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Financial Consumer Protection during the COVID-19 Crisis: *A Global Perspective*

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** Views are my own and do not represent those of WBG or its Board.*

What does Financial Consumer Protection (FCP) do?

- **Financial consumer protection** encompasses the laws, regulations, and institutional arrangements that safeguard consumers in the financial marketplace against financial harm.

- **Perimeter:** Typically broader than that of prudential supervision, focused on all commercial financial products and services.
- **Microeconomics**: Balance the asymmetric information and market powers that advantage financial institution over consumer
- **Macroeconomics**: Promote competition in financial markets as well as better risk management in and access to opportunities for the house sector.

The COVID-19 Crisis and Financial Consumer Risks

The COVID-19 crisis amplifies asymmetries in access to information, imbalances in market power, and heightens financial risks for the household sector. Examples:

- **Accounts and investments:** Consumers can face undue restrictions or penalties in access to their accounts, savings, or investments.
- **Insurance:** Insurers may deny COVID-related claims based on unfair exclusions. Consumers may lose insurance coverage if unable to pay premiums.
- **Credit: (i)** Threat of aggressive debt collection and late payment/default fees. **(ii)** Consumers exposed to unfavorable loan terms, providers, frauds/scams in search for emergency credit. **(iii)** Social assistance seized first by financial institutions or debt collectors to satisfy debt obligations. (Chen et al. 2020)

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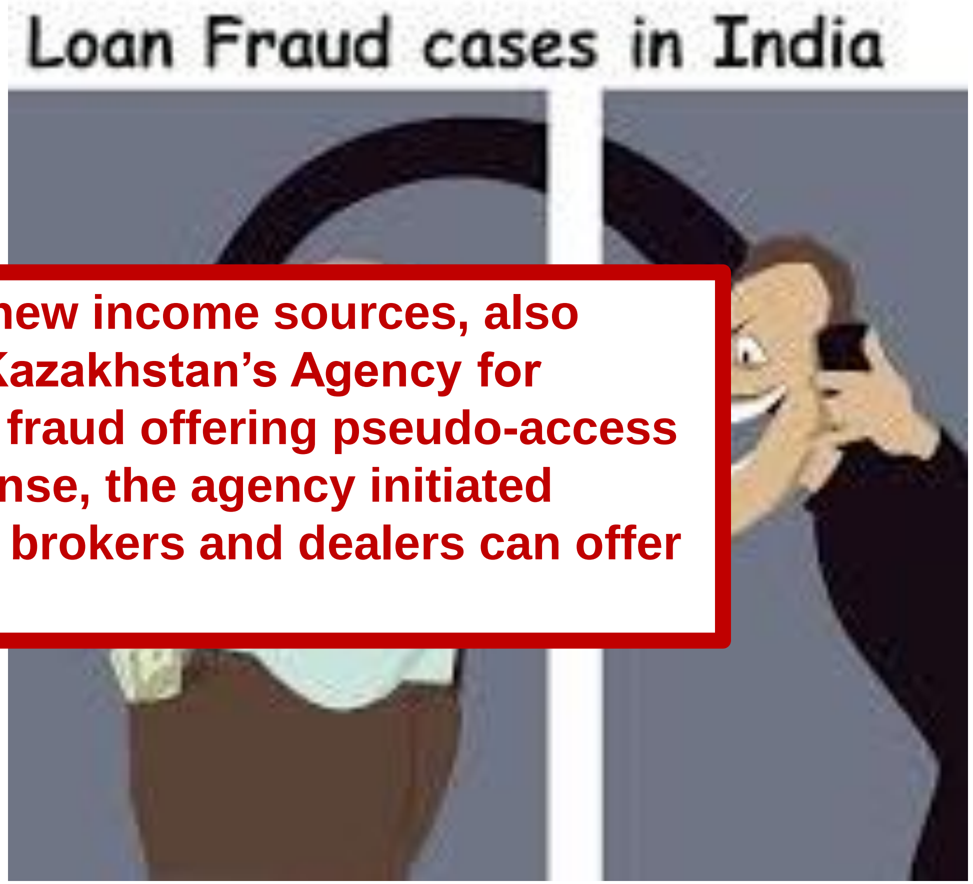
People lose income in the COVID crisis and many seek new income sources, also turning to high risk investments in Forex markets. The Kazakhstan's Agency for Financial Regulation reported growing cases of Internet fraud offering pseudo-access to trades in FX and other financial instruments. In response, the agency initiated regulatory amendments to ensure only Agency licensed brokers and dealers can offer such financial service.



Most common Risks to rise for financial consumers

- **Most frequently**, the COVID-19 crisis made it difficult for many consumers to meet their financial obligations.
- These difficulties relate **not only** to **loan** products (mortgages), but also insurance premiums (life, health, house, motor, travel).
- **Interestingly**, consumers often worry about the resilience of their financial institutions as much as about their own financial resilience (due to job loss or income reduction).
- Other financial consumer risks involve increased likelihood of **scams/frauds** as well as worries about the effects of **intense market volatility** and the availability of fair valued savings.

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Poland's Agency on Protection of Competition and Consumers published online tips and answers to FAQ:
https://www.uokik.gov.pl/faq_koronawirus_uslugi_finansowe.php

Banks in Croatia responded to the recommendation of the Croatian National Bank and temporarily abolished the fee to their retail clients for cash withdrawal transactions by debit cards at ATMs outside their own ATM network.

Measures to sustain Payment, Account, and Banking services

- Countries encourage use of **contactless or remote payments** and ensure **continued access** to banking services. As a result, many financial firms **enhanced virtual services** and capable consumer started/increased the use of digital finance.
- FCP agencies also provided **more information** to consumers and urged sanitary precautions when using cash.
- As an emergency response, they **increased limits** for contactless payments.
- In some cases, they **waved fees** and charges or enabled emergency **access to term deposits**.

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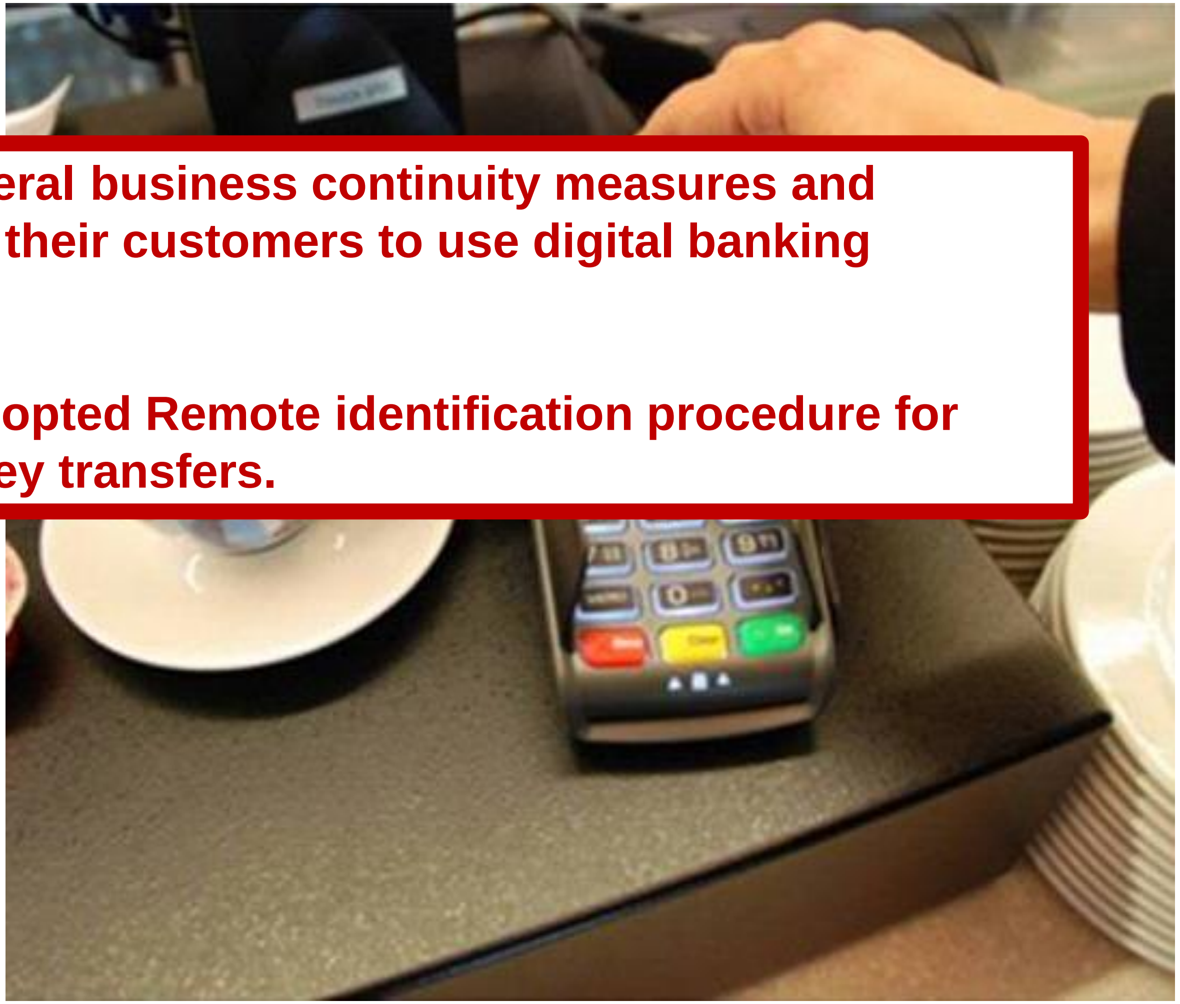
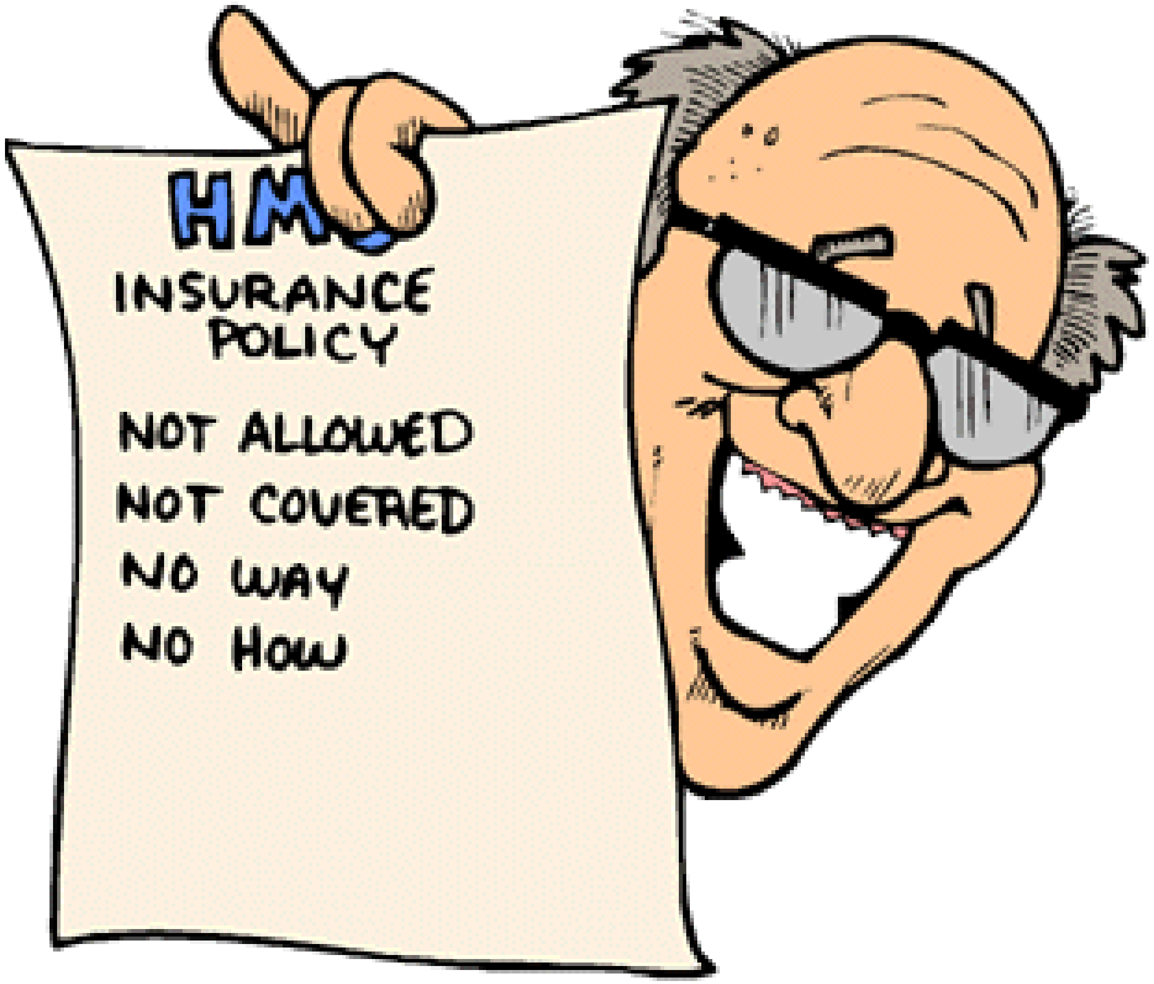
Reserve Bank of India adopted several business continuity measures and recommended banks to encourage their customers to use digital banking facilities as far as possible.

The National Banks of Tajikistan adopted Remote identification procedure for lower-risk products such as e-money transfers.



Measures about Insurance claims and premium payments

- Better **handling of claims** is a frequent measure that authorities focused on to ease payouts and help consumers cope with shocks
- Transparency measures such as enhanced disclosure and **communicating COVID exclusions** to policies are also frequent.
- Importantly, some focused on the **deferral of premium payments** to maintain coverage and extending times of cover.
- Under **pension** insurance measures to enable emergency **withdrawals of funds**, and **deferral of contributions** helped consumers cope and ease financial pressures.



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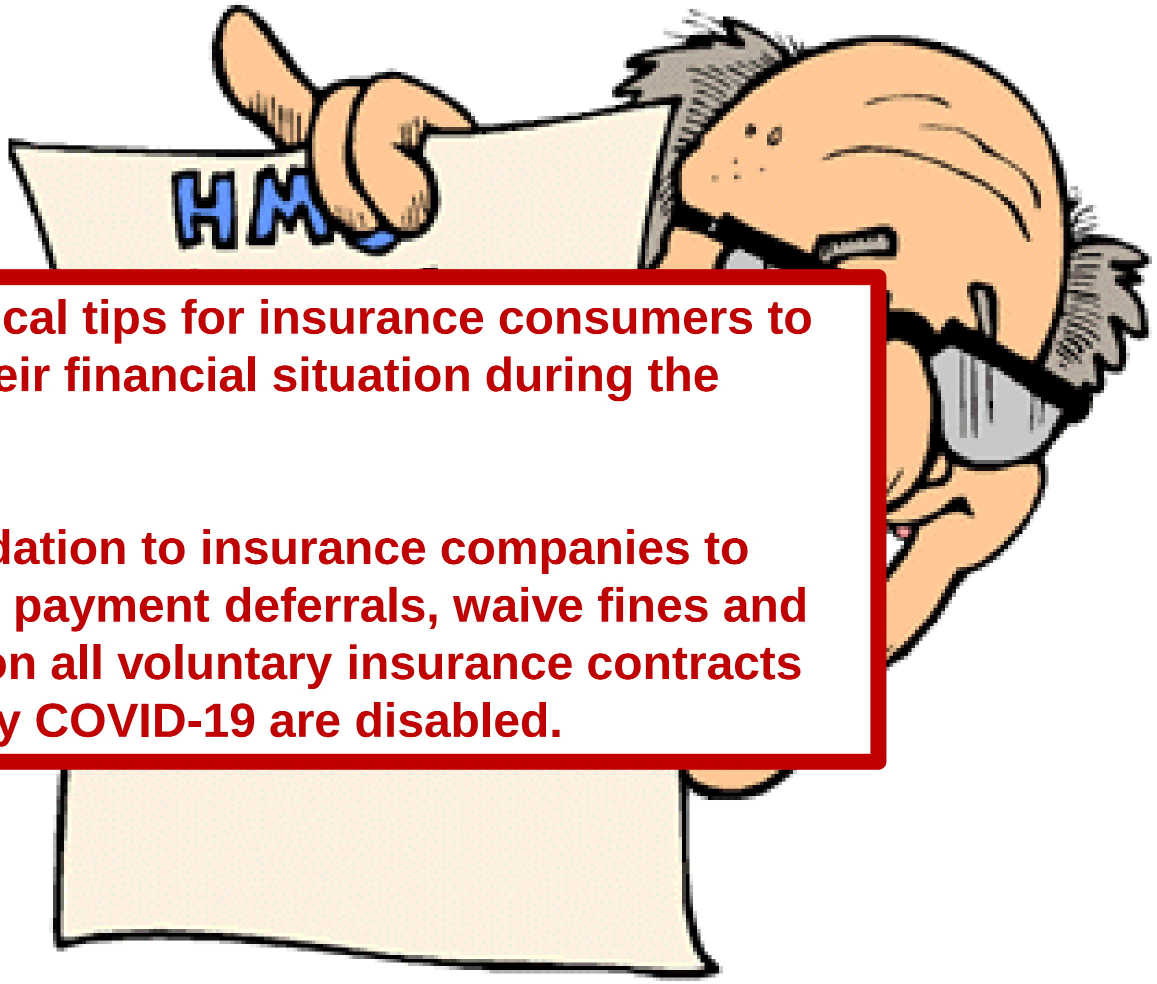
Brazilian insurance authorities issued practical tips for insurance consumers to get organized and respond proactively to their financial situation during the COVID pandemic.

Central Bank or Russia issued a recommendation to insurance companies to extend the period for insured hazards, allow payment deferrals, waive fines and penalties, and limit enforcement measures on all voluntary insurance contracts during the period that individuals infected by COVID-19 are disabled.



Measures to protect fair access to Credit products & services

- **Extra-ordinary measures** like deferral of loan repayments, changes to repayment terms, or suspension of debt collection have been common across countries.
- Their **duration** was set to be **time bounded** and typically shorter than measures on payments or insurance—mostly 3-12 months.
- Some countries attempted to **wave loan fees and charges** to ease consumer financial pressures.
- **Financial support programs** aided consumers to access additional emergency credit.
- Frameworks were setup to **monitor and evaluate** the measures' effectiveness, further adjust, redirect, or phase out based on **data-evidence**.

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Peru SBS authorized the financial system entities to modify loan contracts so that debtors can meet their payments.

The National Bank of Kyrgyz Republic implemented:

- **deferrals of payments for at least three months per borrower application**
- **No commissions for loan restructuring and penalties for not repaying loans in due time**
- **Softening of NPL classification norms**

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Concluding Thoughts

1. The COVID-19 crisis has made **consumers** financially and psychologically **vulnerable**, more so in **EMDEs** where financial capabilities and market integrity are less developed. **Disadvantaged** low-income **groups** and elders in EMDEs are the most vulnerable. Reports of unfair, misleading, and **fraudulent commercial practices** rose during COVID.

2. Country **authorities responded** to mitigate risks to financial consumers. Some policy response are **beneficial** and are to stay. Others pose **trade-offs** in the medium term and their orderly exit must be soon managed. **Principles**: Clear & predictable; Time-bound if trade-offs; M&E'ed & adjusted.

3. **FCP** is not only a tool to mitigate **the COVID-19 impact** on financial consumers. Transparent markets and empowered consumers can help **boost competition during recovery** and make it more efficient and equitable. Transparency, monitoring, and timely resolution of systematic and system-wide misbehaviors of financial firms must remain a priority.

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Thank you!