinations. While almost all indicators have increased in absolute terms, the distribution of activities has barely changed (Figure 5.1).

Figure 5.1. The structure of activities in the field of financial services conducted in the counselling centres and points of Rospotrebnadzor in 2018



Source: Rospotrebnadzor

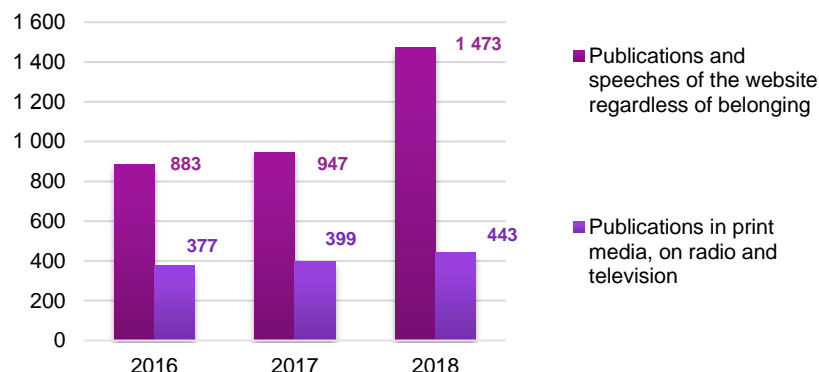
Traditionally, the largest share of work falls within conventional counselling of consumers - 70% of the total number of activities in the field of financial services in 2018 (in 2017 – 74.4%, in 2016 – 81.7%, in 2015 - 85%). The TOP-10 constituent entities of the Russian Federation leading in consultations are shown in Table 5.1; they accounted for 41% of consultations (7,268 out of 17,697). Compared to the previous year, 2 more constituent entities have been added to the leaders list (only TOP-8 were shown in 2017), and the shares of leaders in the total consultations regarding financial services have slightly decreased. This is a positive trend that may mean more even distribution of consultation indicators across the Russian Federation. In addition, consumers of financial services were offered 1,741 consultations that included drafting legally significant documents on the respective subject.

⁴⁶²Order of Rospotrebnadzor No. 318 dated 06 April 2009 “On Improving the System for Consumer Awareness and Consulting”.

Table 5.1. Highest Indicators in Consultations Offered to Financial Services Consumer in 2018

No.	Consumer counselling centre in Rospotrebnadzor regional office	Consultations on financial services offered to the public	Share of total consultations by the respective Rospotrebnadzor office	Share in total consultations on financial services in the Russian Federation
1	Centre for Hygiene and Epidemiology in the Sverdlovsk Region FSHI (Federal State-Funded Healthcare Institution)	1,847	10.7%	10.4%
2	Centre for Hygiene and Epidemiology in the Krasnodar Territory FSHI	1,120	6.5%	6.3%
3	Centre for Hygiene and Epidemiology in the Republic of Tatarstan (Tatarstan) FSHI	657	4.5%	3.7%
4	Centre for Hygiene and Epidemiology in the Saratov Region FSHI	642	12.2%	3.6%
5	Centre for Hygiene and Epidemiology in the Altai Territory FSHI	607	4.1%	3.4%
6	Centre for Hygiene and Epidemiology in the Novosibirsk Region FSHI	524	8.5%	2.9%
7	Centre for Hygiene and Epidemiology in the Tver Region FSHI	497	3.7%	2.8%
8	Centre for Hygiene and Epidemiology in the Khabarovsk Territory FSHI	486	7.9%	2.7%
9	Centre for Hygiene and Epidemiology in the Republic of Buryatia FSHI	455	8.8%	2.6%
10	Centre for Hygiene and Epidemiology in the Vologda Region FSHI	433	11.5%	2.4%

Figure 5.2. Movements of publications and speeches on financial consumer protection prepared by employees of the Rospotrebnadzor's counselling centres and points in 2016 — 2018



Source: Rospotrebnadzor

The number of publications and talks continued to grow in 2018: 1,879 publications and talks as compared to 1,346 in 2017 (1,248 in 2016). The increase was observed both in their number on websites with 1,473 publications/talks (947 in 2017, 883 in 2016), and in printed publications, on radio and television with 443 publications/talks (399 in 2017, 377 in 2016) (Figure 5.2).

2018 saw sharp increase in the number of hotlines, up to 739, i.e. 1.8 times higher than in the previous year (400), however, the number of events held by counselling offices remained at 504 (68.2%) (68% in 2017, 64.2% in 2016).

Compared to 2017, counselling centres have arranged almost twice as many expert examinations and comparative assessments in the current reporting period, increasing their shares in the total number of examinations. A total of 103 (40.3%) of 256 expert examinations and comparative assessments completed in 2018 on financial services were carried out by the counselling centres, and 153 (59.7%) – by the consumer counselling offices (25.8% and 74.2%, respectively in 2017).

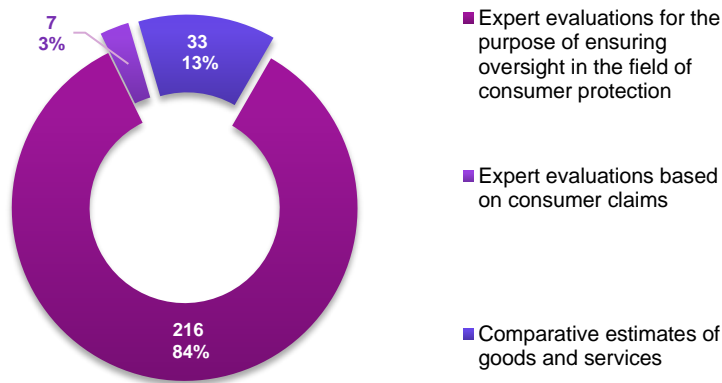
As in 2017, in 2018, the majority of expert examinations and comparative assessments purported to control the consumer protection (Section 3, Article 16 of Federal Law No. 294-FZ dated 26 December 2008 “On Protection of Rights of Legal Entities and Individual Entrepreneurs in Scope of State Control (Supervision) and Municipal Control”), and their number has increased both in absolute and in relative terms (Figure 5.3). No studies/expert examinations resulting from business entity complaints have been recorded.

Expert examinations initiated as per consumer complaints have slightly decreased (from 10 in 2017 to 7 in 2018). This

trend may occur due to court practice of questioning the quality of such examinations (for example, see Decision of the Moscow City Court No. 4g-3993/2016 dated 17 June 2016 Regarding Case No. 33-3786/2016 “On Refused Transfer of Appeal on Cassation Against Court Rulings Regarding Claim for Recovery of Monies, Interest for Use of Third Part Monies, Fine, and Indemnity of Moral Harm to Court of Cassation Instance”). Therefore, growth in examinations of this type should be expected after favourable court practice has been accumulated.

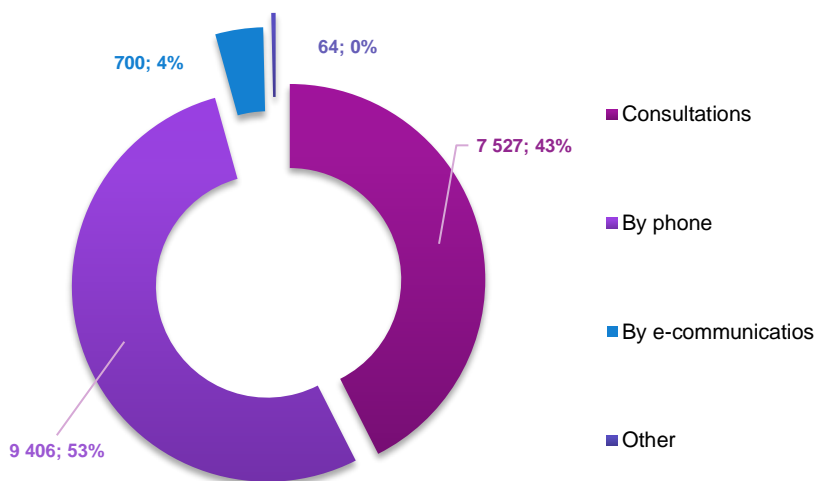
The structure of consumer consultations on financial services offered via various communication means remains the same as in the previous years (Figure 5.4). This may be primarily due to the age of consumers enjoying the offered service. It is well known that senior citizens prefer “classic” communication means, such as telephone and face-to-face sessions. The trend of e-consulting growth also continued in 2018, yet the slight increase only confirms the above conclusion. In total, 700 consumers took advantage of e-consulting in the reporting year (645 in 2017).

Figure 5.3. The structure of evaluations and comparative assessments conducted in the counselling centers and points of Rospotrebnadzor in 2018



Source: Rospotrebnadzor

Figure 5.4. Structure of consultations on financial services issues delivered to consumers at Rospotrebnadzor’s consumer counselling centres and offices in 2018 by types of communications with consumers



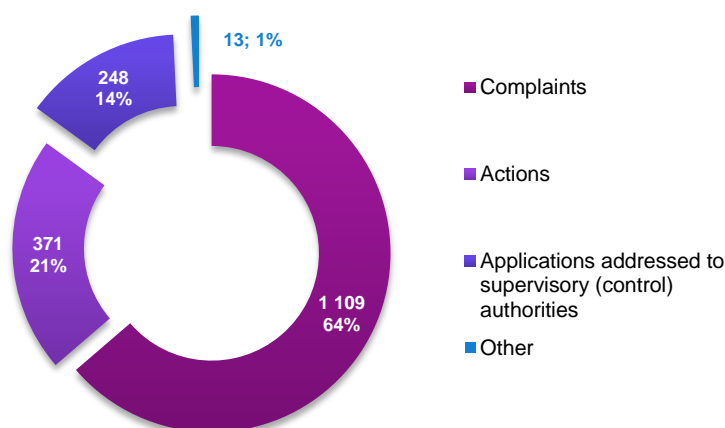
Source: Rospotrebnadzor

As in 2017, the vast majority of e-consultations in 2018 were provided in the Novosibirsk (164) and Saratov (134) Regions, but last year, the Saratov Region came first. In total, this accounts for 42.5% of the total e-consultations (52.2% in 2017). 50 constituent entities of the Russian Federation offered the electronic functionality, against 53 ones in 2017. Thus, the dynamics are contradictory: the number of constituent entities has decreased, but they began offering more e-consultations (except for TOP-2).

Of 17,697 consultations, 55.3% were offered by the counselling centres, and 44.7% – by the counselling offices, respectively. Of these, 48% were face-to-face sessions with the experts of the counselling centres, and 52% – with the experts of the counselling offices. 59% were phone calls answered by the experts of the counselling centres; 41% were phone calls to the experts of counselling offices. 74.7% of e-consultations were offered by the experts of the counselling centres, and 25.3% – by the experts of the counselling offices. Compared to 2017, the share of face-to-face sessions has

changed significantly, with consumers preferring to seek advice from the counselling centres.

Figure 5.5. Structure of consultations on financial services issues delivered to consumers at Rospotrebnadzor's consumer counselling centres and offices in 2018 by types of documents



Source: Rospotrebnadzor

Compared to 2017, the structure of consultations that resulted in document drafting has not changed, and court claims and complaints are still in demand (Figure 5.5). The ratio of document drafting by the experts of counselling centres and offices has not changed as well: about half of the claims and complaints has been drafted in centres, with the other half composed in the offices. In contrast to the previous year, in 2018, the experts of counselling centres drafted 1.5 times more applications to supervisory/control bodies than the experts of counselling offices.

The main results of the activity of the counselling centres and points in the constituent entities of the Russian Federation on working with consumers of financial services by separate areas of informing and counselling are shown in Table 5.2.

Table 5.2. Awareness-Building by Counselling Centres and Offices in Constituent Entities of the Russian Federation in 2018⁴⁶³.

Awareness focus areas	Comment
Consultations for financial services consumers	The TOP-3 did not change in 2018. The Sverdlovsk Region took the first place in consultations on financial services with 1,847 consultations, including 1,059 face-to-face sessions and 782 phone calls. The Krasnodar Territory is second with 1,020 consultations, including 492 face-to-face sessions and 623 phone calls. The Republic of Tatarstan ranked third with 657 consultations, including 177 face-to-face sessions and 478 phone calls.
Documents drafted in scope of the consultations for financial services consumers	The Sverdlovsk Region retained the first place with 223 consultations that included document drafting. The second place was taken by the Krasnodar Territory with 138 consultations, and the third place – by the Republic of Tatarstan with 97 consultations. The highest number of claims was drafted in the Sverdlovsk Region, the Altai Territory, and the Republic of Tatarstan, with 98, 74, 68 claims, respectively. TOP-3 claim drafters: the Sverdlovsk Region (51), the Orenburg Region (29), the Irkutsk Region (22). Leaders in drafting complaints to supervisory authorities: the Sverdlovsk Region (74) and the Amur Region (23).
Publications and talks on financial services	The Sverdlovsk and Tver Regions with 157 and 154 publications/talks, respectively, followed by the Republic of Buryatia (130) and the Chuvash Republic (122) became the best in this category in 2018. Federal State-Funded Healthcare Institutions (FSHIs) in the Sverdlovsk Region (120 publications), the Republic of Buryatia (119), and the Chuvash Republic (101) were the most active in website posting. The Tver Region (79 reports), the Sverdlovsk Region (37), and the Krasnodar Territory (36) have distinguished themselves in printed media, on radio, and television.

⁴⁶³As Reported by the Coordination and Guidance Centre for Consumer Consultation Centres // Official website of Rospotrebnadzor Federal Centre for Hygiene and Epidemiology FSHI <http://fcgie.ru/>.

Awareness focus areas	Comment
Hotlines	<p>TOP-3 in this category: the Saratov, Orenburg, and Tver Regions with 125, 69, and 50 hotlines, respectively.</p> <p>The largest number of hotlines was offered in the Saratov (101) and Orenburg Regions (64), while the Tver Region with 49 hotlines was the best among the consultation centres.</p>
Awareness events (round tables, conferences, seminars, and other educational events)	<p>The Saratov Region ranked first with 271 events. The Krasnodar Territory came second with 149 events, and the Ulyanovsk Region was third with 127 events.</p> <p>TOP-3 round tables, conferences, public event hosts: the Republic of Buryatia (97), the Saratov Region (93), and the Vladimir Region (89). It is also worth noting that the Ulyanovsk Region has arranged 66 events falling into this category.</p> <p>The Saratov Region, the Vladimir Region, and the Krasnodar Territory were best in holding seminars and other educational sessions with 256, 164, and 136 events, respectively.</p>
Development of guidelines	<p>In 2018, the Moscow Region became the undisputed leader in composing guidelines with 37.5% of the total indicator in the Russian Federation (377 out of 1,005). The Saratov Region and the Altai Territory with 91 and 45 guidelines, respectively fall behind by far.</p> <p>It should be separately highlighted that the performance by the Moscow Region can be attributed to the efforts of consultation offices for consumers.</p>
Expert examinations and comparative assessment of financial services	<p>As in 2018, only 8 constituent entities of the Russian Federation were involved in expert examinations and comparative assessment of financial services. TOP-3 in this category: the Sverdlovsk Region (164), the Orenburg Region (33), and the Republic of Adygea (30). 18 expert examinations/assessments were conducted in the Krasnoyarsk Territory and 6 – in the Tver Region; the Kamchatka Territory and the Department of Rospotrebnadzor for Railway Transport arranged 2 examinations each; the Khanty-Mansiysk Autonomous District – Yugra arranged 1 expert examination.</p> <p>At the same time, in 2018, the largest number of expert examinations and comparative assessments were held by counselling centres in the Sverdlovsk Region (43), the Republic of Adygea (30), and the counselling offices in the Sverdlovsk Region (127) and the Orenburg Region (21).</p>

Federal Law No. 435063-7 “On Amendments to the Law of the Russian Federation “On Consumer Rights Protection” was being drafted throughout 2018⁴⁶⁴.

As a result, Federal Law No. 38-FZ “On Amendments to the Law of the Russian Federation “On Consumer Rights Protection” for Improving State Consumer Rights Protection Policy” was enacted on 18 March 2019.

The Law has further empowered Rospotrebnadzor to approve guidance for developing and introducing regional and municipal consumer protection programs (Clause 9, Article 40 of the Law “On Consumer Rights Protection”), and established the procedure for filing and considering consumer complaints, including via multifunctional centres (MFCs), by mail, through the Internet (Article 42.3 of the Law “On Consumer Rights Protection”).

It has been specifically established that the MFCs” may receive consumer complaints and provide consultations to consumers on the protection of their rights as per cooperation agreements between the multifunctional centres for state and municipal services and the federal executive authorities, offices of non-budgetary funds, public authorities of the constituent entities of the Russian Federation, and local government authorities” (Clause 3 42.3 of the Law “On Consumer Rights Protection”).

It can be assumed that such changes can significantly impact the scope and nature of the consumer counselling centre competencies, for example, by shifting them towards coordinating and establishing platforms for interaction between different elements of the consumer consultation system.



The 2018 figures have confirmed the conclusion made last year that the counselling centres/offices for consumers have reached the optimal capacity. At the same time, progress in future periods can be ensured by the amendments introduced to the Law “On Consumer Rights Protection”, both for consumer-MFC interaction and for involvement of regional and local authorities achieved by Rospotrebnadzor exercising its additional powers in guidance control over development, and introduction of regional and municipal consumer protection programs. Taking into account these amendments that might also impact the functionality of counselling centres for consumers, among other things, it is recommended to expand the public coverage of their functions by devoting a specialised section of the State Information Resource for Consumer Rights Protection.

⁴⁶⁴For more details, see pages 319-320 of the Report “On the Status of Consumer Rights Protection in the Financial Sector in 2017” / Ministry of Finance of the Russian Federation.

5.2. Departmental Standards for Financial Services Consumer Consulting

In 2018, Rospotrebnadzor, with the support of the consultants from FBK LLC, continued work on improving the methods of consumer consulting on financial services. The main attention was paid to the actualization of the already established standards of consumer counselling based on the results of application in practical work in the counselling centres and points, as well as changes in legislation.

FOR REFERENCE

The system of consumer consulting on financial services includes the Unified Guidance and 16 departmental standards for consulting financial services consumers: "Loan Agreements with Stipulated Life and Health Insurance", "Loan Account Maintenance Fees", "Loan Agreement Stipulating the Right of the Bank to Unilaterally Amend Its Provisions", "Bank Charges for Loans", "Recovery of a Forfeit or Early Repayment Fees by the Bank", "Bank Deposit Agreements", "Car Insurance", "MFI Loan Agreements", "Pawnshop Lending for Citizens", "Features of Payroll Bank Cards", "Features of Credit Cards", "Using Bank Cards", "Opening and Settling Bank Accounts", "Mortgage Lending", "Bankruptcy of Individuals Except for Individual Entrepreneurs", "Restitution of Violated Rights, Freedoms, and Legal Interests of Financial Services Consumers".

In the questionnaire offered to the respondents of the survey conducted by FBK LLC in December 2018-February 2019, special attention was paid to the application and further improvement of the Unified Guidance for Consulting and Informing Consumers of Financial Services, and the departmental standards.

The remote survey results showed that 71 out of 75 counselling centres participating in the survey regularly use draft departmental consulting standards and the draft Unified Guidance for Consulting Consumers of Financial Services developed by Rospotrebnadzor with the support of consultants from FBK LLC.

In the course of the survey, the counselling centre experts were also offered to specify the typical applications of the draft departmental standards and the Unified Guidance. This distribution is shown in Figure 5.6. It is worth noting that 32 regions (42.7% of the counselling centres that participated in the remote survey) use the developed departmental standards in all areas of work related to financial consumer protection and informing.

In the opinion of most counselling centre experts who participated in the remote survey, departmental consulting standards serve as an important addition to the information materials on financial services. However, the standards are more specialised and applied in nature, thus making it possible to promptly provide consumers with the relevant consultations. Experts of 90% of the respondent counselling centres believe that the draft departmental standards have generally improved the counselling centre performance and reduced the employee man-hours, and 88% of respondents noted that it would be expedient to apply the proposed approach to streamline the consulting efforts by widening the application of the Unified Guidance and the departmental standards for consulting financial services consumers to cover the consumer consulting in general.

Figure 5.6. Counselling Centres Distribution by Standard Application Cases with Respect to the Unified Guidance and Departmental Consulting Standards (%)

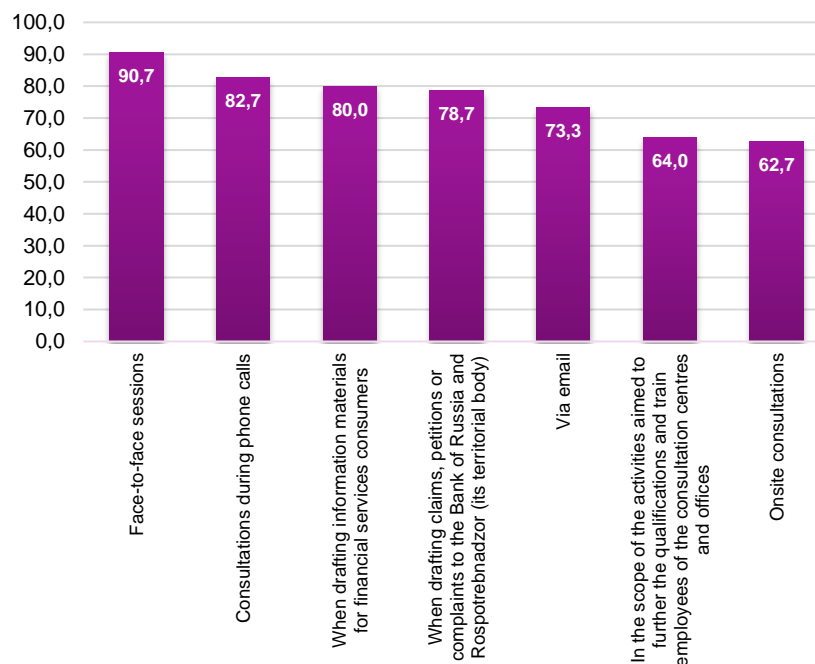
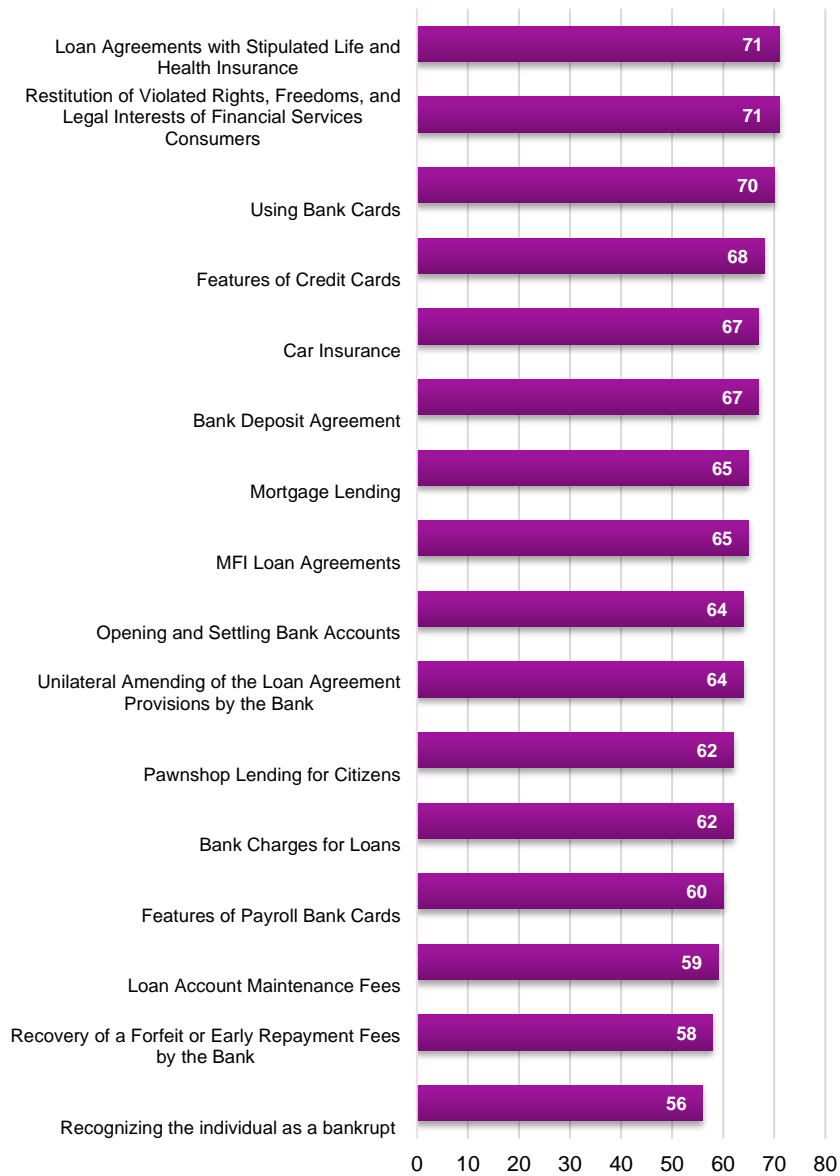


Figure 5.7. Draft Departmental Standards for Consulting Financial Services Consumers Used by the Counselling Centres



The survey has also determined that the drafts of the following departmental consulting standards are applied most often by the counselling centres (Figure 5.7):

- “Restitution of Violated Rights, Freedoms, and Legal Interests of Financial Services Consumers” (71 regions);
- “Loan Agreements with Stipulated Life and Health Insurance” (71 regions);
- “Bank Cards” (70 regions).

The proposals received from the counselling centres for the follow-up revision of the existing drafts of departmental standards for consulting consumers of financial services based on their practical application mainly concerned the following topics:

- “Hard Selling of Investment Insurance Services”;
- “Currency Mortgage”;
- “Early Loan Repayment to Pawnshops”.

FBK LLC has also received comments and suggestions from counselling centre experts on the potential subjects to be covered by further standards of consulting financial services consumers, for example:

- “Specifics of Entering and Early Terminating Collective Insurance Agreements”;
- “Repairing a Bad Credit Record Misrecorded by a Financial institution”;
- “Protecting the Rights and Legal Interests of Individuals in Recovery of Overdue Debt”;
- “Electronic Payment Systems (QIWI, WebMoney, Yandex.Money)”;
- “Money Transfers Without a Current Account”.

Pursuant to the enacted Federal Law No. 123-FZ dated 04 July 2018 “On Financial Ombudsman for the Rights of Consumers of Financial Services” and the proposals received in scope of the surveys from the counselling centre experts, for the purpose of further developing guidance in consumer consulting and improving the instruments for protecting the

rights and legal interests of financial services consumers, FBK LLC will additionally develop the following documents in 2019:

- An addition to the draft departmental consulting standard “Restitution of Violated Rights, Freedoms, and Legal Interests of Financial Services Consumers” containing detailed explanations of pre-trial settlement of disputes between consumers of financial services and financial institutions by the Financial Ombudsman;
- Draft of an additional departmental consulting standard “Borrower Collective Insurance Programs Offered With Loans”;
- Draft of an additional departmental consulting standard “Specifics of Consumer-Creditor Relations With Respect to Overdue Debt Repayment”.



The Unified Guidance and the departmental standards for consulting financial services consumers have become an integral part of the unified system of consumer informing and consulting employed in Rospotrebnadzor counselling centres and offices. Due to the law changes and newly emerging categories of violations of financial services consumer rights, the range of issues to be harmonised is constantly expanding, and therefore the proposed approach to harmonisation is becoming increasingly demanded and may be expanded to cover the consumer consulting in general, according to the majority of respondent counselling centres.

5.3. Best Practices in Consulting and Informing Consumers of Financial Services in Consultation Centres

The subsection was prepared based on the results of a remote survey conducted by LLC FBK’s consultants in December 2018-February 2019 within the framework of the Joint Project of the Russian Federation and the IBRD “Financial Education and Financial Literacy in the Russian Federation”.

During the survey 75 regions gave important information about achievements and innovations in the consumer counselling centres’ operations in the following areas:

- improvement of staffing qualification and expertise;
- improvement of information and technological support;
- improvement of material and technical support;
- development of counselling methods and technologies;
- improvement of consumer counselling centre’s cooperation.

In regard to these areas of improvement, below are good practices developed by consumer advisory centres in some regions of the Russian Federation who wished to share their 2018 results and innovations.

Enhancement of Qualification and Staffing, Including Professional Development

Positive changes in the qualifications and staffing notes most of the counselling centres who took part in the survey.

The counselling centre employees in more than 20 regions of the Russian Federation have participated in the below webinars:

- “Pressing Issues of Financial Consumer Protection”;
- “Using Materials Designed for Awareness-Building Events in Financial Consumer Protection and Responsible Financial Behaviour”.

Moreover, the counselling centre/office employees, for example, in the Altai Territory, also participated in webinars “Updated Aspects of Legislation Related to Bank Products and Non-Banking Credit Institutions”, “Financial Consumer Protection”, “Taxation of Individuals and Individual Entrepreneurs”, and “Insurance Services Offered to the Public and Social Insurance. Pension Benefits” conducted by employees of the Financial University of the Government of the Russian Federation.

Experts from the Kursk, Irkutsk, and Novosibirsk Regions and the Republic of North Ossetia-Alania have successfully attended the refresher course “Financial Consulting” arranged by the Higher School of Public Administration of the Financial University of the Government of the Russian Federation.

In the Moscow Region, 18 experts have attended the distance-learning course “Financial Consumer Protection in the Russian Federation (Basics)”.

In the Sverdlovsk Region, 5 employees attended a refresher course as per the curriculum for consumer protection experts at Yekaterinburg Medical Research Center for Prophylaxis and Health Protection of Industrial Workers Federal State-Funded Research Institution of Rospotrebnadzor.

Training seminars are regularly offered in the counselling centres for staff of the counselling centres and offices, e.g. in such regions as: the Tver Region, the Sverdlovsk Region, the Omsk Region, the Krasnodar Territory, etc.

In such regions as Moscow and the Republic of Mordovia, for example, on-the-job training for new employees of the counselling centres and offices has been arranged. Moreover, in Moscow, a mentoring practice is used when newly hired employees rely on the consultations of the assigned legal advisers in the course of their duties according to an individual mentoring plan.

In the Tambov Region and the Republic of Mordovia, thematic training sessions are held for experts of counselling offices, for example, in “Effective Consulting Competencies”.

In Tatarstan, videoconference lectures on financial consumer protection have been offered to the staff of counselling offices.

Also, the counselling centres, for *example, in the city of Moscow, Stavropol Krai, Orenburg Oblast and Tambov Oblast*, regularly hold meetings to discuss the issues of consumer counselling, as well as current changes in the legislation in the field of consumer protection, including the consumers of financial services, and the practice of application thereof.

It is worth mentioning that the staff of counselling centres and offices is continually replenished by the relevant experts in financial consumer protection, for example, in the Tambov, Tula, Omsk, and Nizhny Novgorod Regions, Moscow, the Altai Territory, the Trans-Baikal Territory, the Republic of Bashkortostan, etc. Furthermore, the leading legal advisor in the Krasnodar Territory counselling centre is also engaged in scientific research in financial consumer protection.

Improving Computer Support

Virtually all counselling centres have been making proactive efforts to improve the computer support and install new and regularly updated software and reference and information systems, improving the relevant sections of the FSHI websites, advancing the long-distance consultation system.

In the survey, approximately 20 counselling centres noted that new computer and office equipment has been supplied.

New software was installed in such regions as the Stavropol Territory, the Kaluga Region, the Altai Territory, and St. Petersburg. In addition, the AIS program “Complaint Registration for Individuals and Legal Entities” has been developed and implemented in Moscow.

The counselling centres are continuously optimising their websites. In Moscow, a new layout of the “Consumer Rights Protection” section of the website, including the “Feedback” form, has also been developed and is being implemented now.

Improvement of Logistics

The overwhelming majority of the counselling centres have sufficient level of endowment of materials and equipment: they have dedicated well-equipped premises with computer and office equipment, information stands for consumers.

Improvement of equipment and material procurement in 2018 was noted by 42.7% of the counselling centres that took part in the survey.

The Republic of Bashkortostan, the Kabardino-Balkarian Republic, and the Tambov Region have noted improved working premises comfort and new furniture. In Krasnodar and the Altai Territory, new, fully equipped workplaces have been created.

A number of regions purchased and received new stands, racks, projectors and screens, information monitors and other demonstration equipment, which made it easier for consumers to access up-to-date information on financial services.

The Belgorod and Lipetsk Regions, as well as the Republic of Tatarstan have improved their printed information materials distribution in various aspects of financial consumer protection.

Such regions as the Krasnodar Territory, the Vologda Region, the Primorsky Territory, the Kursk Region, and the Republic of Adygea have seen enhancements of the telephone systems. As a result, the efficiency of consumer consultations has grown.

Consulting Administration and Methods

According to the results of the survey of the counselling centres for consumers, the most accessible and common methods of counselling and informing are the following:

- posting information on the official website, in social networks, on the information stand of the counselling centre;
- remote counselling via the Internet;
- various kinds of training events (seminars, lectures, etc.);
- arrangement of hot lines .
- Onsite consultations;
- Consulting by Multifunctional Centres for State and Municipal Services.

Herewith, particularly noteworthy the examples of application of new, not previously used in practice, and the development of already existing methods of informing and advising consumers on financial literacy matters for increasing the availability of information and training materials, engagement of virtually all segments of the population in these processes.

Onsite consultations, including those provided in Multifunctional Centres for State and Municipal Services, regarding financial consumer protection (ensuring maximum reach to different social and age groups of consumers) are actively used by the counselling centres. For example, in the Republic of Adygea, home-based consultations for the disabled have been arranged. In the Sverdlovsk Region, onsite consultations in financial services are offered in public transport (trams). in Mordovia, the principle “Consultations for Everyone” has been introduced: now there are hours when everyone can come for the needed consultation, including on financial consumer protection, during the onsite sessions, regardless of their subject matter. In the Krasnodar Territory onsite consultations have been arranged for a wide range of companies and institutions.

Special attention is being paid by the counselling centres to the awareness-building and education events both for the

wide range of clients and for individual categories (children and young people, the retired, and socially unprotected social groups), including within the V All-Russian Savings Week. These events included lectures, seminars, exhibitions, thematic role play, contests, etc. For example, a financial service contest “Day of Legal Culture” was held in the Kursk Region together with South-Western State University Federal State-Funded Higher Educational Institution; an exhibition of information materials on consumer protection and financial literacy was held in the Altai Territory for senior citizens who came to see a theatre play shown as part of the State Program “Raising Public Financial Literacy in the Altai Territory”⁴⁶⁵; a child contest “Young Financial Literacy Expert” was hosted by the Saratov Region to encourage children to take active interest in personal finance and to promote financial culture; the Krasnodar Territory is actively using board games when offering consultations to young people. In the Republic of Bashkortostan, a theatrical performance “From Fairy Tale to Reality – Krex-Pex-Fex” based on the Adventures of Pinocchio was staged for the students of Education Centre No. 35 Municipal Autonomous General Education Institution, Ufa City District of the Republic of Bashkortostan, and the Children Academy Private General Education Institution.

The counselling centres have been using more and more actively both official websites and social networks, with VKontakte and Instagram being the most widely used in 2018, for posting information to raise public financial literacy.

In Moscow, the procedure for posting website information materials has been streamlined with the key sections of consumer relations allotted, including the section “Financial Services”. Thus, it is now possible to quickly and conveniently search for necessary information. In addition, 6 new information materials on consumer protection in finance have been published on the official website of the counselling centre: “Entering Into an Insurance Agreement. What Should One Know About Collective Insurance Contracts with Borrowers?”, “Powers of Debt Collection Agencies in Public Collection”; “Settlements via E-Payment Systems”; “Paying for Goods by Crediting a Card Held by an Individual”; “Microfinance Services Consumer Rights Protection”; “Purchase of Securities by Individuals”. The counselling centre experts have developed and conducted review lectures for institute professors in “Financial Law” and “Economics” in the key focus areas of financial violations based on the received consumer complaints. The pilot lectures were hosted by Moscow Economic Institute Non-State Higher Educational Private Institution and Institute of World Economy and Informatisation Vocational Educational Private Institution.

In the Moscow Region, 51 materials have been published on the official website in the section “Financial Literacy Lessons”.

In the Tambov Region, various information materials, such as brochures, leaflets, memos are both offered during face-to-face sessions and distributed by post and libraries.

A survey has been conducted in the Tver Region consumer counselling centre and offices to evaluate the public consumer awareness in the Internet commerce and e-payments for goods/works/services as part of the World Consumer Rights Day. The survey data are available on the official website⁴⁶⁶.

In the Republic of Mordovia, 17 comics on financial services have been published on the official website, and an online service for drafting claims in 94 typical scenarios has been introduced. The service can be used by any person, even if such person does not possess special skills and knowledge.

Experts of the Orenburg Region counselling centre regularly conduct surveys on consumer protection, including in finance, in the dedicated VKontakte social network to identify the public needs in this area.

In the Sverdlovsk Region, consulting standards in consumer protection are being developed and updated annually using DMS (Data Management System)-Standard software tool, including such consulting on financial services, in particular, “E-Payments”. An electronic digest of court cases, including those associated with financial services, has also been compiled. In addition, the platform “Financial Cinema” has been launched with 18 video lessons on financial services being shown for raising public financial literacy.

Enhancing Counselling Centre Interaction

The activities of the majority of the counselling centres for consumers on advising and informing in the field of financial consumer protection occur in close cooperation with territorial agencies of Rospotrebnadzor, local authorities, public organizations, financial bodies of constituent entities and other stakeholders in the field of consumer protection and improvement of financial literacy, which is confirmed by the following practice of a number of constituent entities of the Russian Federation.

Counselling centre employees in the Kaluga Region were involved in the development of a program for raising public financial literacy developed by the Ministry of Finance for the Kaluga Region. A law introducing a complete ban of real estate-secured consumer and mortgage loans and lending by non-professional creditors and of claim assignments under mortgage loans to institutions not regulated by the Bank of Russia has also been drafted in the Kaluga Region.

Under the umbrella of the Common Action Plan 2018-2020 for Consumer Rights Protection in the Kursk Region, interaction with the Committee for Consumer Market, Small Business Development and Licensing of the Kursk Region has been initiated.

Cooperation continues in the Tver Region as well, with materials on financial consumer protection regularly posted on the official websites of the local government authorities of the supervised regions. In addition, the Regional Program “Improving Consumer Rights Protection Efficiency in the Tver Region” for 2018-2022 has been approved in the Tver Region⁴⁶⁷.

In Moscow, collaboration with the Moscow Department of Rospotrebnadzor under the umbrella of the Advisory Council

⁴⁶⁵ Resolution of the Altai Territory Administration No. 450 dated 03 October 2014 “On Approval of the State Program “Raising Public Financial Literacy in the Altai Territory”.

⁴⁶⁶ <http://www.fguz-tver.ru/napravleniya-deyatelnosti/informatsiya-po-zashchite-prav-potrebiteljev/2018-04-06-10-59-17.html>.

⁴⁶⁷ Resolution of the Tver Region Government No. 300-pp dated 09 October 2018 “On Approval of the Tver Region Regional Program “Improving Consumer Rights Protection Efficiency in the Tver Region” for 2018-2022”.

on Consumer Rights Protection is underway. Onsite consultations have been arranged in the Moscow Employment Centres; in cooperation with the Moscow Department of Trade and Services and the Moscow Department of Information Technologies, the Program “Advancing the System of Consumer Rights Protection in Moscow” has been developed and reconciled.

In the Altai Territory, the counselling centre is cooperating with such non-governmental organisations as: Association for the Protection of Borrower Rights Non-Governmental Organisation, Association for Protection of Consumer Rights Altai Regional Non-Governmental Organisation, and Fincity Altai LLC. Centre for Hygiene and Epidemiology in the Altai Territory FSHI is involved in implementing the State Program of the Altai Territory “Consumer Rights Protection in the Altai Territory” for 2018-2022. Moreover, an intellectual quiz with contenders from the business community has been launched together with the Territorial Office of the Rospotrebnadzor Department in the Altai Territory. Executive municipal authorities of Rubtsovsk, the tax service, and bank experts have also joined the event.

In the Krasnoyarsk Territory, experts of the counselling centre have attended the free legal counselling days held by the Krasnoyarsk Regional Branch of the Russian Bar Association on a monthly basis.

Experts of the counselling centre have collaborated with FinPotrebSoyuz All-Russian Public Consumer Organisation during the events in the scope of “All-Russian Academic Competition in Financial Literacy, Financial Market, and Financial Consumer Protection for High School Students” hosted by the Ministry of Education and Youth Policy of the Kamchatka Territory.

In the Republic of Bashkortostan, the Centre for Hygiene and Epidemiology in the Republic of Bashkortostan FSHI has collaborated with the Department of Rospotrebnadzor for the Republic of Bashkortostan to stage a theatrical performance “From Fairy Tale to Reality – Krex-Pex-Fex”.

In the Republic of Mordovia, an agreement was signed with the newly appointed Ombudsman for the Protection of Entrepreneur Rights of the Republic of Mordovia in 2018. Furthermore, active cooperation with Respublika Molodaya (a regional newspaper) is continuing, with the newspaper weekly publishing FAQs on consumer protection, including financial services issues, with comments by the counselling centre head. 17 agreements with the local government authorities are also being successfully fulfilled.

The Sverdlovsk Region also adopted a comprehensive program in raising public financial literacy for 2018-2023. Starting from 2018, experts of the counselling offices have offered onsite consultations in consumer protection in the administrative offices of municipalities having no experts in consumer protection.

In the Amur Region, interaction with the local government authorities has been established, with information on the counselling centre and offices and open hotlines posted on the official websites of the local government authorities. Moreover, the local government authorities forward any public complaints with respect to financial consumer protection to the counselling centre with all the necessary contact details.

In such regions as the Belgorod, Vologda, Tyumen Regions, and the Altai Territory, for example, inter-departmental coordination councils in consumer protection have been established.

Almost all of the surveyed counselling centres that have answered the relevant questions in the Questionnaire are engaged in advancing interaction with educational institutions, non-governmental organisations focused on social issues, and multifunctional centres for state and municipal services.



The visible annual improvement in the performance of the counselling centres for informing and consulting financial services consumers, introduction of new consulting solutions, and targeted efforts to further interaction with the stakeholders in consumer protection and raising financial literacy all have contributed to the stronger institutional infrastructure of Rospotrebnadzor offices and organisations.

6. Assessment of the Effectiveness of Rospotrebnadzor's Efforts to Protect Consumers of Financial Services

6.1. Methodology for the Assessment of the c Centres for Consumers

Under the framework of the Joint Project of the Russian Federation and the IBRD "Financial literacy and financial education in the Russian Federation" employees of FBK, LLC developed a methodology for assessing the results of activities of the Rospotrebnadzor's counselling centres.

Components of the developed methodology for effectiveness assessment are:

- use of qualitative indicators of assessment, grouped in the assessment tables by three criteria: "Assessment of the quality of informing and counselling processes for consumers of financial services", "Assessment of the interaction of the counselling centre with interested organizations" and "Assessment of the quality of the results of the counselling centre for consumers of financial services and the society as a whole";
- application of a numerical score for six levels of state⁴⁶⁸ for each criterion (from 0 to 100 points⁴⁶⁹);
- self-assessment (the organizations themselves determine their level, indicate the number of points scored, justify their choice with comments, confirm it with convincing evidence and send the completed assessment sheets on time to the evaluation commission, in this case - FBK consultants);
- application of consolidated assessment procedures with the ability to build a rating (checking the correctness of filling, formal rules for processing completed assessment sheets, counting the total number of points, collegial consideration of disputed situations).

When the methodology was tested in 2018, it was discovered that the guidelines on the assessment of the counselling centres for financial consumers should have been supplemented with the provisions allowing for the unified adjustment of the ranking depending on the provision of evidence.

6.2. The Results of the Assessment of the Counselling Centres for Consumers

In December 2018 - February 2019, consumer counselling centres were asked to fill in the evaluation lists according to the three criteria listed above. 72 regions sent their completed assessment sheets. During the remote survey, FBK consultants organized a hotline on the completion of assessment sheets. The survey concerned only work with the consumers of financial services.

Below are the results of the distribution of the counselling centres by each criterion as a percentage of the total number of participants who took part in the remote survey.

Figure 6.1 shows the distribution of the counselling centres for consumers by levels of assessment of the status of their activities according to the "Quality of processes of counselling and informing consumers of financial services" criteria.

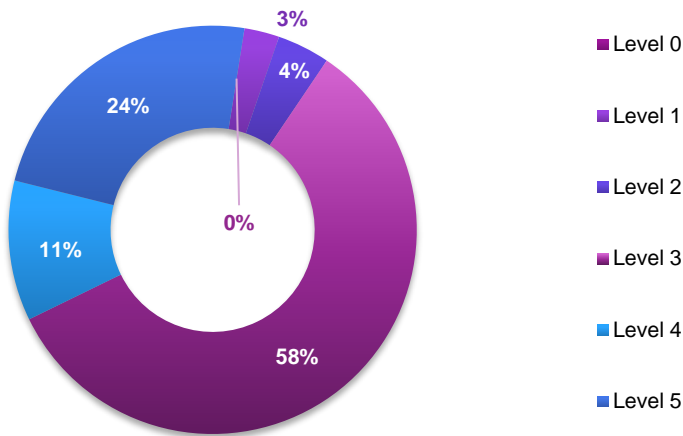
Explanations of these levels is as follows:

- **zero level** - the counselling centre does not carry out or practically does not carry out the activities on counselling and informing consumers of financial services;
- **first level** - the counselling centre plans and carries out activities on counselling and informing consumers of financial services;
- **second level** - the counselling centre plans and carries out activities on counselling and informing consumers of financial services within the scheduled terms and in accordance with the established requirements;
- **third level** - the counselling centre plans and carries out activities on counselling and informing consumers of financial services, reports on the results of activities in accordance with the established requirements;
- **fourth level** - the counselling centre plans and carries out activities on counselling and informing consumers of financial services, keeps records of the results of activities on schedule and in accordance with the established requirements, monitors, evaluates and revises approaches, if necessary;
- **fifth level** - the counselling centre plans and carries out activities on counselling and informing consumers of financial services, keeps records of the results of activities on schedule and in accordance with the established requirements (standards), monitors, evaluates and revises approaches, if necessary, learns from others, improves and introduces new approaches.

⁴⁶⁸ Zero level - 0-10 points, First level - 11-30 points, Second level - 31-50 points, Third level - 51-70 points, Fourth level - 71-90 points, Fifth level - 91-100 points.

⁴⁶⁹ The consolidated effectiveness assessment was determined by summing up the number of points that the counselling centre received. It should be noted that the maximum score was 300, 100 for each of the 3 criteria.

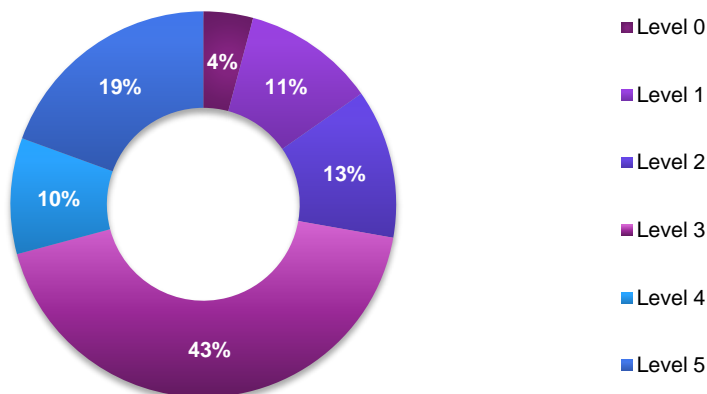
Figure 6.1. Distribution of counselling centres for consumers per levels of evaluating the state of their activities pursuant to the criteria "Quality of processes of counselling and informing consumers of financial services"



Based on the results of consideration of the assessment sheets received according to the "Quality of processes of counselling and informing consumers of financial services" criterion, there are no regions located at the zero and the second levels, the largest number of the counselling centres is at the third level - 42, or 58% centres, the 5th level was reached by 17 counselling centres (24%). At the fourth, second and first levels, there are 8 (11%), 3 (4%) and 2 (3%) of counselling centres, respectively.

Figure 6.2 shows the distribution of the counselling centres for consumers by levels of assessment of the status of their activities according to the "Interaction with interested organizations in the field of financial literacy improvement" criteria.

Figure 6.2. Distribution of counselling centres for consumers per levels of evaluating the state of their activities pursuant to the criteria "Interaction with interested organizations in the field of financial literacy improvement"



Explanations of these levels is as follows:

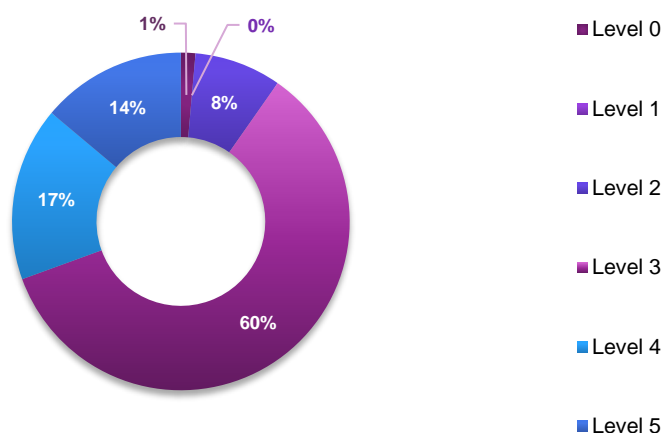
- **zero level** - the counselling centre does not conduct or practically does not conduct activities to develop cooperation with public consumer associations, educational and other organizations (with interested organizations);
- **first level** - the counselling centre plans and conducts activities to develop cooperation with interested organizations;
- **second level** - the counselling centre plans and conducts activities to develop cooperation with interested organizations on schedule and in accordance with the established requirements;
- **third level** - the counselling centre plans and conducts activities to develop cooperation with interested organizations on schedule and in accordance with the established requirements, conducts its evaluation and revises approaches, if necessary;
- **fourth level** - the counselling centre plans and conducts activities to develop cooperation with interested organizations, including on the basis of concluded agreements, on schedule and in accordance with the established requirements, conducts its evaluation and revises approaches, if necessary;
- **fifth level** - the counselling centre plans and conducts activities to develop cooperation with interested organizations, including on the basis of concluded agreements, on schedule and in accordance with the established requirements, conducts its evaluation and revises approaches, if necessary, on the basis of the implementation of regional targeted programs.

In assessing the "Interaction with interested organizations in the field of financial literacy improvement" criterion, the counselling centres were distributed as follows: the largest number of the counselling centres is at the third level - 31, or 43%; 14 counselling centres, or 19%, reached the maximum, the fifth level; at the second level - 9, or 13%, of the counselling centres; at the first and fourth levels - 8 (11%) and 7 (10%) of counselling centres, respectively; 3 (4%) centres do not conduct or practically do not conduct activities to develop cooperation with interested organizations in the field of financial

literacy improvement, and are placed at the zero level.

Figure 6.3 shows the distribution of the counselling centres for consumers by levels of assessment of the status of their activities according to the “Quality of results of activities for consumers of financial services and society as a whole” criteria.

Figure 6.3. Distribution of counselling centres for consumers per levels of evaluating the state of their activities pursuant to the criteria “Quality of results of activities for consumers of financial services and society as a whole”



Explanations of these levels is as follows:

- **zero level** - the counselling centre did not produce, or practically did not produce the results of the activity for consumers of financial services and the society as a whole due to objective reasons, which do not allow judging the place of the counselling centre in the society of our region ("invisible" counselling centre);
- **first level** - the counselling centre planned and produced for the reporting period the results of activities for consumers of financial services and the society as a whole, which allow us to pass judgment on the insignificant place of the counselling centre in the society of our region;
- **second level** - the counselling centre planned and produced for the reporting period the results of activities for consumers of financial services and the society as a whole, which allow us to pass judgment on the low-observable place of the counselling centre in the society of our region;
- **third level** - the counselling centre planned and produced for the reporting period reliable and verifiable results of activities for consumers of financial services and the society as a whole, which allow us to pass judgment on the prominent place of the counselling centre in the society of our region;
- **fourth level** - the counselling centre planned and produced for the reporting period reliable and verifiable results of activities for consumers of financial services and the society as a whole, which allow us to pass judgment on the estimable place of the counselling centre in the society of our region;
- **fifth level** - the counselling centre planned and produced for the reporting period reliable and verifiable results of activities for consumers of financial services and the society as a whole, which allow us to pass judgment on the important place of the counselling centre in the society of our region.

Based on the results of the analysis of the received assessment sheets according to the “Quality of results of activities for consumers of financial services and society as a whole” criteria, it should be noted that there are no counselling centres at the first level in the sample. The largest number of the counselling centres according to this criterion is at the third level - 43, or 60%; the fourth and fifth levels were reached by 12 and 10 counselling centres, respectively. At the second level, there is 6, or 8%, counselling centres as well as level there is 1 counselling centre at the zero.

The distribution of counselling centres across the ranges of assessment values (in %) indicates that the majority of the counselling centres (43) have estimates in the range from 50% to 90%, 15 counselling centres have estimates in the range from 30% to 50%, 11 counselling centres have estimates in the range of more than 90%, and only three counselling centres have assessment in the range below 30% (Table 6.1).

Table 6.1. Distribution of counselling centres for consumers per ranges of evaluating their performance of advising and notifying consumers of financial services in 2018

Range of values of evaluations of state, % performance of MAX possible	Number of counselling centres
>90	11
80—90	8
70—80	6

Range of values of evaluations of state, % performance of MAX possible	Number of counselling centres
60—70	4
50—60	25
40—50	9
30—40	6
20—30	2
10—20	1
0—10	0
Итого:	72

The results of the assessment also made it possible to obtain the distribution by points of regions of the Russian Federation based on the principles of objectivity and independence based on the results of the activity of the counselling centres of territorial Federal Centres for Hygiene and Epidemiology on counselling and informing consumers of financial services in 2018:

- from 201 to 300 points — Altai Krai, Bryansk Oblast, Volgograd Oblast, Vologda Oblast, Zabaykalsky Krai, Irkutsk Oblast, Kamchatka Krai, Krasnodar Krai, Krasnoyarsk Krai, Kursk Oblast, Moscow, Nizhny Novgorod Oblast, Omsk Oblast, the Republic of Adygea, the Republic of Altai, the Republic of Bashkortostan, the Republic of Karelia, the Republic of Mordovia, the Republic of Tatarstan, St. Petersburg, Saratov Oblast, Sverdlovsk Oblast, Tver Oblast, Tula Oblast, Tyumen Oblast, Chelyabinsk Oblast;
- from 101 to 200 points — Amur Oblast, Arkhangelsk Oblast, Belgorod Oblast, Voronezh Oblast, Jewish Autonomous Oblast, Kabardino-Balkaria Republic, Kaliningrad Oblast, Kaluga Oblast, Karachaevo-Cherkess Republic, Kemerovo Oblast, Kirov Oblast, Kostroma Oblast, Lipetsk Oblast, Magadan Oblast, Novgorod Oblast, Novosibirsk Oblast, Orenburg Oblast, Perm Krai, Primorsky Krai, the Republic of Buryatia, the Republic of Ingushetia, the Republic of Mariy El, the Republic of Sakha (Yakutia), the Republic of North Osetia — Alania, the Republic of Tyva, the Republic of Khakassia, Rostov Oblast, Ryazan Oblast, Samara Oblast, Smolensk Oblast, Stavropol Krai, Tambov Oblast, Tomsk Oblast, Udmurt Republic, Ulyanovsk Oblast, Khabarovsk Krai, Khanty-Mansi Autonomous Area, Chuvash Republic, Chukotka Autonomous District, Yamalo-Nenets Autonomous District;
- up to 100 points — Astrakhan Oblast, Vladimir Oblast, Penza Oblast, the Republic of Komi, Sakhalin Oblast, Yaroslavl Oblast.

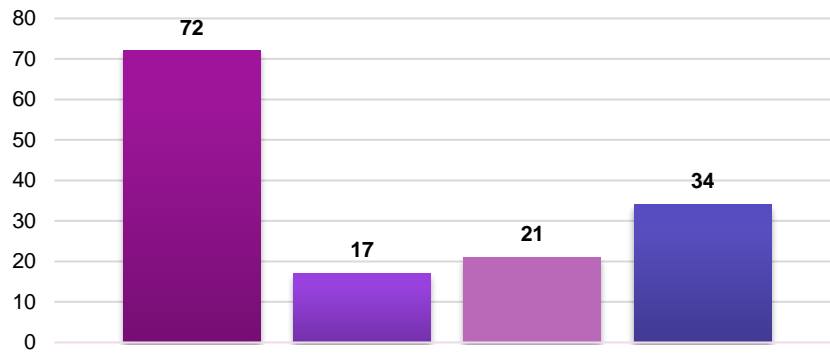
Compared to 2017, the following regions improved their positions: the Republic of Bashkortostan, Chelyabinsk Oblast and Omsk Oblast. At the same time, the number of regions that scored less than 100 points increased.

The following typical errors (shortcomings) can be noted in the filling of assessment sheets:

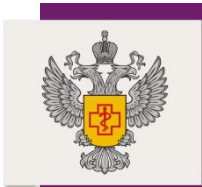
- “Final comments on the section” have not been filled in or were completely unfilled to confirm the selected level of state and the value of the assessment;
- a number of points was indicated in tables A1, B1, B1 in front of the selected level of state without subsequent confirmation (sending documents (files), web links and other necessary information, hereinafter referred to as the evidence);
- the evidence was presented in tables A2, B2, B2, which were explanatory tables, without subsequent confirmation (sending of evidence) (of the respondents who sent the assessment sheets - 27 regions did not provide the necessary evidence).

Figure 6.4 shows the degree of detail in the information provided by the counselling centres when presenting the assessment sheets.

Figure 6.4. Detailing (availability) of information provided by the counselling centres for the consumers of the constituent entities of the Russian Federation, within the framework of a remote study of the results of their activities in 2018.



- The counselling centres of the constituent entities of the Russian Federation have provided assessment sheets
- The counselling centres have provided necessary comments
- The counselling centres have provided conclusive evidence
- The counselling centres have not provided evidence or necessary comments



The introduction of a system for assessing the results of activities in the practice of Rospotrebnadzor, its territorial bodies and organisations, and its development will help to systematise information about such poorly formalised activity as financial consumer protection and financial literacy improvement, as well as to use the results of the analysis to make managerial decisions aimed at improving the effectiveness of interaction and improving the quality of consulting services provided to the population.

7. Improving Consumer Financial Literacy

7.1. Implementation of the Financial Literacy Strategy for 2017—2023

The adoption of the Financial Literacy Strategy for 2017-2023 (hereinafter referred to as the Strategy) has become an important outcome of the Joint Project of the Russian Federation and International Bank for Reconstruction and Development “Financial Literacy and Financial Education in the Russian Federation” (hereinafter referred to as the Project). This is the first strategic financial literacy document of such scale in the Russian Federation, which is aimed to develop financial culture in the country and increase the number of financially literate citizens.

The Russian Ministry of Finance, the Bank of Russia, Rospotrebnadzor and other concerned authorities prepared an Action Plan (“Roadmap”) to implement the Financial Literacy Strategy for 2017—2023. The Roadmap was approved on 3 December 2018.

The main purpose of the Roadmap is to provide for the coordination and consistent partnership between all parties concerned, i.e. the Russian Ministry of Finance, the Bank of Russia, regional authorities, business community and teaching community.

All measures taken to implement the Strategy and its Roadmap are aimed to lay the groundwork for responsible financial behaviour required to improve people’s standard of living and quality of life, in particular by using proper quality financial products and services. Therefore, the financial literacy improvement plan is aimed to help citizens to manage their finances efficiently and mitigate risks of losses from incorrect personal budget management.

Measures provided for by the Roadmap are connected with the main types of activities, which correspond to the main objectives of the Strategy. The Roadmap provides for the following 48 measures:

- 35 measures for wider coverage and higher quality of financial education and awareness-raising on financial matters; establishment of the required institutional framework and methodological resources for the educational community;
- 13 measures for the development of mechanisms for the interaction between the government and the society to improve financial literacy, in particular, to raise awareness about financial consumer rights and the ways to protect them, as well as to promote socially responsible behaviour among the financial market stakeholders.

There is a special document indicated for each measure of the Roadmap to confirm its implementation, period, responsible specialists and expected outputs.

The first meeting of the Intergovernmental Coordination Commission dedicated to the Strategy implementation took place on 28 December 2018 at the Russian Ministry of Finance. The heads of the relevant ministries and bodies (the Russian Ministry of Finance, the Bank of Russia, the Russian Ministry of Education, the Russian Ministry of Science and Rospotrebnadzor) discussed the ways of efficient interdepartmental teamwork to improve financial literacy of Russian citizens.

In his opening speech, First Deputy Prime Minister of the Russian Federation and Minister of Finance Anton Siluanov said that the government actively introduced financial literacy elements in schools and universities, trained financial literacy teachers, worked with the constituent entities of the Russian Federation, arranged various events and that it was already possible to make first conclusions about the necessity to improve and apply the most successful practices in other regions.

Director of the Department for International Financial Relations of the Russian Ministry of Finance Andrey Bokarev spoke about cooperation arrangements at the level of constituent entities of the Russian Federation and municipal structures and mentioned that in 69 regions the Project had helped to establish regional financial literacy methodology centres to promote financial literacy basics in institutions of secondary, professional and higher education. By December 2018, 26.5 thousand financial literacy teachers had undergone further training and started working and in 2019 about 50 regions will receive 13 million financial literacy textbooks for pupils from second to eleventh grades.

Experts talked about the relevant education and consumer protection objectives of the Strategy for the following year and discussed the document performance indicators and monitoring system. In addition, they announced the upcoming development of the unified standard regional financial literacy improvement program that would be one of the topic of the following meeting of the Intergovernmental Coordination Commission.

A decision to rank constituent entities of the Russian Federation according to their financial literacy was one of the significant results of the meeting.

The first financial literacy ranking of regions was presented on 14 February 2019 at the Russian Investment Forum in Sochi during the session titled “Financial Literacy as a Foundation of Financial Stability”. The session was closed with the presentation of awards to representatives of the most financially literate regions.

The financial literacy ranking of regions is based on the first Russian financial literacy study conducted in each of 85 constituent entities of the Russian Federation in July 2018.

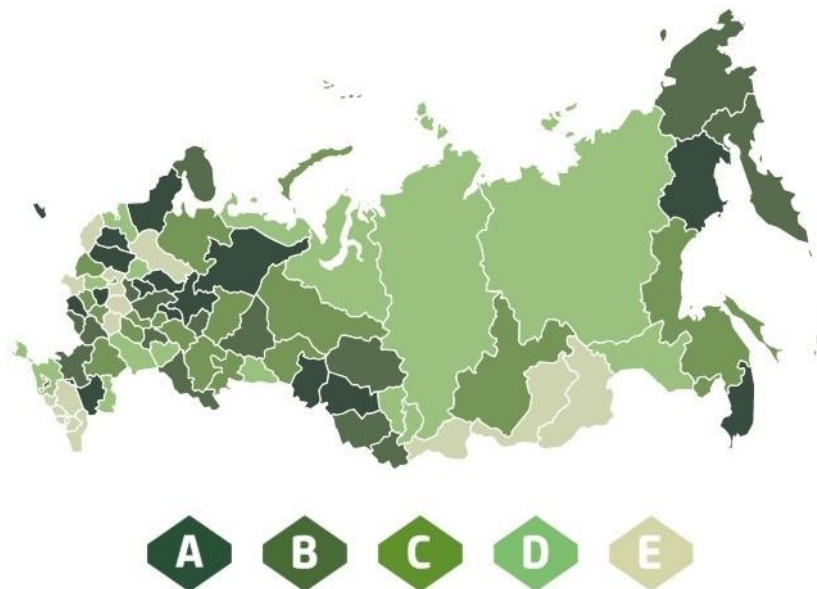
The financial literacy index was calculated for each region by adding three sub-indexes (Knowledge, Skills, Attitude). Regions were then ranked based on the resulting index from the biggest to the lowest results. Each of the regions was assigned its own rank.

Regions were divided into five groups with each region being assigned its literal code. “Group A — High”, “Group B —

Above Average”, “Group C — Average”, “Group D — Below Average”, “Group E — Low”⁴⁷⁰.

The survey covered 85,000 respondents; 1,000 people were surveyed in each region. The survey was conducted as a personal interview at respondents’ places of residence. The results of the survey are available at karta.vashifinancy.ru.

Figure 7.1. Russian financial literacy map



Source: karta.vashifinancy.ru

FOR REFERENCE

Andrey Bokarev, Director of the Department of International Financial Relations of the Russian Ministry of Finance, “We are the first country in the world that measures financial literacy among adult population not only at the level of the whole country or separate programs but at the level of all constituent entities of the Russian Federation. We expect that this will help us to look at relevant issues in this area more thoroughly taking into account the vast territory of our country and differences between regions, identify the most vulnerable social groups, look which factors affect financial literacy more and select priorities.”

According to the survey, financial literacy to a great extent depends on social and demographic characteristics of respondents and whether they use financial products/services. Employed married men and women aged from 30 to 45 years who have one or two children, reside in cities with a population of 1 million or more and actively use financial products and services are the most literate citizens in Russia.

The survey shows that financial literacy depends on many factors, such as the number of used financial products or urban development of the region.

Kalinigrad, Kirov, Kostroma and Kursk Oblasts, and the Republic of Komi have the highest level of financial literacy.

7.2. Consumer Information Resources

The financial consumer protection information hub zpp.rospotrebnadzor.ru continued to operate in 2018. Rospotrebnadzor launched its online reception office⁴⁷¹ in autumn 2018 for financial consumers to file requests/complaints or receive remote automated advice.

Vashifinancy.ru, a national multi-purpose information and educational platform for the general public that provides insights into financial literacy and consumer protection issues, as well as the complete information about the Project progress, continued its development in 2018.

The interface was modified in 2018 by adding new sections (Strategy, Ranking of Russian Regions, Stories from Stars), the library was updated and systematised, and the Project news were regularly published.

Besides general information that may be useful for everybody, the hub has sections dedicated to specific target groups:

- for Project participants (Project Regions, Information Bulletins, Your Friendly Finances, Methodology Centres, Materials, For Teachers, Events);
- for mass media (Press Centre and Competition for Mass Media).



⁴⁷⁰ Based on NAFI's survey <https://nafi.ru/projects/finansy/rejting-finansovoy-gramotnosti-regionov-rossii-2018/>.

⁴⁷¹ Rospotrebnadzor's virtual reception office <http://zpp.rospotrebnadzor.ru/Forum/Appeals>.

The website **Хочу могу знаю.рф** contains information about the rights of financial consumers, respective laws and regulations, as well as interactive guidelines on using such services. The website provides an opportunity to take a financial consumer rights test, arrange a game or a lesson and print out comics for schoolchildren using the materials from the Interactive and For Schoolchildren sections.



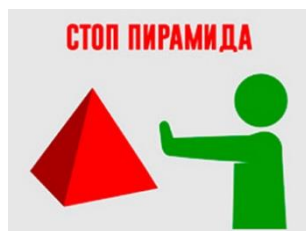
It is necessary to train qualified teachers, methodologists, trainers and consultants to integrate financial literacy basics into educational practice. Three federal financial literacy methodology centres opened under the Project continued to operate to achieve this objective.

- The federal methodology centre for the enhancement of financial literacy in secondary vocational and general education (<https://fmc.hse.ru/>) was opened as a subdivision of the Higher School of Economics. The centre is aimed to ensure workforce capacity of teachers, trainers, methodologists and administrators of educational institutions and to create efficient infrastructure to support financial literacy teachers.
- The federal methodology centre for further training of university professors and development of financial literacy programs for students (<http://fingramota.econ.msu.ru/>) was opened at the Economic Faculty of the Lomonosov Moscow State University. The centre provides guidelines for professors who implement financial literacy programs for students of Russian universities.
- The Federal consulting and methodology centre for the enhancement of financial literacy among adults (<http://portal-kmfg.ru/>) was established at the premises of the Financial University under the Government of the Russian Federation. The centre operates and coordinates a network of regional counselling and methodology centres, prepares educational programs to train financial literacy consultants for adults and provides respective guidelines.



The methodology centres with the regional network are aimed to improve the qualification of professors working for institutions of higher and vocational education, school teachers and methodologists, who integrate financial literacy programs into educational practice, to train consultants to raise awareness among citizens about prudent financial behaviour when making personal financial decisions and to improve financial consumer protection.

Information resources of these centers mainly contain methodological materials that may be used to train financial literacy teachers and tutors. At the same time, the websites of these federal methodology centers also contain awareness-raising materials that may be useful for everybody interested in the topic.



Stoppiramida.ru, an awareness-raising website, is intended to protect financial consumers and enhance financial literacy and financial safety of depositors, shareholders and investors.

The website was created and is supported by the Federal Foundation for the Protection of Investors and Shareholders in order to:

- promote reasonable attitude to investment services;
- raise awareness about the relevant types of financial fraud;
- teach how to assess financial risks;
- eliminate specific financial pyramids by awareness raising.

The website provides information about unfair and fair financial practices, laws and regulations on the protection of financial consumers, investors, minority shareholders and application forms to file documents to law enforcement authorities and courts. It is possible to find there the description of the most widespread financial pyramids and obtain free access to booklets prepared by the Federal Foundation for the Protection of Investors and Shareholders. The News section contains a lot of materials about modern types fraud and its prevention.

Users of the website can report companies that they deem dishonest and get a free opinion on private investments and financial consumer protection.

The Journalists Club section is intended for regional journalists interested in finances. Members of the club can benefit from prompt commentaries on a wide range of finance-related topics from the Club experts. Leading financial specialists and heads of financial companies act as experts and are subject to the approval by the Expert Council on Financial Literacy under the Bank of Russia.

7.3. Nation-wide Financial Literacy Events

The Strategy focuses on awareness-raising events to promote financial literacy and financial consumer protection methods, such as the Russian Financial Literacy Week for Children and Young People and the Russian Savings Week. These events are held under the scope of the Project.

The Fourth Russian Financial Literacy Week for Children and Young People was held from 9 to 22 April 2018.



Events of the Fourth Financial Literacy Week were held in all Russian regions. The Week has extended its coverage over four years: only 10 Russian regions participated in the Week events in 2015, while in 2018 the Week brought together 2.5 million people, which is an almost twofold increase as compared to 2017. The majority of participants of the Financial Literacy Week came from the Republic of Tatarstan (133,685 people), Altai Krai (129,500 people) and the Republic of Bashkortostan (129,000 people). The Russian Financial Literacy Week for Children and Young People has the biggest number of participants among similar educational events held by other countries.

Games, lectures, workshops, quizzes, performances, quest games and creative competitions were arranged in kindergartens, schools and universities across the country. In 2018, the Financial Literacy Week was held just before the Football World Cup hosted by Russia for the first time. That big sports event set the mood of the whole Week. Finball became one of the most exciting and popular events. It is a team intellectual competition that allowed schoolchildren to test their financial literacy and demonstrate football knowledge.

The all-Russian online parent conference attracted the biggest audience. The Project's experts and the Domashny Ochag magazine spoke with parents about financial literacy in the Odnoklassniki social network. The online streaming had over 1.2 million views from 80 Russian regions.

The Internet became the main channel of communication with the target audience. Financial literacy posts in social networks had a large audience of 2.6 million people. Over 1.1 million views were registered at vashifinansy.ru, the Project's main information resource, during the Week.

The number of participants of the Week and its coverage were increased by the cooperation of partner financial institutions, educational institutions and businesses that arranged over 3.3 thousand events for 1.47 million people.

As in 2017, the Masterslavl exhibition, the biggest educational project for children, became part of the Financial Literacy Week. Attendees of the Masterslavl could visit special rooms dedicated to different professions organised by the Week's partners. Over 2,000 children participated in the Masterslavl financial literacy events.

The Week paid special attention to competitions of creative works. Over 700 creative works were sent by children aged from 3 to 14 years as part of an All-Russia competition titled "Friend for Krash" held in the Project's social networks together with the Kikoriki team. Over 1,000 essays⁴⁷² were sent for a competition titled "Five Advice to Yourself: How to Build Successful Future".



It should be noted that the Financial Literacy Week won the C4F Davos Award 2018 in the Education of the Future category⁴⁷³.

FOR REFERENCE

The C4F Davos Awards since 2010 have recognised highly professional and globally remarkable individual communicators and/or organisations with a creative approach and unique vision of the future of communications. The awards are presented by the international jury at the World Communication Forum in Davos (WCFDavos).



In addition, the Financial Literacy Week received two awards at the Golden Puzzle Award ceremony. The Week was awarded in the Best Social Project and the Best Event for Children categories⁴⁷⁴.

FOR REFERENCE

The Golden Puzzle Award is an annual independent award for achievements in event management and event-based

⁴⁷² The Fourth All-Russian Financial Literacy Week brought together 2.5 million participants. https://vashifinancy.ru/for-smi/press/news/iv-vserossiyskaya-nedelya-finansovoy-gramotnosti-obedinila-2-5-mln-uchastnikov/?sphrase_id=11527

⁴⁷³ Official website of the Russian Ministry of Finance http://minfin.ru/ru/press-center/?id_4=35072&area_id=4&page_id=2119&popup=Y.

⁴⁷⁴ The Your Friendly Finances Project received two awards at the Golden Puzzle Award ceremony. <https://vashifinancy.ru/for-smi/press/news/proekt-druzhi-s-finansami-poluchil-srazu-2-nagrody-pr-premii-zolotoy-pazl/>.

marketing. This year the award was presented for the tenth time.



The Fifth Russian Savings Week was held from 29 October to 12 November 2018 to coincide with the World Savings Day, traditionally celebrated on 31 October.

In 2018, this awareness raising event covered all Russian regions for the first time. Almost 10,000 events were held during the Week, a 70% increase as compared to 2017. About 1.7 million people participated in the events in person or online, a threefold increase as compared to 2017.

Modern interactive events enjoyed the greatest popularity. A series of city and museum financial literacy quest games were held in Vladivostok, Kazan, Stavropol, Moscow and other cities at the end of October - beginning of November. Organisers of the quest games focused on the practical significance of financial education and its long-term importance for young people in their way to adulthood.

At the same time, Financial Detective allowed anyone to test their knowledge online by comparing financial documents to find inconsistencies, gain evidence and solve a mystery.

TASS, a Russian news agency, held several media events for journalists as part of the Week.

During the Week, methodologists trained as part of the Project, Rospotrebnadzor's specialists and experts from regional financial literacy centres consulted citizens in person and online on personal budget management, financial behaviour basics, getting out of a dire financial condition and financial consumer protection mechanisms. Other events included financial literacy training at workplaces, compulsory pension insurance and voluntary pension coverage seminars.

Andrey Bokarev, Director of the Department of International Financial Relations of the Russian Ministry of Finance, summed up the results of the Fifth Russian Savings Week and underlined that events arranged during the Week were selected to a great extent because President Vladimir Putin had declared 2018 the Year of Volunteers, "Tutors, financial literacy volunteers, play an important role in the Project of the Ministry of Finance. Over 6,000 specialists have already been trained and have started to educate population about financial literacy".



It should be noted that in 2018 the Financial Literacy and Financial Education Project of the Ministry of Finance participated in the Moscow International Education Fair (MIEF 2018) for the first time. The Fair took place from 18 to 21 April 2018. This respectable event dedicated to educational technologies was chosen to demonstrate unique technologies used to teach financial literacy that had been developed during the seven years of the Project.

MIEF 2018 was dedicated to the New Ecosystem of Education. The forum analysed educational trends in the nearest future and the current effect of new technologies and intellectual solutions on the educational process.

The Ministry of Finance's stand at MIEF 2018 was in line with the main topic of the exhibition. Special presentations and lectures given at the stand covered:

- electronic educational courses;
- online games;
- new financial literacy textbooks for all ages;
- the ways financial literacy elements can be integrated in the school curriculum;
- educational algorithms, such as quizzes, quest games and interactive lectures.

At MIEF 2018, the Russian Ministry of Finance and the Bank of Russia arranged joint sessions titled "From Institutional Financial Literacy Programs to the Financial Literacy Strategy" and "Implementation of Financial Literacy Programs at the Regional Level".

About 2,500 people attended the Your Friendly Finances stand at MIEF 2018 over 4 days. Teachers received 160 financial literacy textbooks. Over 40 events were held at the Your Friendly Finances stand for teachers and the most important guests - schoolchildren, school graduates, their parents and small children, who were invited to a special zone where they could watch a cartoon titled "Financial Literacy Basics with Kikoriki" or enjoy financial literacy colouring books. Attendees of the stand could listen to the Project's speakers, experts from Moscow and seven Russian regions being leaders of the Project: Altai Krai, Arkhangelsk, Volgograd, Kaliningrad, Saratov Oblasts, Stavropol Krai and Tomsk Oblast. They could listen to lectures, participate in discussions, do exercises at open lectures, play quest games and learning games.

The Your Friendly Finances stand was marked by the organisers of the exhibition, who presented the Ministry of Finance with a Medal of the Moscow International Education Fair 2018 for the contribution in the educational development.

The Third International Conference for Financial Consumer Protection "Territory of Financial Safety" was held on 2-3 October 2018 in Moscow.

The conference was supported by the Bank of Russia within the framework of the World Investor Week 2018 held by the International Organization of Securities Commissions (IOSCO) from 1 to 7 October 2018.

The conference was organised by the Federal Foundation for the Protection of Investors and Shareholders and the Eurasian Economic Commission.

About 400 delegates from 11 countries came to the conference (from Armenia, Belarus, Bulgaria, Hungary, Hong Cong, Italy, Kazakhstan, China, Malaysia, Russia and Uzbekistan). The biggest delegations came from Kazakhstan, China, Malaysia, Russia and Uzbekistan.



The business program of the Conference lasted for two days and consisted of six separate sessions with 45 speakers and moderators. The conference was focused on the ways to protect investors in all segments of the financial market in the EEU and other participating countries.

The conference sessions covered the following topics:

- Best practices of financial consumer protection in the EEU and other countries - financial ombudsmen;
- Investor relations: international compensation systems in financial markets;
- Emerging practices of the regulation of off-exchange financial instruments and technologies in the EEU countries and consumer protection enhancement;
- Improvement of investor protection in the financial market;
- Response to unfair financial practices and financial fraud;
- Financial safety: digital financial services and consumer rights.

Since the First International Conference for Financial Consumer Protection in the EEU countries in 2016, the Conference has become well known as a respectable and prestigious international platform used to share best practices of investor and financial consumer protection.



In 2018, the implementation of the Financial Literacy Strategy involved a series of important events aimed to lay the groundwork for financially literate behaviour. This strategic objective was achieved by the distribution of awareness-raising materials about financial literacy issues and the ways to protect financial consumers, as well as the arrangement of public events for various target audiences.

Numerous financial literacy and financial consumer protection events held in 2018 contributed to the awareness-raising among population and development of financial education. Citizens actively participated in such events, which indicates great interest in that topic among population.

8. Public Financial Consumer Protection Associations. Main Achievements

8.1. Russian Financial Consumers Protection Union (FinPotrebSouz)

Russian Financial Consumers Protection Union (hereafter – FinPotrebSouz) was established on 12 April 2010. Up to date, the Union has been Russia's only professional financial consumer protection organisation holding a nationwide status. The Union's local offices operate in 49 constituent entities of the Russian Federation.

FinPotrebSouz works closely together with Rospotrebnadzor, participates in the activities carried out by relevant committees and councils, such as the Expert Council on Financial Literacy under the Bank of Russia; Expert Council on Budget and Financial Markets under the Federation Council of the Russian Federation; Expert Council on Investment Legislation; Expert Council on Banking Legislation and Audit; Expert Council on Non-Governmental Pension Funds and Pension Savings Investment under the State Duma Committee on Financial Markets and the Council on Financial Education and Protection of CIS Consumers.

FinPotrebSouz is basically committed to establishing a modern, civilized financial market in Russia, while promoting universal respect for the rights and protecting legitimate interests of consumers.

FinPotrebSouz established counseling desks in the regions where a consumer could apply for free advice and legal support to resolve disputes with financial organizations, including in-court dispute resolution. A hotline was established in many Russian cities. Advisory services are also available through the Counseling Desk at www.finpotrebsouz.ru where the consumer may file a request for legal assistance on the issue of concern.

FinPotrebSouz took major efforts to raise awareness about financial consumer protection issues in mass media (OTR, Radio 1, Argumenty i Fakty, Bashinform etc.).

Consumer protection efforts of FinPotrebSouz and governmental, non-governmental and financial organisations are coordinated in cooperation with government authorities, non-profit organisations, as well as other concerned organisations and unions. A financial consumer protection working group was created at the meeting of the Public Council of Rospotrebnadzor held in July 2018. Igor Kostikov, the Chairman of FinPotrebSouz's Council, joined the working group.

The organization engages professional lawyers specialized in financial markets to work at public reception offices. Cooperation of various non-governmental organizations provides additional opportunities to protect socially disadvantaged people and to develop new approaches to pressing and relevant issues.

FinPotrebSouz regularly applies some efforts to evaluate regulatory instruments and draft legislation in terms of their ability to ensure protection of the consumer's rights and legitimate interests. FinPotrebSouz in cooperation with government authorities, public organisations, financial associations and self-regulatory organisations, develops proposals on introducing changes into legislation that would meet the financial consumer interests and boost comprehensive development of financial markets.

During the discussion of amendments to the Federal Law "On Microfinancing and Microfinance Institutions" and the Federal Law "On Consumer Credit (Loan)" (microfinancing regulation) held on 16 May 2018 at the meeting of the State Duma Committee on the Financial Market, FinPotrebSouz expressed an opinion that the following actions infringe the citizens' rights and adversely affect their financial position: "Accept property and (or) other assets owned by an individual borrower to secure obligations towards a microfinance institution as a guarantee that the debt will be settled in the event of default by the borrower"; "Assign accounts receivable under a microloan agreement to third parties without the borrower's consent"; "Grant microloans to borrowers being legal entities or individual entrepreneurs if the borrower's principal debt to such microfinance institution under microloan agreements exceeds 100 thousand rubles". FinPotrebSouz suggests involving representatives of public organisations of financial consumers in the discussion of such laws⁴⁷⁵.

FinPotrebSouz raises awareness among current and potential financial consumers to improve affordability of financial services and enhance financial consumer protection.

On 21 February 2018, FinPotrebSouz and the Bank of Russia's Office for Protection of Consumer Rights and Availability of Financial Services signed a financial literacy cooperation agreement that provides for the support of the All-Russia Olympiad in Financial Literacy, Financial Market and Financial Consumer Protection for Senior School Students arranged by FinPotrebSouz and the Foundation "Institute of Stock Market and Management" (IFRU) since 2002⁴⁷⁶.

In October-November 2018, within the framework of the project "Legal Literacy: From Consumer Protection to Financial Problem Prevention", FinPotrebSouz and Pravovoy likbez, a Krasnodar public organisation, arranged seven awareness-raising seminars for school teachers and regional education officials.

On 4 July 2018, Kaluga Branch of FinPotrebSouz and Kaluga Branch of the Bank of Russia for the Central Federal District held a financial literacy seminar for regional public officials and businessmen. The Head of the Bank of Russia's Office for Protection of Consumer Rights and Availability of Financial Services Mikhail Mamuta and the Chairman of FinPotrebSouz's Council Igor Kostikov took part in this event.

In August 2018, FinPotrebSouz announced enrolment to free financial literacy courses for senior people. The course consists of 41 hours of lectures, practical lessons and topic-related games.

On 10 September 2018, School 1251 named after General Charles de Gaulle and FinPotrebSouz arranged a financial literacy festival for preschool, elementary, middle and high school children, as well as their teachers and parents.

⁴⁷⁵ <http://www.finpotrebsouz.ru/>.

⁴⁷⁶ <https://www.fin-olimp.ru/>

8.2. Consumers Union of the Russian Federation

The Consumers Union of the Russian Federation (SPRF) was founded in December 1990. It unites over 80 republican, krai- and province-level, city- and district-level public associations – most of actually active consumer protection organizations established in Russia.

The SPRF is committed to advocating for the interests of the consumer in various federal-level authorities, checking compliance with consumer protection norms and regulations, providing protection in court, examining the quality of goods as independent expert.

In 2018, the Consumers Union of the Russian Federation (SPRF) continued to cooperate with the Bank of Russia's Office for Protection of Consumer Rights and Availability of Financial Services and Insurance Supervision Department to improve insurance laws and their enforcement. The SPRF voluntarily developed two national standards: GOST R 57056-2016 "National Standard of the Russian Federation. Manual for Voluntary Property Insurance Consumer Protection. General Requirements"⁴⁷⁷ and GOST R 58183-2018 "National Standard. Manual for Voluntary Personal Insurance Consumer Protection. General Requirements"⁴⁷⁸, approved by Rosstandard in 2018.

In 2018, the SPRF also participated in the discussions arranged by the Bank of Russia about such relevant topics as affordability of financial services, including insurance services, honesty and efficiency of credit institutions in the insurance market and pending OSAGO problems.

When discussing the Strategy of Increasing Financial Accessibility in the Russian Federation for 2018-2020 in respect of insurance, the SPRF paid attention to the need not only to fix current prices of insurance services for various groups of population but to analyse the ways to increase accessibility of services, first of all, using the so called "loss ratio" (the ratio of total losses incurred in claims divided by the total premiums earned) by decreasing insurance providers' operating costs and, therefore, insurance premiums. The Consumers Union as a representative of voluntary insurance consumers disapproves of the fact that this ratio in Russia is really low as compared to other countries and even to the Soviet State Insurance (over 0.8) and tends to continue decreasing. The denominator of the ratio increased by 15.7% in 2018 and reached 1,479 trillion rubles, while the numerator increased only by 2.5% and reached 522 billion rubles, i.e. the loss ratio amounted to 0.35 (2017: 0.4). Such low loss ratio, in the opinion of the SPRF, can be explained by insurance providers' outsized costs rather than their high profit (2018: 204.1 billion rubles, i.e. 14% of premiums earned).

When discussing the role of credit institutions in the insurance market, the SPRF noted wide-spread overpricing of insurance due to excessive bank fees. According to the 2018 official financial statements of the insurance providers that actively cooperate with banks, banks charge the following fees on personal accident and sickness insurance (the most popular insurance offered by banks) from the amount gained by insurance providers through banks: SB insurance — 36%, VTB insurance — 44%, VSK — 52%, Alfa-insurance — 54%, Cardiff — 84%, Renaissance life — 88% and SB life insurance — even 101%. The borrower's overpayment for bank intermediation exceeded 45% for those 7 insurance providers on average, i.e. the borrower overpaid almost twice for insurance.

The SPRF believes that consumers are forced to overpay using the following methods:

6. Consumers are pressed to accept insurance under an adhesion contract under which the bank is the insurance holder, which allows for unlimited insurance overpricing (as the insurance provider cannot control the fee charged by the bank from the client). The borrower, not being a party to the contract, is not protected from abusive practices. When charging the client with an insurance fee, the bank does not regard it as an agency fee, but rather services income, so such payments are not reflected in statistical reports of the insurance provider. Competition among insurance providers will not protect consumers, either, as such contract does not allow for the selection of offers from various insurance providers in one bank;
7. Banks charge insurance providers with a fee to be permitted to insure borrowers. To offer its product, an insurance provider has to make a certain deposit with the bank in the amount calculated depending on its estimate of insurance premiums to be gained from the bank's clients. Therefore, small insurance companies cannot compete with big insurance companies and consumers have to pay for additional costs incurred by insurance providers to make deposits.
8. Consumers cannot select an insurance provider under a loan contract as banks arrange closed tenders to select an insurance provider where the bank's fee for new clients can reach 95% of insurance proceeds, which makes insurance devalued and has signs of a fraudulent transaction that brings no benefits to consumers.

To tackle these issues, the SPRF suggests stipulating in insurance standards for credit institutions that it is forbidden to apply unfair practices and insure borrowers under adhesion contracts, as well as to restrict borrowers' right to insure themselves and/or pledged property in any insurance company in accordance with the bank's conditions related to risks and insurance amount. It should also be stipulated that banks have to disclose complete information about retail lending conditions related to insurance of the borrower or pledged property. It is also advisable that the regulator or bank associations create special public services for consumers to compare offers of various insurance providers adequate to conditions of specific banks.

When discussing pending OSAGO problems, the SPRF supported the suggestion to provide in laws for a safety net for road traffic accident (RTA) victims involving a driver without effective OSAGO and entrust the Russian Association of Motor Insurers with this function by allocating amounts gathered by the organisation to provide a safety net in similar, from the consumer's point of view, situations with three-percent contributions made by insurance companies with later collection of insurance claims from parties without OSAGO that were involved in RTAs.

⁴⁷⁷ Approved and put into effect by Resolution of Rosstandard No. 1089-cr. dated 8 September 2016

⁴⁷⁸ Approved and put into effect by Resolution of Rosstandard No. 425-cr. dated 24 July 2018

The SPRF supported the suggestion for the regulator to make insurance companies focus on online insurance payments and suggested stipulating in laws a possibility of a premium for the insurance provider (with the consent from the insurance holder) for prompt (within a specific short period of time) payment without a dispute, e.g. up to 5% of the liabilities. However, such suggestion can hardly be effectively implemented without a professional damage assessment institute relied upon by insurance providers and holders. It will be necessary to decide on the expert accreditation procedure, monitoring of experts and dispute resolution, as well as a register of accredited experts. If such institute is established, it will become a bearing structure of the OSAGO system.

In addition, the SPRF notes that it is necessary to take urgent measures to reduce the number of drivers without OSAGO or with fake insurance policies. This could be achieved, on the one hand, by providing a car buyer with the right to pay for an insurance policy by instalments, e.g. during six months, and, on the other hand, by eliminating an opportunity to drive without an insurance policy so that a car purchase and sales agreement may be concluded or a vehicle certificate of title may be transferred only subject to the presentation of an insurance policy.

The SPRF also drew the Bank of Russia's attention to the fact that in 2018 Russian courts had considered 198,000 OSAGO cases, which required a lot of time, efforts and money from consumers and a lot of expenses from insurance companies, such expenses being ultimately borne by insurance holders through increasing tariffs. Therefore, it seems important to develop a pre-trial dispute resolution mechanism convenient for insurance providers and holders. If such mechanism is controlled only by insurance providers, insurance holders will lack confidence in it.

That is why the SPRF suggested discussing the establishment of a not-for-profit organisation by a decision of the Bank of Russia with the participation of the All-Russian Insurance Association, the Russian Association of Motor Insurers and associations that represent car owners who consume services of OSAGO insurance providers. Russian Quality System established by the Russian Ministry of Industry and Trade and several business and consumer unions (including the SPRF) pursuant to a decision of the Government of Russia was noted as an example of such organisation.

FOR REFERENCE

Federal Law No. 123-FZ dated 4 June 2018 "On Financial Consumer Ombudsman" sets forth the procedure for pre-trial dispute resolution for financial consumers and financial institutions. The Law on Financial Ombudsman introduces mandatory pre-trial settlement of OSAGO disputes.⁴⁷⁹

8.3. Confederation of Consumer Societies (KonfOP)

KonfOP was founded in 1992. Its main objective is to represent and protect consumers in their relationships with business and the government and to promote consumer protection institutes in CIS countries. KonfOP has 34 members being leading regional and national public organisations of consumers in Russia and the CIS.

Under the Joint Project of the Russian Federation and International Bank for Reconstruction and Development "Financial Literacy and Financial Education in the Russian Federation" (hereinafter referred to as the Project) KonfOP has performed an independent monitoring of financial consumer protection since 2013. In 2018, 16 regions of the Project (Volgograd, Kaliningrad, Nizhny Novgorod, Omsk, Penza Oblasts, Perm Krai, Primorsky Krai, Rostov, Saratov, Sverdlovsk Oblasts, Stavropolsky Krai, Tver Oblast, Khabarovsk Krai, Chelyabinsk Oblast, Moscow and St. Petersburg) were analysed for the observance of rights of credit services consumers (including consumers of "payday loans") (December 2017-May 2018) and insurance services consumers (June-November 2018).

On 26 September 2018, an expert discussion of the independent monitoring findings and presentation of the interim report "Current Status of Borrower Protection on the Lending Market in Russia" were arranged as part of the international conference "Best Practices for Financial Consumer Protection: Regulation and Cooperation in the Digital Economy". The research of the credit services consumer protection was focused on consumer loans (credit cards and loans in cash) and "payday loans".

Dmitry Yanin, the Chair of the KonfOP Management Board, noted that Russia still had a problem of household debt load as 31% of debtors have to pay over a third of their earnings to settle their loan debts. Government employees, such as kindergarten teachers, school teachers and medical personnel, have more debts than others. KonfOP's monitoring also covered such topic as the protection of microloan borrowers⁴⁸⁰.

In June-November 2018, consumer protection in the insurance market was analysed as part of KonfOP's independent monitoring. Special attention was paid to insurance of socially vulnerable (disadvantaged) people.

FOR REFERENCE

In 2017, the President of Russia at the meeting of the Presidium of the State Council of the Russian Federation underlined the need to eliminate insurance rules that discriminate against socially vulnerable people⁴⁸¹; and set tasks to "take special measures to protect the rights of socially vulnerable consumers (people with disabilities, senior citizens, children)".

In 2018, KonfOP continued to arrange a consumer rights working group within the framework of the All-Russian Civil

⁴⁷⁹ The Law on Financial Ombudsman is analyzed in detail in sub-section 1.2 of the Report.

⁴⁸⁰ Monitoring findings are described in more detail in sections 2.2 and 2.4 of the Report.

⁴⁸¹ In accordance with sub-clause b of clause 3 of the list of the President's instructions No. Пp-1004HC prepared following the meeting of the Presidium of the State Council of the Russian Federation dated 18 April 2017 and approved on 25 May 2017.

Forum dedicated to consumer protection.

The All-Russian Civil Forum, the main event for Russian non-for-profit institutions, was held in December 2018. KonfOP organised a discussion titled “Happy Consumers in the Age of the Fourth Industrial Revolution”, which covered relevant financial consumer protection issues.

On 11 February 2019, a round table titled “Discrimination in Insurance: KonfOP Monitoring Findings” was arranged at the All-Russian Civil Forum to look back at insurance changes for the last year (this monitoring stage covered 27 largest insurance companies and 20 banks⁴⁸²). According to Dmitry Yanin, the Chair of the KonfOP Management Board, in 2018 the Russian insurance market experienced important changes: the Basic Standard regulating protection of rights and interests of individuals and legal entities - recipients of financial services provided by members of self-regulatory organisations of insurance companies⁴⁸³ (hereinafter — “the Basic Standard”) became effective in May 2019. Moreover, banks today are the main sales channel for life insurance and accidents and professional disability insurance when granting loans.

The analysis of insurance rules conducted by KonfOP showed that 5 out of 27 insurance companies had not waited for the Basic Standard to become effective and had eliminated all discriminatory provisions from insurance rules. Nevertheless, a third of insurance companies do not insure people living with AIDS/HIV and/or do not recognise events occurred as a result of AIDS/HIV transmission as an insured event; oncology patients face even more challenges; less than a fourth of companies agree to insure people with disabilities; and 8 out of 27 insurance companies set forth special conditions for people with disabilities. A third of insurance companies do not cover complications or death as a result of pregnancy, labour or infertility treatment.

KonfOP’s experts also paid attention to poor awareness among citizens and the lack of opportunity to inspect documents before signing an insurance contract. Special standard leaflets should be prepared for financial consumers for that purpose.

In addition, in 2018 KonfOP presented findings of the independent monitoring of financial consumer protection and legislative development suggestions at the following events: at meetings of the Committee on Budget and Financial Markets under the Federation Council, at the Moscow Financial Forum, at the Second International Conference for Financial Consumer Protection “Territory of Financial Safety”, at the Fourth International Forum “Anticontrafact”, and at the Global Symposium “Advancing Financial Literacy Globally: Implementation and Innovation” arranged by the OECD and the Ministry of Finance of the Russian Federation. The findings of the independent monitoring of financial consumer protection were also presented in Penza in March 2018 at a regional round table titled “Relevant Financial Consumer Protection Issues in Russia” and at the Rossiya Segodnya news agency on 15 October 2018 at a round table arranged together with NAFI.

8.4. Federal Foundation for the Protection of Investors and Shareholders

The Federal Foundation for the Protection of Investors and Shareholders (hereinafter — “the Foundation”) was established pursuant to Resolution of the President of the Russian Federation No. 1157 dated 18 November 1995 “On Certain Measures to Protect Rights of Investors and Shareholders”.

The Foundation for the Protection of Investors and Shareholders:

- pays compensation to those who suffered damage in the financial or stock markets of the Russian Federation;
- maintains an information data base and a register of investors and shareholders whose rights were infringed in the financial or stock markets;
- maintains an information data base and a register of legal entities and individual entrepreneurs that violated regulations in the financial and stock markets of the Russian Federation;
- raises awareness to improve financial literacy and financial safety of depositors, investors and shareholders when selecting the ways to make savings and invest them in the financial market of the Russian Federation.

In addition, in accordance with the Foundation’s Charter it represents citizens whose rights were infringed in the financial market of the Russian Federation in court, arbitration court, legislative and executive bodies.

The Foundation pays a lot of attention to citizens’ complaints and free-of-charge consulting and legal assistance to citizens who suffered from dishonest organisations. The Foundation receives a lot of complaints from those who suffered from consumer credit co-operatives, limited liability companies and fraudulent Internet schemes (fake forex and other platforms). In 2018, the Foundation provided 320 legal consultations for citizens, including 76 written consultations, 102 oral clarifications and 142 emails. In addition, the last year saw the rise in the number of those who suffered from fake lawyers.

As a prevention measure, the Foundation raises awareness among financial consumers. Together with the Bank of Russia, the Foundation prepared information materials to fight financial pyramids. Leaflets published by the Foundation are distributed among unqualified investors to raise awareness.

Under the agreement on cooperation in financial literacy improvement among teachers in Moscow concluded between the Moscow Municipal Organisation of the Education and Science Employees Union of the Russian Federation and the Federal Foundation for the Protection of Investors and Shareholders, in 2018 the Foundation held four awareness-raising meetings with over 200 school teachers and university professors from Moscow. The meetings covered such topics as personal financial safety and cautious financial behaviour.

In addition, a public international conference is annually held, in 2017 and 2018 it was part of the World Investor Week. This event was arranged by the Foundation and the Eurasian Economic Commission. The conference is supported by the Bank of Russia as a key Russian event of the World Investor Week held by the International Organization of Securities Commissions (IOSCO).

⁴⁸² Monitoring findings are described in more detail in section 2.3 of the Report.

⁴⁸³ Approved by a decision of the Committee for Financial Supervision of the Bank of Russia, minutes No. КФНП-24 dated 9 August 2018.

Conclusions: Achieving Excellence in Financial Consumer Protection in Russia

Digital transformation of financial services and emergence of new financial technologies make it important to assess existing and potential risks faced by financial consumers and to improve existing and develop new mechanisms for the protection of their rights and legal interests.

The forum on global consumer protection trends and issues arranged in November 2018 by the UNCTAD Intergovernmental Group of Experts on Consumer Protection Law and Policy indicated the main challenges at the current stage of the consumer market development in the world, such as international electronic trade, payment transactions between individuals, personal data protection, consumer confidence and their digital literacy.

One of the main consumer market trends in Russia in 2018 is the modification of the financial behaviour model from the saving one to the consumption one, which led to the increasing loan growth rate and low savings and cash proceeds growth rate. In such conditions, financial consumers face numerous and material risks related to high household debt load and an increase in the number of unsecured loans, dishonest financial institutions and worsening competitive environment in the financial market.

Rehabilitation after the crisis in the financial sector leads to new risks that were not common for the industry earlier. New trends emerged in addition to misselling common for many countries. First of all, it is a sharp increase in the number of private investors in the stock market. The problem is aggravated by the fact that traditional consumer protection mechanisms do not work for investors as investments come with calculated risks and the wish to make profit. Secondly, it is a sharp increase in life insurance cases due to low deposit rates and frequent misselling. Thirdly, it is an increase in the number of unauthorised transactions with payment cards, which is aggravated by the difficulty in holding the bank liable in case of theft from customer accounts.

Consumers face additional risks due to the active development of digital technologies, electronic commerce and electronic payments. An increase in the number of transactions, means of communication between financial institutions and financial consumers and emergence of new financial products inevitably lead to new threats and the constant “improvement” of dishonest methods, emergence of new state-of-the-art fraudulent schemes and unfair practices that have a negative impact on the financial market on the whole and on its specific segments.

In addition, Compulsory Motor TPL Insurance (OSAGO) is not regulated enough, which leads to numerous judicial disputes.

In order to improve legal consumer protection mechanisms, including those for financial consumer protection, Rosпотребнадзор and other participants of the national consumer protection system in 2018 took measures to implement the President’s instructions prepared following the meeting of the Presidium of the State Council of the Russian Federation dedicated to the development of the national consumer protection system⁴⁸⁴ and the Action Plan on the implementation of the State Consumer Protection Strategy of the Russian Federation until 2030⁴⁸⁵. The most significant federal laws and regulations approved/developed in the reporting year:

- Draft Federal Law “On Amendments to Certain Legal Acts of the Russian Federation Providing for Special Measures to Protect the Rights of Socially Vulnerable Categories of Consumers such as Disabled, Elderly People and Children” — provides for special measures to protect the rights of socially vulnerable categories of consumers, which is in line with the UN Guiding Principles that pay special attention to the need to protect socially vulnerable consumers;
- Federal Law No. 554-FZ dated 27 December 2018 “On Amendments to the Federal Law “On Consumer Credit (Loan)” and the Federal Law “On Microfinancing and Microfinance Institutions” — limitation of the interest rate under a consumer credit (loan) agreement and other prohibitions and requirements to protect consumers from onerous conditions of loan agreements earlier offered by microfinance institutions;
- Federal Law No. 250-FZ dated 29 July 2018 “On Amendments to the Law of the Russian Federation “On Protection of Consumer Rights” — establishes a legal status of the owner of the aggregator of information about goods (services), determines responsibility and liability of the aggregator owner to communicate to consumers complete and reliable information about it and the goods/ services seller. In accordance with the decision of the Government of the Russian Federation⁴⁸⁶ online aggregator owners are under federal government consumer protection oversight;
- Federal Law No. 123-FZ dated 4 June 2018 “On Financial Consumer Ombudsman” — establishes the financial ombudsman institute as a mechanism of pre-trial dispute resolution for financial consumers and financial institutions. A financial ombudsman is another step towards new financial consumer protection mechanisms that provide for the application of approaches to consumer protection generated based on the court and administrative practice of Rosпотребнадзор;
- Federal Law No. 38-FZ dated 18 March 2019 “On Amendments to the Law of the Russian Federation “On Protection of Consumer Rights” Regarding the Improvement of the State Policy in the Field of Consumer Protection” — local governing bodies are given more rights to consider consumer complaints and develop municipal consumer protection programs. But Rosпотребнадзор has to approve guidelines for the development and implementation of regional and municipal consumer protection programs.

⁴⁸⁴ List of the President’s instructions No. Пp-1004HC dated 25 May 2017.

⁴⁸⁵ Approved by the Government of the Russian Federation (Decree No. 481-p dated 23 March 2018).

⁴⁸⁶ Resolution of the Government of the Russian Federation No. 1536 dated 14 December 2018 “On Amendments to the Regulation on Federal Government Consumer Protection Oversight”.

In view of the increasing interest in the personal bankruptcy procedure and the need to clarify certain points related to that procedure, a Resolution of the Plenum of the Supreme Court of Russia⁴⁸⁷ became an important event of 2018. The Resolution clarifies the matters related to the sale of the only residential property, inclusion of social payments into bankruptcy assets, and the way property of spouses is treated in bankruptcy. However, clarifications from the Supreme Court of Russia need to be recognised in laws.

Control and supervision measures taken by Rospotrebnadzor under the Law “On Protection of Consumer Rights”⁴⁸⁸ are key to the financial consumer protection system.

In 2018, Rospotrebnadzor and its territorial bodies received about 23,000 consumer complaints on companies providing financial services. The majority of complaints are still connected with the bank sector (11,223 complaints (67.4%)) and insurance companies (3,345 complaints (20.1%)). Forced paid services, including collective agreement services, legal, information and other services, are the most widespread reason for complaints.

The main indicators of the control and supervision measures of Rospotrebnadzor improved in 2018:

- an increase in incident detection cases — the percentage of the inspections that revealed violations of statutory requirements in the total number of inspections reached 75% (2017: 71.8%). This figure may be broken down by sectors as follows: banking — 76.9% (2017: 76%), insurance — 68% (2017: 68.6%), microfinancing — 76% (2017 — 73.9%);
- an increase in the percentage of administrative offence reports prepared after completing an inspection in the total number of administrative offence reports issued to financial institutions from 20.3% in 2017 to 24.1% in 2018;
- a fourfold increase in the amount awarded to consumers in civil financial consumer protection cases in which territorial bodies of Rospotrebnadzor were involved — from 60.1 million rubles in 2017 to 242 million rubles in 2018;
- an increase in the percentage of claims satisfied by the court in the total number of claims raised by Rospotrebnadzor to defend a non-specific group of financial consumers from 36.8% in 2017 to 58.3% in 2018.

In 2018, Rospotrebnadzor continued to raise awareness and provide consultations to financial consumers. Over 25,000 events were held at counselling centres (consultations, publications, speeches, hot lines, educational events, development of guidelines, examinations and comparisons), an increase of 14% as compared to 2017.

Traditionally, the majority of events involved consultations of financial consumers (70% of all events), including on the preparation of draft legal documents (applications, claims, complaints etc.). Top ten constituent entities of the Russian Federation that accounted for 40% of all consultations given in 2018 included Sverdlovsk Oblast, Krasnodar Krai, the Republic of Tatarstan, Saratov Oblast, Altai Krai and other regions.

Amendments to the Law “On Protection of Consumer Rights”⁴⁸⁹ that became effective in 2019 can have a material effect on the scope and nature of activities carried out by counselling centres for consumers as they set forth the procedure for filing and considering consumer complaints, including via multifunctional centres, post offices and the Internet. According to the above mentioned amendments, multifunctional centres can accept consumer complaints and consult consumers on the protection of their rights under agreements of interaction with state authorities and local authorities. New approaches received legislative recognition as a result of Rospotrebnadzor’s successful implementation of the pilot project to test consumer consultation mechanisms at multifunctional centres. The pilot project was launched in 2018-2019 in nine constituent entities of the Russian Federation and covered over 130 multifunctional centres.

According to a remote survey of counselling centres conducted in December 2018-February 2019, specialists of counselling centres use the Unified Methods and Standards for Financial Consumer Consultation developed by Rospotrebnadzor with the assistance of FBK, LLC. According to the majority of specialists of counselling centres who took part in the remote survey, these standards are an important supplement to financial services resources but are more specific and practical, which helps to provide prompt consultations to consumers.

Based on the suggestions from specialists of counselling centres received in the remote survey, it is planned in 2019 to further develop consumer consultation methods, for example, to clarify the procedure for the pre-trial resolution of disputes between financial consumers and financial institutions by the financial ombudsman, the participation in collective borrower insurance agreements when obtaining loans, interaction between consumers and creditors in respect of overdue debt collection.

The remote survey involved the assessment of Rospotrebnadzor’s counselling centres. The assessment was based on the methodology developed with the assistance of FBK, LLC and applied the following assessment criteria:

- the quality of awareness-raising and consulting processes;
- communication between the counselling centres and concerned organisations;
- the quality of the counselling centre performance for financial consumers and the society on the whole.

Counselling centres in the following regions scored the highest: Altai, Zabaykalsky, Krasnodar, Krasnoyarsk, Kamchatka Krai, Bryansk, Volgograd, Vologda, Irkutsk, Kursk Oblasts, Moscow, St. Petersburg and other 14 regions. Counselling centres in the Republic of Bashkortostan, Chelyabinsk and Omsk Oblasts improved their positions as compared to 2017.

Rospotrebnadzor’s awareness-raising measures provide for the financial literacy of citizens and the development of the

⁴⁸⁷ Resolution of the Plenum of the Supreme Court of Russia No. 48 dated 25 December 2018 “On Certain Matters Related to the Formation and Distribution of Bankruptcy Assets in Personal Bankruptcy Cases”.

⁴⁸⁸ Law of the Russian Federation No. 2300-1 dated 7 February 1992.

⁴⁸⁹ Federal Law No. 38-FZ dated 18 March 2019 “On Amendments to the Law of the Russian Federation “On Protection of Consumer Rights” Regarding the Improvement of the State Policy in the Field of Consumer Protection”.

financial culture, which is in line with the objectives of the Financial Literacy Strategy for 2017-2023⁴⁹⁰.

The Russian Ministry of Finance and the Bank of Russia approved the Strategy Action Plan⁴⁹¹ (“the Roadmap”) aimed at the coordination and partnership of all stakeholders — the Russian Ministry of Finance, the Bank of Russia, Rospotrebnadzor, regional authorities, business community and teaching community.

According to the Roadmap, Rospotrebnadzor should take the following measures:

- arrange and hold regular Russian financial literacy weeks for children and young people, Russian savings weeks, financial literacy weeks in various regions of Russia, events to celebrate the Financier's Day, the Investor Week and the pension literacy days;
- provide for the communication with various target audiences in order to raise financial literacy awareness among population and draw attention to this topic, arrange a monitoring and control system;
- train journalists by holding financial literacy seminars, round tables and other educational events;
- improve the quality of awareness-raising among financial consumers, implement feedback mechanisms;
- consolidate and analyse best Russian practices in financial consumer consulting, awareness-raising and complaint management, inform about such practices through information resources and at various events;
- develop awareness-raising and consulting materials for consumers of financial services, including digital financial services and digital communication channels;
- extend financial literacy and financial consumer protection awareness-raising practices.

Russia's Financial Literacy Strategy for 2017-2023 and its Implementation Roadmap are focused on financial literacy and financial consumer protection awareness-raising events.

Specialists of Rospotrebnadzor, its territorial bodies and counselling centres are directly involved in annual events that have already become traditional: the Russian Financial Literacy Week for Children and Young People and the Russian Savings Week.

The geographical coverage and the number of participants of these events increase each year. The Fourth Russian Financial Literacy Week for Children and Young People held in April 2018 in all 85 regions brought together 2.5 million people, a twofold increase as compared to 2017. The Russian Financial Literacy Week for Children and Young People has the biggest number of participants among similar educational events held by other countries.

The Fifth Russian Savings Week held to coincide with the World Savings Day (31 October) covered all Russian regions for the first time. Almost 10 thousand events were held during the Week, a 70% increase as compared with 2017. About 1.7 million people participated in the events in person or online, a threefold increase as compared to 2017.

In 2018, Rospotrebnadzor continued to present best Russian financial consumer protection practices on the global stage by participating in working groups and committees of the UNCTAD, OECD, EEU, CIS and other organisations.

In July 2018, representatives of Rospotrebnadzor participated in the third session of the UNCTAD Intergovernmental Group of Experts on Consumer Protection Law and Policy and shared practices applied in Russia to create new legal mechanisms for decreasing the debt load on consumers and fighting illegal debt collection practices. They also paid special attention to financial literacy and legal awareness-raising issues. The session attendees expressed their interest in Russian practices.

At the meeting of the G20/OECD Task Force on Financial Consumer Protection held in October 2018, representatives of Rospotrebnadzor presented Russian financial literacy improvement practices and the main changes in consumer protection regulations. The meeting attendees highly appreciated information materials for school children and teenagers prepared under the Joint Project of the Russian Federation and the World Bank “Financial Literacy and Financial Education in the Russian Federation”. Rospotrebnadzor also presented its Report on the Status of Financial Consumer Protection in 2017 prepared with the assistance of FBK, LLC. The Secretariat of the G20/OECD Task Force on Financial Consumer Protection expressed its interest in studying Russian practices and suggested sending an English version of the report to all task force members.

Representatives of Rospotrebnadzor participated in the work of the OECD Committee on Consumer Policy in November 2018 and discussed the draft guidelines on good practices for online sales of goods and services. Special attention was paid to new approaches to consumer loan regulation in revised OECD recommendations in the field of consumer credit prepared with the active participation of Rospotrebnadzor. The UNCTAD highly appreciated the International conference “Best Practices for Financial Consumer Protection: Regulation and Cooperation in the Digital Economy” held in September 2018 by Rospotrebnadzor with the assistance of FBK, LLC.

New challenges for the national financial consumer protection system require coordinated efforts of all participants of the system in the following priority areas:

- updating existing and developing new financial consumer protection regulations aimed, inter alia, to improve pre-trial dispute resolution, provide for better regulation of digital services, including remote identification technologies, electronic document management, transaction and personal data cybersecurity, big data, the use of cryptocurrency etc.;
- analysing and systematising international practices of consumer legislation codification in order to develop approaches to selecting conceptual provisions of the national legislation codification system in the field of consumer protection;
- developing and implementing efficient management instruments for consumer protection in the electronic (digital)

⁴⁹⁰ Approved by the Government of the Russian Federation (Decree No. 2039-p dated 25/09/2017).

⁴⁹¹ Approved by Elvira Nabiullina, the Head of the Bank of Russia, and Anton Siluanov, the First Deputy Prime Minister of Russia - the Minister of Finance of Russia, on 3 December 2018.

consumer market;

- increasing affordability of financial services for consumers, implementing the marketplace project to discourage misselling in the financial market;
- developing mechanisms to protect rights and legal interests of socially vulnerable financial consumers in various regions;
- analysing accumulated experience of holding financial literacy events and promoting best financial education practices;
- increasing IT penetration in Rospotrebnadzor's consumer protection efforts, transforming zpp.rospotrebnadzor.ru, an information consumer protection resource, into a digital platform for consumers with information about goods/services, market participants, consumer rights, useful resources and a mobile app.



In the era of digital technologies, efficient consumer protection is crucial to create a competitive, transparent and advanced financial market. The search for new approaches and mechanisms to respond to risks that emerge in the digital financial space determined the main vector of the state financial consumer protection policy in the nearest future.

Planned events aimed to develop the consumer protection system and improve financial literacy will create an efficient system that makes it possible to respond to emerging challenges and achieve greater credibility of digital financial technologies.