

Report
on the Status of Financial Consumer Protection in 2019

This publication is prepared by the Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing (Rospotrebnadzor), with the assistance of FBK, LLC provided as part of the implementation of Contract № FEFLP/QCBS–4.1 “Strengthening of Institutional Capacity of Rospotrebnadzor Relating to Consumer Protection in the Financial Services Market” within the framework of a Joint Project of the Russian Federation and the International Bank for Reconstruction and Development “Financial Education and Financial Literacy in the Russian Federation”.

O.V. Prusakov, A.E. Puchkovskiy, M.V. Kochneva, S.M. Shapiguzov, V.V. Polyakova, I.V. Dubinina, M.S. Abramova, O.A. Popova, I.S. Baranov, V.A. Zatomskiy, et al. took part in the preparation of the Report.

Authors who took part in the preparation of single sections: T.Yu. Robulets (Subsection 2.3), S.A. Bizhanov (Subsection 3.3), I.V. Kostikov (Subsection 6.1), D.D. Yanin and M.G. Chernova (Subsection 6.3), M.S. Safiulin and O.L. Varabin (Subsections 6.4).

Translated by Moscow Translation Agency, M.S. Abramova, V.A. Zatomskiy

Rospotrebnadzor's Report “On the Status of Financial Consumer Protection in 2019” / Ministry of Finance of the Russian Federation - 193 pages.

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 2019, 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 2019 is the eighth 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.

© Ministry of Finance of the Russian Federation, 2020

Table of Contents

Introduction.....	4
1. Enhancement of Financial Consumer Protection Legislation	5
1.1. Improvement of Financial Consumer Protection Legislation	5
1.2. Ombudsmen for the Rights of Financial Consumers	12
1.3. Regulation of Consumer Crediting	15
1.4. Development of the Private Bankruptcy Institution	24
1.5. Consumer Protection During Debt Collection	31
2. Assessment of Financial Consumer Risks from the Perspective of Retail Financial Market Growth	40
2.1. General Overview of Financial Market and Financial Activity of the Public.....	40
2.2. Assessment of Consumer Risks Associated with the Development of the Banking Services Market.....	46
2.3. Assessment of Consumer Risks Associated with the Development of the Insurance Services Market	70
2.4. Assessment of Consumer Risks Associated with the Growth in the Market of Microfinance Organizations' Services	87
2.5. Evaluation of Consumer Risks Associated with Development of E-Commerce Payment Instruments	95
2.6. Assessment of Consumer Risks Associated with Development of Certain Sectors of Financial Market ...	109
3. Participation of Rospotrebnadzor in the International Cooperation for Financial Consumer Protection	122
3.1. Activities of the United Nations	122
3.2. Activities of the Group of Twenty and Organization for Economic Cooperation and Development.....	124
3.3. Efforts by the Member States of the Eurasian Economic Union	133
3.4. Further Efforts by the CIS Member States	135
4. Rospotrebnadzor Performance Results in Financial Consumer Protection	142
4.1. Consideration of Complaints and Statements from Consumers	142
4.2. Practices of Informing and Advising Financial Consumers	147
4.3. Departmental Standards for Consulting Financial Consumers	151
4.4. Control Activities	153
4.5. Judicial Practice.....	162
5. Raising the Level of Public Financial Literacy	172
5.1. Main Results of Implementation of the Joint Project of the Russian Federation and the International Bank for Reconstruction and Development.....	172
5.2. Implementation of the Strategy for Raising Financial Literacy in the Russian Federation for 2017-2023 ..	175
5.3. Development of Information Resources for Consumers	177
6. Key Performance Results of Public and Public-Private Organizations for Financial Consumer Protection	181
6.1. Financial Consumers Protection Union.....	181
6.2. Consumers Union of the Russian Federation	182
6.3. International Confederation of Consumer Societies	183
6.4. Federal Public-Private Foundation for the Protection of Investors and Shareholders Rights.....	184
Conclusions: Achieving Excellence in Financial Consumer Protection in Russia	187
List of Acronyms	191

Introduction

The annual Report “On the Status of Financial Consumer Protection” has been published since 2013 as an additional informational and analytical material to the State Report of Rospotrebnadzor, specifying the legislative and practical aspects of consumer protection in relation to the financial sector.

Rospotrebnadzor plays a leading role in the formation and implementation of state policy in the field of consumer protection, including those related to consumers of financial services. Along with Rospotrebnadzor, its territorial bodies and subordinate institutions, the Ministry of Finance of the Russian Federation, the Ministry of Education of the Russian Federation, the Ministry of Science and Higher Education of the Russian Federation, executive authorities of constituent entities of the Russian Federation and local governments, the Bank of Russia, and non-governmental consumer associations are actively involved in protecting consumers of financial services and related outreach activities.

Despite a variety of issues related to the functioning of the financial market, the scope of the annual Report “On the Status of Financial Consumer Protection” is limited to the relationships, arising from certain types of financial services contracts which are subject to consumer protection legislation. The scope of this legislation does not include services in foreign exchange market, stock market, mutual funds and non-government pension funds activities. The range of financial organizations, described in the Report, is limited to credit, microfinance, insurance organizations, credit consumer cooperatives and pawnshops.

The Report “On the Status of Financial Consumer Protection” is based on Rospotrebnadzor’s statistical and departmental reports, public information, posted on public authorities’ and non-government organizations’ official websites, ConsultantPlus legal information system, and publications in the media, engaged in the research of financial market and financial services.

The first section of the Report provides an overview of changes in the legal framework, legislative initiatives and law enforcement practice in the area of financial consumer protection, the initial results of the Financial Ombudsman Service’s activities, and activities, relating to the codification of consumer protection laws of Russia Federation. Special attention is paid to the regulation and ensuring protection of rights of socially vulnerable financial consumer categories (people with disabilities, senior citizens and children, most disadvantaged groups of the population).

The second section of the Report is dedicated to the risk assessment for consumers, arising against the background of development banking, insurance and microfinance organizations services, means of payment in electronic commerce and other areas of financial market. The section also provides recommendations for financial consumers to minimize the risks involved.

The third section of the Report focuses on the Rospotrebnadzor’s participation in the international financial consumer protection agenda, including cooperation in UNCTAD, the Group of Twenty, the OECD and other international organizations.

The fourth section provides the analysis of the Rospotrebnadzor’s activities in such key fields of financial consumer protection as consideration complaints, informing and consulting consumers and performing control activities. The section also provides review of court practice relating to financial consumer protection, including cases involving Rospotrebnadzor.

The fifth and sixth sections of the Report focus on the review of public financial education and financial literacy activities, including those which have been implemented under the Project.

There is also a list of commonly used acronyms at the end of the Report.

The Report traditionally covers the events of the previous year. However, this Report pays special attention to the support measures for financial consumers, adopted in March – April 2020 in connection with the coronavirus (COVID-2019).

The Report is aimed at a broad audience, including financial consumers, executives and specialists of central government and local authorities, professional market participants, staff of educational, scientific organizations and public consumer associations.

1. Enhancement of Financial Consumer Protection Legislation

1.1. Improvement of Financial Consumer Protection Legislation

In 2019, the efforts to improve the financial consumer protection legislation were continued, largely based on the List of 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 protection system¹ and Action Plan to Implement the Strategy of State Consumer Protection Policy of the Russian Federation Until 2030².

New Mechanisms of Consumer Protection

Adoption of Federal Law No. 191-FZ dated 18 July 2019 “On Amendments to Certain Legal Acts of the Russian Federation” (hereinafter referred to as Law No. 191-FZ) became a landmark event of 2019. This Law introduces a new mechanism to protect the rights of citizens, including consumers, i.e. adjudication of cases concerning protection of rights and legitimate interests of a group of persons.

Furthermore, it establishes the opportunity for Rospotrebnadzor to file such lawsuits with the court.

The Law came into force on 01 October 2019, and the judicial practice for class-action lawsuits is currently being developed. A number of such lawsuits have been initiated by Rospotrebnadzor³.

In 2019, the efforts to enhance the consumer protection legislation included the effort to advance extrajudicial consumer protection mechanisms.

For instance, Draft Federal Law “On Amendments to Law of the Russian Federation “On Consumer Protection” and Federal Law “On Alternative Dispute Resolution Procedure with Participation of a Mediator (Mediation Procedure)” to Establish a Legal Framework to Advance a System of Alternative Online Mechanisms of Dispute Resolution” was developed⁴.

This draft law is aimed at creating a favorable environment to promote private initiatives focused on ensuring efficient consumer protection through transparent mechanisms of alternative dispute resolution and information technologies. As mentioned by the drafter, creation of such an online dispute resolution (hereinafter referred to as ODR) system is necessitated by an increasing quantity of consumer complaints concerning online purchases and provision of online services, and by the need to cut judicial protection costs for consumers and the state. Adoption of the draft law will allow for strengthening the confidence of consumers in e-commerce, simplify protection of their rights, make it readily available, and decrease the load on the judicial system.

Under the draft law, the ODR system will involve the parties to consumer disputes as participants, specifically, the consumer and the intended recipient of his/her claim, third parties (specialists, experts, mediators, etc.), and operators of ODR platforms, i.e. those who operate such platforms. Thereat, the range of consumer disputes that may be resolved by means of ODR procedures is unlimited.

The ODR system infrastructure will be based on the totality of ODR platforms. Thereat, there is no limit on the quantity of such platforms and their operators, and ODR procedures are supposed to be created and managed strictly on a voluntary basis.

The draft law provides for establishing basic requirements to ODR procedures, including the most important requirements of legality and honesty of the parties to the dispute, impartiality of the mediators whenever they are involved in the dispute resolution process, and requirements to ODR platform operators’ activities, ODR platforms, and rules of ODR management involving such platforms.

It is noteworthy that under the draft law, consumers are supposed to be provided with services of ODR platforms free of charge. In the meantime, when resolving a dispute by means of ODR platforms, the parties and other ODR participants will not be bound by the claims filed by the consumer. For instance, instead of a consumer claim to repair defects in the goods, the parties may agree that the goods should be returned, and the cost thereof should be refunded subject to a discount for future purchases granted to the consumer, etc.

Yet another landmark event was adoption of Federal Law No. 38-FZ dated 18 March 2019⁵ that empowers executive bodies of constituent entities of the Russian Federation to develop regional consumer right protection programs and assist local government bodies and public associations (unions) of consumers with consumer right protection issues.

Thereat, this is the first regulation to enshrine Rospotrebnadzor’s powers to approve methodological guidelines for development and implementation of regional and municipal consumer protection programs.

¹ No. Pr-1004GS dated 25 May 2017.

² Action Plan to Implement the Strategy of State Consumer Protection Policy of the Russian Federation Until 2030 approved by Executive Order of the Government of the Russian Federation No. 1837-r dated 28 August 2017 (approved by Executive Order No. 481-r dated 23 March 2018).

³ Learn more about class-action lawsuits in Section 4.5 of the Report.

⁴ Draft Federal Law “On Amendments to Law of the Russian Federation “On Consumer Protection” and Federal Law “On Alternative Dispute Resolution Procedure with Participation of a Mediator (Mediation Procedure)” to Establish a Legal Framework to Advance a System of Alternative Online Mechanisms of Dispute Resolution” (Draft ID 01/05/05-19/00091641) // Federal Portal of Draft Regulations regulation.gov.ru/projects#npa=91641.

⁵ Federal Law No. 38-FZ dated 18 March 2019 “On Amendments to the Law of the Russian Federation “On Consumer Protection” to Enhance State Consumer Protection Policy”.

FOR REFERENCE

In 2019, Rospotrebnadzor and its territorial bodies were directly involved in the development of over 55 regional strategies, programs, and sub-programs aimed at safeguarding consumer rights⁶. Overall, 84 constituent entities of the Russian Federation have adopted and are currently implementing policy documents in the field of consumer protection.

Besides, the Consumer Protection Law was amended through incorporation of a new article (Article 42.3) establishing the filing and consideration rules for consumer complaints. Thus, a consumer may file a complaint by mail, online, including via the official website of the state supervisory body, other competent federal executive bodies, executive body of the constituent entity of the Russian Federation, or local government body, via the integrated portal for state and municipal services or regional portal for state and municipal services, or in person by appointment.

Thereat, this is the first regulation to enshrine the right of “My Documents” centers for provision of state and municipal services to accept consumer complaints and consult consumers on consumer protection issues by virtue of the agreements on interaction between such centers and federal executive bodies, bodies of state non-budgetary funds, government bodies of the constituent entities of the Russian Federation, and local government bodies.

Control and supervision over financial organizations’ activities is yet another regulatory area where important amendments were introduced.

In particular, such amendments were introduced to the Law on the Bank of Russia⁷ to establish that the Bank of Russia is entitled to implement banking control by carrying out control activities (including remote ones) in case of revealing any evidence indicating that a credit institution is in breach of the legal requirements of the Russian Federation and in case of a reasonable belief that its activities may cause damage to creditors and depositors or endanger their legitimate interests⁸.

On 07 May 2019, the Basic Standard on Insurance Companies’ Transactions in the Financial Market came into force⁹. This standard is binding on insurance and reinsurance companies as regards transactions related to conclusion of insurance agreements, reinsurance agreements, and settlement of insurance claims, and establishes the relevant procedures and requirements.

Furthermore, the Basic Standard on Protection of Rights and Interests of Individuals and Legal Entities Receiving Financial Services from Members of Self-Regulating Organizations of Insurance Companies came into force on 07 May 2019¹⁰. The Basic Standard establishes the rules of providing a recipient of insurance services with information, rules of interaction between the insurance company and recipients of insurance services, procedure for considering complaints filed by recipients of insurance services, requirements and procedures for the application of the standard when a third party acting on behalf of an insurance company and at its expense concludes insurance agreements, and procedure for the SRO to control compliance with the requirements of the standard by its members.

The Basic Standard on Insurance Brokers’ Transactions in the Financial Market has been in force since 23 October 2019¹¹. This standard establishes uniform rules for insurance brokers to perform transactions involving conclusion, amendment, termination, and performance of insurance agreements on behalf of insureds or insurers by virtue of a service agreement, acceptance of funds from insureds as payment of the insurance premium (insurance fee) under an insurance agreement.

The standard is binding on insurance brokers, whether SRO members or not, to the extent it is not in conflict with the legislation of the Russian Federation and regulations adopted by the Bank of Russia in accordance therewith. In addition, the standard governs the issues concerning brokers’ consulting activities. In particular, it establishes that when providing its clients (insureds) with consulting services, the broker must clarify the provisions of insurance rules, draft insurance agreement, including special terms, and in case of the client’s query, refer to examples of insuring similar risks on analogous conditions and legal precedent.

Besides, starting from 01 April 2019, insurers and their agents must notify clients on the key risks of the insurance product offered thereby and material terms of the agreement when selling life insurance policies¹². Thereat, sellers must notify clients on the procedure for calculating the return on investment, on the fact that such return is not guaranteed, on the refund procedure in case of insurance agreement termination, and on the fact that investments under an insurance agreement are not covered by the Deposit Insurance Agency system. Concurrently, they have to disclose the percentage of the client’s contribution to be invested and the percentage of such contribution to be used to cover the insurance company’s costs and pay a fee to the intermediary.

Besides, Federal Law No. 149-FZ dated 24 April 2020 “On Amendments to Certain Legal Acts of the Russian Federation” was finalized.

Among other things, the law provides for the right of an insured (insured person, beneficiary) to provide an insurer with the information required to conclude and amend an insurance agreement, terminate it ahead of schedule, or receive an insurance compensation online using the official websites of the insurer, insurance agent, or insurance broker, and the mobile applications of the insurer and insurance agent.

⁶ On Enhancement of State Consumer Protection Policy // Rospotrebnadzor rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=11581.

⁷ Federal Law No. 86-FZ dated 10 July 2002 “On the Central Bank of the Russian Federation (Bank of Russia)”.

⁸ Article 73.1-1 of Federal Law No. 263-FZ dated 29 July 2018 “On Amendments to Certain Legal Acts of the Russian Federation”.

⁹ Basic Standard on Insurance Companies’ Transactions in the Financial Market // Bank of Russia cbr.ru/Queries/UniDbQuery/File/90002/17.

¹⁰ Basic Standard on Protection of Rights and Interests of Individuals and Legal Entities Receiving Financial Services from Members of Self-Regulating Organizations of Insurance Companies // Bank of Russia cbr.ru/Queries/UniDbQuery/File/90002/15.

¹¹ Basic Standard on Insurance Brokers’ Transactions in the Financial Market // Bank of Russia cbr.ru/StaticHtml/File/17579/basic_standart_260419.pdf.

¹² Bank of Russia Ordinance No. 5055-U “On Minimum (Standard) Requirements for the Conditions and Procedure to Provide Voluntary Life Insurance with Periodic Insurance Payments (Rents, Annuities) and/or Participation of a Policyholder in the Investment Income of an Insurer”.

Besides, the law stipulates that if authorized so by the insurer, insurance agents and insurance brokers are entitled to provide online voluntary insurance services on the insurer's behalf and at its expense.

In addition, it establishes that an insurer is not entitled to refer to a violation of the provisions mentioned above by an insurance agent, insurance broker as to the reason for denying an insurance compensation or payment of the insured amount.

Yet another landmark event of 2019 was finalization and adoption of Federal Law No. 144-FZ dated 24 April 2020 "On Amendment to Article 1 of the Law of the Russian Federation "On Consumer Protection" authorizing the Government of the Russian Federation to issue the rules binding on the owner of the aggregator of information on the goods (services) when concluding and performing the relevant standard form agreements (retail purchase and sale agreements, power supply agreements, work agreements, and service agreements).

It should further be noted that the rules of attracting funds from shared construction participants using escrow accounts under shared construction participation agreements have been in force since 01 July 2019¹³.

Under the new model, construction is financed out of a bank credit or developer's own funds while the funds deposited on escrow accounts become available to the developer only upon completion of construction and registration of title to the first shared construction facility.

These efforts to enhance the mechanisms of housing construction financing are supposed to ensure safety and reliability of investing personal funds in housing construction by ruling out any risks of new "hoodwinked investors".

Publication of the List of Instructions of the President of the Russian Federation on Implementation of Presidential Address to the Federal Assembly was another noteworthy development in 2019. The document provides for certain measures aimed at improving the situation in the consumer credit market, including reduction of the residential mortgage credit (RMC) rate to 8% per annum, creating financial instruments to support private housing construction, as well as preventing and suppressing misconduct (fraud) against persons during microfinance activities and overdue debt recovery activities¹⁴.

Protection of Socially Vulnerable Consumers

In addition to the above, 2019 saw a considerable law-making effort intended to protect the rights of socially vulnerable consumers as the least protected group in consumer relations.

Thereat, the most important amendments to the regulation of such consumer protection were introduced by Federal Law No. 56-FZ dated 18 March 2020 "On Amendments to Article 14.8 of the Administrative Offenses Code of the Russian Federation" adopted after long deliberations.

This law amends Article 14.8 of the Administrative Offenses Code of the Russian Federation (AOC RF) by adding new elements of offense in the form of denial of goods (works, services) or access to goods (works, services) to a consumer due to his/her health condition, disability, or age, except as provided otherwise by the law¹⁵.

This offense is punishable with an administrative fine from RUB 30 thous. to RUB 50 thous. in case of officials and from RUB 300 thous. to RUB 500 thous. in case of legal entities.

Moreover, an important note was added to Article 14.8 of the AOC RF stipulating that if goods (works, services) or access to goods (works, services) are denied to two or more consumers simultaneously due to their health condition, disability, or age, or if one, two, or more consumers are simultaneously denied such goods (works, services) or access thereto on multiple occasions, administrative liability shall be incurred for each individual consumer and for each individual instance of such denial.

Adoption of the law makes it possible to prosecute sellers, service providers, or contractors for discrimination against socially vulnerable groups in the form of denied access to goods (works, services) on equal terms with other persons. Thereat, stiff fines and inevitable punishment for infringement of each individual consumer's rights rule out any risk of such discrimination.

Besides, the efforts to draft the Federal Law "On Amendments to Certain Legal Acts of the Russian Federation Providing for Special Measures to Protect the Rights of Socially Vulnerable Consumers, Including the Disabled, Elderly People, and Children" were continued in 2019¹⁶.

The draft law proposes to put a seller (contractor) notified by a consumer on his/her special needs and disabilities under an additional obligation to provide the consumer with goods (works, services) fit for use taking such special needs and disabilities into account.

Concurrently, the draft law puts a seller (contractor) under an obligation to furnish the necessary information to the persons referred to above using the solutions accommodating their special needs associated with disabilities, health condition, or age in a timely manner and at no extra charge.

In addition, the draft law provides for amending Federal Law No. 395-1 dated 02 December 1990 "On Banks and Banking

¹³ Provided for by Federal Law No. 175-FZ dated 01 July 2018 "On Amendments to the Federal Law "On Participation in Shared Construction of Apartment Buildings and Other Items of Immovable Property and on Amendments to Certain Legal Acts of the Russian Federation" and Individual Legal Acts of the Russian Federation".

¹⁴ List of Instructions of the President of the Russian Federation on Implementation of Presidential Address to the Federal Assembly No. Pr-294 dated 20 February 2019.

¹⁵ For instance, restrictions concerning provision of passenger air services, authorization to drive a vehicle, provision of access to high-risk entertainment facilities (amusement rides), sales of individual types of goods (provision of services) to minors, admission thereof to certain sites, and other restrictions applicable to persons with certain health conditions/disabilities and children.

¹⁶ Draft Federal Law "On Amendments to Certain Legal Acts of the Russian Federation Providing for Special Measures to Protect the Rights of Socially Vulnerable Consumers, Including the Disabled, Elderly People, and Children" (Draft ID 02/04/08-17/00072573) // Federal Portal of Draft Regulations regulation.gov.ru/p/72573.

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 with access to banking transactions and facilities where such transactions are performed, as well as to tourist infrastructure facilities.

FOR REFERENCE

Every year, Rosпотребнадзор territorial bodies receive over 20 thous. complaints from representatives of socially vulnerable groups concerning infringement of their rights. In certain constituent entities of the Russian Federation, the share of such complaints exceeds 20%¹⁷. Rosпотребнадзор takes all reasonable efforts to protect such persons' rights.

Besides, it is worth mentioning that guidelines of the regulator in the financial services market have appeared in relation to servicing people with disabilities and people from other groups with limited mobility in case of closing offices or dismantling ATM machines¹⁸.

The guidelines applicable to these clients are as follows:

1. A credit institution shall notify such clients at least 60 days prior to the date of closing or changing the location address of its office by announcing the relevant information through the media, in its headquarters and offices, on its website, and in its mobile application or by sending a written notice to each relevant client;
2. A credit institution shall notify such clients at least 30 days prior to the date of dismantling an ATM machine by posting this information on the ATM machine to be dismantled, in the nearby offices, on the credit institution's website, and in its mobile application;
3. A credit institution shall ensure that such clients are able to receive financial services using the its other offices and ATM machines, as well as via remote service facilities; and if it is impractical, a credit institution shall notify such clients on the possibility of receiving financial services through other credit institutions' offices and ATM machines, post offices, and otherwise.

In addition, credit institutions are advised to notify clients with disabilities and from other groups with limited mobility on the possibility of receiving financial services via remote service facilities, including via credit institutions' call centers, websites, and credit institutions' mobile applications,¹⁹ on a regular basis.

Besides, Methodological Guidelines for Personal and Remote Service of People with Disabilities and Other Groups with Limited Mobility in Credit Institutions and NFOs have been published. These guidelines prescribe that financial organizations implement a set of measures intended to ensure full and unhindered access to financial organizations' facilities and services for the relevant group of clients²⁰.

Individual Top-Priority Legislative Initiatives

On 14 December 2019, Draft Federal Law “On Amendment to Article 16.1 of the Law of the Russian Federation “On Consumer Protection” was brought before the SD RF²¹.

The objective of the draft law is to promote a continuous increase in the quantity of facilities where national payment instruments under the Mir national payment card system are accepted, and create a legal environment for exercise by consumers of the rights to pay for goods (works, services), including those purchased online, without using cash²².

Draft Law “On Amendments to Certain Legal Acts of the Russian Federation due to Adoption of the Federal Law “On Transactions by Means of an Online Platform” also deserves attention²³.

The draft law provides for a special procedure for DIA to pay compensations in case of an insured event for deposits opened by means of an online platform, including payment of the compensation to depositors without a requirement to file a separate request and present identity documents. According to the drafters, these novelties will make it possible to accelerate the payment of a compensation for deposits and raise the appeal of electronic services as a means to purchase financial products.

Yet another objective of the draft law is to expand the range of online interaction options for depositors/other persons and DIA during calculation and payment of a compensation for deposits by providing depositors, DIA, and other parties with an opportunity to exchange information by means of DIA official website and reduce hard-copy document flow between them.

As far as deposit insurance matters are concerned, it is worth mentioning a legislative initiative providing for an opportunity to secure a compensation for escrow accounts opened for settlements under shared construction participation agreements.

¹⁷ Explanatory Note to Draft Law No. 674572-7 “On Amendment to Article 14.8 of the Administrative Offenses Code of the Russian Federation”.

¹⁸ Bank of Russia Information Letter No. IN-01-59/5 dated 28 January 2019 “On Guidelines for Servicing People with Disabilities and Other People with Limited Mobility in Case of Closing Banking Offices or Dismantling ATM Machines”.

¹⁹ Bank of Russia Information Letter No. IN-01-59/5 dated 28 January 2019 “On Guidelines for Servicing People with Disabilities and Other People with Limited Mobility in Case of Closing Banking Offices or Dismantling ATM Machines”.

²⁰ Bank of Russia Methodological Guidelines for Personal and Remote Service of Groups with Disabilities and Other People with Limited Mobility in Credit Institutions and Non-Credit Financial Organizations No. 12-MR dated 26 April 2019.

²¹ Draft Law No. 861571-7 “On Amendments to Article 16-1 of the Law of the Russian Federation “On Consumer Protection” (on expanding the range of business entities required to provide a consumer with an opportunity to pay for goods (works, services) by means of national payment instruments under the national payment card system).

²² See more details of the draft law and Mir card circulation volumes in Section 2.5. of the Report.

²³ Draft Law No. 617880-7 “On Amendments to Certain Legal Acts of the Russian Federation due to Adoption of the Federal Law “On Transactions by Means of an Online Platform”.

Thus, Draft Law “On Amendments to Certain Legal Acts of the Russian Federation”²⁴ proposes to pay an insurance compensation equal to 100% of the amount deposited on the accounts referred to above as of the date of the insured event, but the total amount of such compensation shall not exceed RUB 10 mln. Thereat, the compensation for escrow accounts is supposed to be calculated and paid separately from the compensation for other deposits.

Furthermore, the draft law proposes to expand the insurance coverage to the funds of socially-oriented non-commercial organizations and other organizations serving the public good (except for those acting as foreign agents). The compensation amount for such accounts shall not exceed RUB 1.4 mln.

In addition, to reduce the overall increase in retail deposit rates taking the key interest rate fluctuation trends into account, the draft law contains provisions intended to reduce the thresholds of excess over the base yield of deposits set for banks to pay the additional and increased additional premium rates.

The efforts²⁵ to develop the crucial Draft Law “On Amendments to Article 5 of the Federal Law “On Consumer Credit (Loan)” (to Change the Debt Repayment Procedure in the Instances when the Payment Amount is Insufficient to Discharge Liabilities Under a Credit (Loan) Agreement in Full)” were continued²⁶.

The draft law proposes to establish that the payment made by the borrower under a consumer credit (loan) agreement, provided that the amount thereof is insufficient to discharge the borrower’s liabilities under the consumer credit (loan) in full, shall be offset against the borrower’s debt in the following order of priority:

- 1) Interest;
- 2) Principal debt;
- 3) Damages (fines, penalties);
- 4) Other charges provided for by the Russian Federation legislation on a consumer credit (loan) or by a consumer credit (loan) agreement.

In addition, the draft law stipulates that the order of priority established for the borrower debt repayment may not be changed by the parties to the consumer credit (loan) agreement.

The new order of priority proposed for debt repayment is supposed to prevent subjugation of the borrower interested in the fastest possible repayment of his/her principal debt, as this reduces the amount of interest payable.

FOR REFERENCE

The current order of priority for claim satisfaction applicable to consumer credit (loan) agreements²⁷ disadvantages private consumers as compared to entrepreneurs who are subject to a standard procedure provided for by Article 319 of the CC RF (Civil Code of the Russian Federation) that disallows for prioritizing claims for damages over claims for the principal debt and interest thereon²⁸.

Yet another piece deserving attention is Draft Law “On Amendments to Article 15.1 of the Federal Law “On Information, Information Technologies, and Information Protection”²⁹.

The draft law proposes to empower the Bank of Russia to make decisions on inclusion of websites misleading the clients of financial organizations due to similarity of domain names, design, or content, websites advertising financial services offered and/or provided in the Russian Federation by entities unauthorized to provide such services under the legislation of the Russian Federation, and websites associated with the operation of financial pyramid schemes, in the Unified Register of Domain Names³⁰ for potential blocking in the future.

Thereat, in order to block the websites used to disseminate the information facilitating unauthorized access to financial organizations’ information systems, their clients’ electronic payment instruments and/or devices, the draft law proposes to empower the Bank of Russia to file lawsuits in order to protect the rights, freedoms and legitimate interests of the public at large.

Besides, 2019 witnessed an ongoing effort to develop the crucial draft law that may entail major changes in the consumer insurance market in case of its adoption – the Draft Law “On Amendments to the Law of the Russian Federation “On Organization of Insurance Business in the Russian Federation” and Certain Legal Acts of the Russian Federation”³¹.

This draft law was developed to secure performance of the obligations assumed by the Russian Federation during accession to the WTO³² and provides for creating a legal framework for operation of foreign insurance companies’ branches

²⁴ Draft Law No. 757296-7 “On Amendments to Certain Legal Acts of the Russian Federation” (to the Extent of Enhancing the System of Compulsory Insurance of Deposits with Banks in the Russian Federation).

²⁵ See the Tentative Law-Drafting Program of the State Duma of the Russian Federation for the Spring Session of 2020 as it Regards Top-Priority Draft Laws // SD RF duma.gov.ru/legislative/documents.

²⁶ Draft Law No. 287844-7 “On Amendments to Article 5 of the Federal Law “On Consumer Credit (Loan)” (to Change the Debt Repayment Procedure in the Instances when the Payment Amount is Insufficient to Discharge Liabilities under a Credit (Loan) Agreement in Full)”.

²⁷ Part 20 Article 5 of the Consumer Credit Law.

²⁸ Explanatory Note to Draft Law No. 287844-7 “On Amendments to Article 5 of the Federal Law “On Consumer Credit (Loan)” (to Change the Debt Repayment Procedure in the Instances when the Payment Amount is Insufficient to Discharge Liabilities under a Credit (Loan) Agreement in Full)”.

²⁹ Draft Law No. 605945-7 “On Amendments to the Federal Law “On Information, Information Technologies, and Information Protection” and Civil Procedural Code of the Russian Federation” (to specify the scope of information that may not be disseminated in the Russian Federation).

³⁰ Unified Register of Domain Names, Website Pages, and URLs Enabling Identification of Websites Containing Information That May Not Be Disseminated in the Russian Federation.

³¹ Information on Consideration of the Minutes of the Absentee Meeting of the Public Council Under the Ministry of Finance of the Russian Federation dated 03 October 2019 – 10 October 2019 No. 9 // Ministry of Finance of the Russian Federation minfin.ru/ru/document/?id_4=128726-informatsiya_o_rassmotrenii_protokola_zaochnogo_zasedaniya_obshchestvennogo_soveta_pri_ministerstve_finansov_rossiiskoi_federatsii_ot_03-_10_oktyabrya_2019_g_9.

³² Protocol dated 16 December 2011 on Accession of the Russian Federation to the Marrakesh Agreement Establishing the World Trade Organization dated 15 April 1994 (ratified by Federal Law No. 126-FZ dated 21 July 2012).

in the Russian Federation.

FOR REFERENCE

Pursuant to the WTO requirements, the Russian Federation is supposed to provide foreign insurers' branches with access to its domestic market by August 2021. Currently, these insurance companies may operate in the Russian insurance market solely through subsidiaries.

Requirements to foreign insurers' branches are currently under development (in case of their entry into the Russian market) to secure their stability and level the playing field for foreign and Russian market participants. Thereat, equal conditions are supposed to be established for Russian companies' and foreign branches' operations³³.

Drafting of the revised AOC RF (hereinafter referred to as the Draft AOC RF)³⁴ in 2019 was a milestone development in the field of consumer protection legislation deserving particular attention.

The Draft AOC RF contains multiple innovations. Thereat, the thing deserving particular appreciation is the fact that the drafters chose to put all administrative offenses infringing upon consumer rights into a separate chapter of the draft code (Chapter 12) to take the peculiarities of consumer relations and the need to ensure special protection thereof into account³⁵.

The proposed Draft AOC RF incorporates multiple approaches to consumer protection used in the Strategy of State Consumer Protection Policy of the Russian Federation Until 2030³⁶ and List of 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 protection system³⁷.

After it was published, the Draft AOC RF gave rise to hot debates³⁸, and it is currently under revision³⁹.

Systematization and Codification of the Russian Consumer Protection Legislation

In 2019, work on a critical task of updating the Russian consumer protection legislation was continued. Pursuant to Clause 1 of the Action Plan to Implement the Strategy of State Consumer Protection Policy of the Russian Federation Until 2030⁴⁰, in December 2018, Rospotrebnadzor approved the Codification Concept for the Consumer Protection Legislation of the Russian Federation containing, among other things, the Action Plan to Codify and Systematize the Consumer Protection Legislation of the Russian Federation⁴¹.

Under this plan, the 2019 agenda comprises the following tasks:

1. Analyzing the legislation codification experience of Brazil, France, Belgium, etc.;
2. Analyzing the existing legislation codification practices in the Russian Federation;
3. Analyzing the industry-specific legislation of the Russian Federation and relevant legal precedents to identify any major conflicts of laws and possible areas of systematizing consumer protection legislation;
4. Drafting proposals concerning the necessity to implement the norms of international law in the consumer legislation of the Russian Federation.

On 04 April 2019, Rospotrebnadzor held an expert panel discussion to review international experience in consumer protection legislation codification with a view to using such experience in the Russian Federation.

International experts in the field of consumer protection took part in the discussion, in particular, T. Bourgoignie, Professor, Director of Research Team in International and Comparative Consumer Law, and R. Simpson, Senior Policy Adviser, Consumers International. Besides, the event featured the representatives of the Presidential State-Legal Directorate of the Russian Federation, Ministry of Justice of the Russian Federation, Institute of Legislation and Comparative Law Under the Government of the Russian Federation, Russian Presidential Academy of National Economy and Public Administration, Eurasian Economic Commission, Skolkovo Foundation, and multiple public associations of consumers.

As they were discussing the subject and sharing experiences, the participants reviewed the experience in consumer protection legislation codification in France and Brazil, legislative transformation methods, and risks and benefits of codification in detail. International experts praised the level of the Russian national consumer protection system noting that dynamic economic changes, including digitalization of sales channels, switchover to remote management of consumers, emergence of new objects of civil rights (digital products, smart devices, the Internet of Things, sets of personal data, etc.), give rise to an objective necessity to review both basic and special legal provisions safeguarding fundamental consumer rights⁴².

³³ Central Bank Drafting Requirements for Foreign Insurers' Branches in Case of Their Entry into the Russian Market, 04 July 2019 // Prime Economic Information Agency 1prime.ru/finance/20190704/830134613.html.

³⁴ Draft Administrative Offenses Code of the Russian Federation (Draft ID 02/04/01-20/00099059) // Federal Portal of Draft Regulations regulation.gov.ru/projects#npa=99059.

³⁵ In the current version of the AOC RF, the offenses infringing upon consumer rights are set forth in Chapter 14 "Administrative Offenses in Business Activities and Self-Regulatory Organizations' Activities".

³⁶ Approved by Executive Order of the Government of the Russian Federation No. 1837-r dated 28 August 2017.

³⁷ No. Pr-1004GS dated 25 May 2017.

³⁸ Predominantly, in the part of toughening the sanctions against drivers violating the traffic rules. It is noteworthy, however, that no objections were raised against the "consumer section" of the Draft AOC RF.

³⁹ Ministry of Justice Vowing to Revise the Administrative Offenses Code Following Criticism from Mishustin and Turchak // RBC rbc.ru/society/06/02/2020/5e3c08ed9a7947c0eab6953c.

⁴⁰ Strategy of State Consumer Protection Policy of the Russian Federation Until 2030 (approved by Executive Order of the Government of the Russian Federation No. 1837-r dated 28 August 2017).

⁴¹ Rospotrebnadzor Order No. 1197 dated 29 December 2018.

⁴² Rospotrebnadzor Holds an Expert Panel Discussion of the Path Forward to Systematization and Codification of Consumer Protection Legislation, 04 April 2019 // Rospotrebnadzor rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=11664.

Among other things, a public discussion on the prospects of codifying the Russian consumer legislation based on international experience was held during the IX St. Petersburg International Legal Forum as an implementation stage of the plan referred to above.

Thus, at the discussion panel “Prospects of Codifying the Russian Consumer Legislation: Russian and International Experience” held on 15 May 2019 at the initiative of Rospotrebnadzor, A. Yu. Popova, Head of Rospotrebnadzor, who moderated the panel, emphasized the extraordinary relevance of codifying consumer protection legislation due to the objective processes of consumer market development and legal regulation enhancement trends in the field of consumer relations typical for multiple countries. In addition, she spelled out the key implementation milestones of the Codification Concept for the Consumer Protection Legislation of the Russian Federation along with the objectives and expected outcomes of these efforts.

When giving a speech, O. V. Prusakov, Head of the Federal State Consumer Protection Supervision Directorate of Rospotrebnadzor, reviewed the key issues, trends, and challenges that arise from contractual relations involving consumers, and pointed at multiple conflicts of industry-specific laws in terms of content and enforcement practice, and gaps in legal regulation of relations involving consumers arising due to the digital transformation of consumer relations.

In a similar vein, A. M. Shirvindt, a civil law expert, Candidate of Law, Chair of the Liability Law Department of the Private Law Research Center under the President of the Russian Federation named after S. S. Alekseev, Associate Professor of the Civil Law Department, Faculty of Law of M. V. Lomonosov Moscow State University, shared his opinion on the codification prospects. In his report, he highlighted the relationship between the provisions of the CC RF and the Consumer Protection Law, pointed at the status, role, and significance of this law in safeguarding the relevant personal rights, and invited to take the accumulated experience of litigations involving consumers into account when working on the enhancement of consumer legislation.

M. A. Klishina, Candidate of Law, a financial consumer protection expert, reviewed the unparalleled legislation codification experience of France and Brazil noting the current global trend when the norms determining the consumer’s legal status are segregated into a separate industry-specific regulatory area. In addition, she presented the basic findings of the international expert team that studied foreign legislation codification experience. Similar trends are common to all continents, including Africa, South America, and are most typical for European countries⁴³.

In 2019, the issues concerning codification of the Russian consumer protection legislation were discussed on other platforms as well, including during the presentation that was delivered by A. Yu. Popova, Head of Rospotrebnadzor, on 09 October 2019 as part of the government hour at the Federation Council⁴⁴.

Besides, on 21 October 2019, Rospotrebnadzor representatives took part in the session of the OECD Committee on Financial Markets to share the consumer relations and consumer protection regulation practices.

The participants noted that the systematization and codification efforts to be taken could benefit a lot from the experience of Great Britain where a consumer who obtained a long-term mortgage loan is entitled to request a review of its terms every two years during the entire validity period of the agreement if the bank improves mortgage terms for new clients during the relevant period.

According to Rospotrebnadzor, this approach seems fair for long-term contracts, since consumers who have already concluded agreements with providers of various services (financial, communication, educational, and other services) are often disadvantaged as compared to new clients, including in terms of the relevant service costs⁴⁵.

As part of the ongoing efforts to enhance the Russian consumer protection legislation, Rospotrebnadzor proposes to draft a summary policy brief containing the findings of the research and practical endeavor to explore the prospects of codifying the Russian consumer legislation and the relevant international experience, and hold a public discussion of essential conclusions. Besides, these efforts provide for drafting a specification for the development of new consumer protection statute of the Russian Federation supposed to be completed in 2023⁴⁶.

These efforts will be based on the best international practices, including the experience of France, Brazil, Belgium, Italy, and certain other countries, as well as on international recommendations and approaches discussed under the auspices of the WTO, G20, UNCTAD, OECD with active involvement of Rospotrebnadzor⁴⁷.



In 2019, legal regulation of financial consumer protection was further improved, especially in such critical areas as protection of socially vulnerable groups of consumers, establishment of new forms of consumer assistance, and consumer protection in the context of digital economy, including in case of online retail sales. Furthermore, the list of important accomplishments includes creation by Rospotrebnadzor of a research and practical base required to draft a new consumer protection law (code).

⁴³ Prospects of Codifying the Russian Consumer Legislation Discussed at St. Petersburg International Legal Forum, 15 May 2019 // Rospotrebnadzor rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=11929.

⁴⁴ A. Popova Speaks About the National Consumer Protection System at the Federation Council, 09 October 2019 // Federation Council council.gov.ru/events/news/108540.

⁴⁵ On Participation of Rospotrebnadzor in the Meeting of the G20/OECD Task Force on Financial Consumer Protection, 21 October 2019 // Rospotrebnadzor rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=12875&phrase_id=1943311.

⁴⁶ According to Rospotrebnadzor.

⁴⁷ Anna Popova, Head of Rospotrebnadzor, Presents a Report on the National Consumer Protection System During the Government Hour at the Federation Council, 09 October 2019 // Rospotrebnadzor rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=12816&phrase_id=1943311.

1.2. Ombudsmen for the Rights of Financial Consumers

Adoption of the Financial Ombudsman Law⁴⁸ and creation of this position became an important milestone in the development of extrajudicial dispute settlement mechanisms for disputes between consumers and financial organizations.

The Financial Ombudsman is responsible for considering financial consumer recovery claims filed against financial organizations included in the register of financial organizations required to interact with the Financial Ombudsman or in the list of financial organizations interacting with the Financial Ombudsman on a voluntary basis⁴⁹.

The Financial Ombudsman Law fixes different deadlines for launching the interaction between the Financial Ombudsmen and different entities:

1. In case of insurance companies – starting from June 2019 (insurance companies engaged in compulsory and voluntary insurance of land vehicles, and in case of other insurance companies – starting from 28 November 2019);
2. In case of MFOs – starting from January 2020;
3. In case of credit institutions, pawnshops, CCCs, and NSPFs – starting from January 2021.

2018 was the year of laying the foundations for the activities conducted by the Financial Ombudsman. Thus, pursuant to the Bank of Russia Board of Directors Resolution dated 24 August 2018, Yu. V. Voronin was appointed Chief Financial Ombudsman, and pursuant to the Bank of Russia Board of Directors Resolution dated 16 December 2018, V. V. Klimov was appointed Financial Ombudsman for the Rights of Financial Consumers for the insurance sector.

Besides, ANO Financial Ombudsman Support Service (ANO FOSS) was established in 2018⁵⁰.

In addition, on 25 December 2018, the Bank of Russia published Ordinance No. 5038-U “On the Procedure for Nominating Representatives of Financial Market Self-Regulatory Organizations as Well as Associations (Unions) of Credit Institutions Specified in Part 1 of Article 7 of Federal Law No. 123-FZ to the Board of the Financial Ombudsman Service”.

Novelties in the Regulation of Activities by the Ombudsmen for the Rights of Financial Consumers

In 2018, the foundations for the activities of the Financial Ombudsman institution were laid, while in 2019, the efforts to build the regulatory framework, human resources, and physical infrastructure required to make this institution fully operational were continued. Thus, pursuant to the Bank of Russia Board of Directors Resolutions, S. V. Nikitina and E. L. Pisarevsky were appointed Ombudsmen for the Rights of Financial Consumers in the sectors of insurance, microfinancing, credit cooperation, and credit institutions’ activities (starting from 19 August 2019 and 09 September 2019 accordingly)⁵¹.

On 12 February 2019, the Bank of Russia enacted the procedure for maintaining the register of financial organizations required to ensure the interaction with the Ombudsman for the Rights of Financial Consumers⁵².

Besides, the Register of Financial Organizations Required to Ensure the Interaction with the Ombudsman for the Rights of Financial Consumers was approved. Thereat, 148 insurance companies and 1.7 thous. MFOs were entered in this register as of early 2019⁵³.

As for the List of Financial Organizations Ensuring the Interaction with the Financial Ombudsman on a Voluntary Basis maintained by the Financial Ombudsman Service, it contained only one entity (Zetta Strakhovaniye LLC) as of early 2020⁵⁴.

By its Resolutions dated 12 April 2019, the Financial Ombudsman Service Board also approved the Regulations on the Standard Form of Requests Filed by the Consumer with the Financial Ombudsman and Financial Organization Online⁵⁵.

FOR REFERENCE

On 10 April 2019, the regulator sent the recommendations concerning amendment of the insurance rules approved and adopted by insurers on their own and revision thereof by adding provisions governing the dispute consideration procedure by the insurer and criteria when the dispute shall be referred to the Financial Ombudsman taking the provisions of the Financial Ombudsman Law into account⁵⁶.

With a view to improving the organizational structure of the Financial Ombudsman institution, ANO FOSS embarked upon creation of its regional offices in the constituent entities of the Russian Federation in 2019 to effectively expand its regional coverage.

For instance, ANO FOSS established Branch No. 1 in Saratov⁵⁷ that took over a part of ANO FOSS functions, including by assisting the Chief Financial Ombudsman and the Financial Ombudsmen for Financial Services with preparation of financial consumer complaints for consideration.

⁴⁸ Federal Law No. 123-FZ dated 04 June 2018 “On Ombudsman for the Rights of Financial Consumers”.

⁴⁹ Pursuant to Part 1 Article 15 of the Financial Ombudsman Law.

⁵⁰ To learn more about the creation of the institution of the Financial Ombudsmen and legal framework of their activities, see the 2018 Report.

⁵¹ Bank of Russia Board of Directors Resolutions w/o No. dated 26 July 2019 and 30 August 2019.

⁵² Bank of Russia Ordinance No. 5070-U “On the Procedure for Maintaining the Register of Financial Organizations Required to Ensure the Interaction with the Ombudsman for the Rights of Financial Consumers in the Bank of Russia”.

⁵³ Bank of Russia // cbr.ru/registries/123-fz/?utm_source=w&utm_content=page#a_72070. As of 30 March 2020.

⁵⁴ List of Financial Organizations Ensuring the Interaction with the Financial Ombudsman on a Voluntary Basis // Financial Ombudsman finombudsman.ru/wp-content/uploads/2019/11/Perechen_123_FZ.xls. As of 30 March 2020.

⁵⁵ Financial Ombudsman finombudsman.ru/regulirovanie/.

⁵⁶ Bank of Russia Information Letter No. IN-015-53/33 dated 10 April 2019 “On Amendment of Insurance Rules”.

⁵⁷ Pursuant to the Bank of Russia Resolution No. 2 dated 18 February 2019.

FOR REFERENCE

This branch runs its own call center of the Financial Ombudsman Support Service. Consumers can dial a toll-free number (8-800-200-00-10) to obtain competent assistance from the Service regular staff, advice on the procedure for filing a complaint with the Financial Ombudsman, and information on all stages of consumer complaint consideration by the Financial Ombudsman. Besides, call center operators will answer any questions concerning the activities conducted by the Financial Ombudsman along with the complaint consideration procedure and deadlines⁵⁸.

Besides, ANO FOSS has established branches in St. Petersburg and Nizhny Novgorod (Branches No. 2 and No. 3)⁵⁹ and is taking effort to establish other regional branches⁶⁰.

In addition, ANO FOSS took effort to raise public awareness of the Financial Ombudsman institution and improve financial organizations' competence in interacting therewith.

For instance, on 12 December 2019, the Financial Ombudsman Support Service took part in the Russian Nationwide Walk-in Day. Lawyers and officers of pre-trial dispute settlement departments were also engaged in the event. On the day of the event, the officers of the Service advised the public on the peculiarities of filing complaints with the Financial Ombudsman, assisted with preparation of such complaints, and clarified the enforcement procedure for decisions made by the Financial Ombudsman⁶¹.

On 28 February 2020, the Financial Ombudsman Service held an online conference for MFO representatives with an audience of over 470 persons from different cities and towns of Russia. During this event, the Financial Ombudsmen gave detailed clarifications on the interaction procedure for financial organizations and ANO FOSS and on the consumer complaint consideration procedure⁶².

In addition, improvement of the institutional basis for the activities conducted by the Financial Ombudsman involved international cooperation efforts: On 06 February 2020, the Financial Ombudsman Support Service joined the International Network of Financial Services Ombudsman Schemes⁶³.

First Results Secured by Financial Ombudsmen

The Financial Ombudsman started dealing with insurance companies in June 2019. As early as within the first week (03 June 2019 – 07 June 2019), the Financial Ombudsman received 432 complaints filed by financial consumers against 36 insurance companies. Thereat, over 92% of all complaints concerned disputes involving payment of insurance compensation under Compulsory Motor TPL Insurance agreements, and the size of consumer claims averaged at RUB 152.2 thous.

On 17 July 2019, the first decision by the Financial Ombudsman on a dispute between a consumer and an insurance company adopted on 03 July 2019 came in force.

The complaint was filed by a resident of Tyumen who presented a claim for damages caused by failure to repair a vehicle by the deadline under a Compulsory Motor TPL Insurance agreement against an insurance company. Following the consideration of the claimant's complaint, the Financial Ombudsman for the insurance sector made the decision to collect RUB 24.8 thous. from the insurance company to the benefit of the claimant.⁶⁴

By the end of 2019, ANO FOSS received 91.3 thous. complaints (at an average rate of 609 complaints per day). Thereat, 70.2 thous. complaints (77%) were filed by consumers via their accounts on the Financial Ombudsman's website, and 21.1 thous. complaints (23%) – by courier or mail.

The largest quantity of complaints at year-end 2019 were received in the Southern Federal District (22.5% of the total), the Volga Federal District (21.2%), and the Central Federal District (20.3%).

Thereat, the largest quantity of complaints were filed by the residents of the Krasnodar Territory (12%), the Republic of Bashkortostan (5.3%), Nizhny Novgorod Region (4.1%), Moscow (3.9%), and Rostov Region (3.5%).

Overall in 2019, complaints were filed against 112 insurance companies, 25 credit institutions, 13 CCCs, 1 MFO, and 21 entities engaged in other types of activities. 95.3% of complaints concerned payment of insurance compensation under Compulsory Motor TPL Insurance agreements with most of them (36.4%) involving situations when consumers objected to the relevant compensation amount. Thereat, the amount claimed averaged at RUB 210.6 thous.

Upon consideration of all complaints received in the period from 03 June through 31 December 2019, the Financial Ombudsman made 30.9 thous. decisions, including 16.2 thous. decisions to satisfy financial consumer claims and 14.7 thous. decisions to reject the relevant claims (Figure 1.1.).

⁵⁸ Financial Ombudsman finombudsman.ru/news/V-Saratove-otkryt-kontaktnyj-centr-sluzhby-finansovogo-upolnomochennogo/.

⁵⁹ The Higher the Speed, the Lower the Fine // Kommersant Strakhovaniye Supplement No. 213 dated 20 November 2019, p. 1 kommersant.ru/doc/4157624.

⁶⁰ Financial Ombudsman finombudsman.ru/news/Otkrytsya-filial-Saratov/.

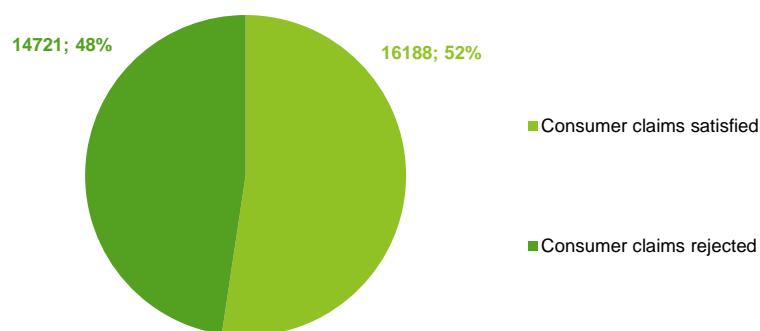
⁶¹ Financial Ombudsman finombudsman.ru/news/Sluzhba-finansovogo-upolnomochennogo-provela-obshcherossiyskij-den-priyoma-grazhdan/.

⁶² Financial Ombudsman finombudsman.ru/finnews/finansovye-upolnomochennye-prinyali-uchastie-v-onlajn-konferentsii-dlya-mikrofinansovyh-organizatsij/.

⁶³ Financial Ombudsman finombudsman.ru/news/Finansovyy-upolnomochennyy-vstupil-v-mezhdunarodnuyu-Associaciyu-finansovyh-ombudsmenov/.

⁶⁴ Financial Ombudsman finombudsman.ru/finnews/vstupilo-v-silu-pervoe-reshenie-finansovogo-upolnomochennogo-po-rezultatam-rassmotreniya-obrashneniya-potrebitelya/.

Figure 1.1. Outcomes of Consideration by the Financial Ombudsman of Consumer Complaints at Year-End 2019



Source: The Financial Ombudsman's official website

Thereat, 6.5 thous. complaints were dismissed, including 173 ones (3%) – due to satisfaction of financial consumer claims by the financial organization on a voluntary basis⁶⁵.

Around 30% of persons requesting pre-trial settlement of a dispute with insurers from the Financial Ombudsman Service and failing to secure the decision in their favour took legal action⁶⁶.

FOR REFERENCE

According to ANO FOSS, introduction of pre-trial dispute settlement by the Financial Ombudsman ensured a significant decline in the quantity of court proceedings under Compulsory Motor TPL Insurance and FCCI agreements.

Thus, following the introduction of this mechanism, the quantity of cases over recovery of payments on Compulsory Motor TPL Insurance and FCCI agreements declined by 40% in 2019 as compared to 2018 (from 273 thous. to 164 thous.).⁶⁷

A significant decline in the quantity of insurance-related lawsuits upon introduction of the Financial Ombudsman institution was confirmed by the RAM⁶⁸.

2019 gave rise to the legal precedent regarding the activities by the Financial Ombudsman.

For instance, on 28 November 2019, a court made the first decision on a dispute between a financial organization and the Financial Ombudsman since the launch of the Financial Ombudsman institution: The Zamoskvoretsky District Court of Moscow rejected an insurance company's claim against the Chief Financial Ombudsman seeking to invalidate and cancel the decision made thereby⁶⁹.

Besides, on 18 March 2020, the Presidium of the SC RF approved the "Clarifications on the Application of Federal Law No. 123-FZ dated 04 June 2018 "On Ombudsman for the Rights of Financial Consumers".

The clarifications covered both the pre-trial dispute settlement procedure, the procedure for accepting petitions of appeal against the decisions by the Financial Ombudsman, and the adjudication procedure applied by the courts to the relevant cases.

In particular, the SC RF clarified the most sensitive issues that had to be addressed since the very launch of the Financial Ombudsman institution, including those concerning the Financial Ombudsman's status in a legal action, persons to be involved as defendants and third parties in cases initiated to appeal against the decisions made by the Financial Ombudsman, and limits of court jurisdiction over the claimants' claims in such cases.

However, despite significant improvements in the situation with the regulation of the judicial mechanism to appeal against the decisions made by the Financial Ombudsman, there are multiple outstanding issues revealed after summing up the first results of the Financial Ombudsman's activities.

Thus, corporate insurance experts note that the Financial Ombudsman has no authority to use certain provisions of the CC RF, including Article 333 of the CC RF that entitles the court to reduce the amount of damages in the instances when they are obviously incommensurable to the consequences resulting from the violation of the obligation by the defendant. According to the representatives of insurers, this situation does not contribute to an image of the Financial Ombudsman as the supreme authority for the settlement of disputes with consumers⁷⁰.

⁶⁵ Financial Ombudsman finombudsman.ru/wp-content/uploads/2020/01/Statistika_zh_12_mesyatsev_2019.pdf.

⁶⁶ New Financial Ombudsman Service Mechanism to Be Tested in Russian Court Action in 2020, 23 December 2019 // Finmarket Online News Agency finmarket.ru/insurance/?nt=0&id=5142143.

⁶⁷ Report by V. M. Lebedev, Chairman of the SC RF, at the Meeting of the Judges of General Jurisdiction Courts and Arbitration Courts on 11 February 2020 // SC RF vsrf.ru/files/28758/.

⁶⁸ Financial Ombudsman finombudsman.ru/news/Deyatelnost-finansovogo-upolnomochennogo-privela-k-rezkomu-sokrashcheniyu-kolichestva-sudebnyh-sporov/.

⁶⁹ Financial Ombudsman finombudsman.ru/finnews/sudom-prinyato-pervoe-reshenie-po-delu-ob-obzhalovanii-resheniya-finansovogo-upolnomochennogo.

⁷⁰ The Higher the Speed, the Lower the Fine // Kommersant Strakhovaniye Supplement No. 213 dated 20 November 2019, p. 1 kommersant.ru/doc/4157624.

From the perspective of financial consumers, the downside of the mechanism providing for the settlement of a dispute by the Financial Ombudsman is the lack of authority to collect a fine from the financial institution at fault to the benefit of the consumer for failure to satisfy the consumer's claims on a voluntary basis⁷¹.

The Chief Financial Ombudsman personally pointed at the problem concerning his lack of jurisdiction over disputes between individuals and NSPFs involving illegitimate transfer of their pension savings, especially, in case of fraud. However, the issue concerning involvement of the Financial Ombudsman in the settlement of such disputes may be addressed after 01 January 2021 as part of the effort to improve and enhance the Financial Ombudsman Law⁷².

Another issue revealed at year-end 2019 is the problem of non-compliance with the decisions made by the Financial Ombudsman. Thus, as of 09 October 2019, about 15% of decisions were not enforced. Besides, the first instance of using a fake certificate was revealed.

To counter the use of fake certificates of the Financial Ombudsman, the Draft Federal Law "On Amendments to the Federal Law "On Enforcement Proceedings" and to Article 23 of the Federal Law "On Ombudsman for the Rights of Financial Consumers" was developed.

The draft law proposes to issue the Financial Ombudsman certificates personally to a consumer to be presented for enforcement to the Federal Bailiff Service (FBS) of Russia, and to provide for authorizing the Financial Ombudsman Service to send such certificate to the FBS of Russia for enforcement in electronic form as requested by the consumer.

Among other things, adoption of the draft law will make it possible to rule out the risk of fake certificates presented on the Financial Ombudsman's behalf, reduce the time for mailing such certificates for enforcement down to 24 hours due to switchover to electronic form, and increase the speed of enforcement proceedings.

In addition, certain proposals to amend the Financial Ombudsman Law are supposed to be prepared by ANO FOSS. Thereat, the most important issues concerning the activities by the Financial Ombudsman are expected to be resolved as early as in 2020⁷³.

As for the future prospects of the Financial Ombudsman institution functioning, the quantity of complaints to be considered is expected to rise.

Thus, in 2020, considering that MFOs will be involved in the work of the Financial Ombudsman, the quantity of consumer complaints may reach 285 thous.

Besides, we expect an explosive growth in the quantity of consumer requests for a pre-trial settlement of disputes concerning insurance of international travellers⁷⁴, especially upon cessation of the COVID-19 pandemic. In addition, it may be made possible to file requests with the Financial Ombudsman via the state services portal, which is also expected to increase the quantity of complaints⁷⁵.

FOR REFERENCE

Due to the COVID-19 pandemic, ANO FOSS switched its operations online to be able to consider financial consumer complaints on an ongoing basis. In the meantime, ANO FOSS sent a letter to the SC RF requesting to arrange for the electronic document flow between ANO FOSS and general jurisdiction courts and provide the possibility of adjudicating cases that involve the Financial Ombudsman by teleconference⁷⁶.

Furthermore, on 26 March 2020, ANO FOSS sent a letter to financial organizations to clarify the procedure for interacting with the Financial Ombudsman during remote operation⁷⁷.



Adoption of the Financial Ombudsman Law and creation of this position in 2018 represented yet another step forward to the use of new mechanisms to protect the rights and legitimate interests of financial consumers in the Russian Federation.

The efforts to develop this institution were continued in 2019. Thereat, the first results achieved by the Financial Ombudsmen proved the viability of this institution. However, it was equally revealed that legal regulation is not devoid of certain flaws and gaps that should be addressed on a top-priority basis in 2020.

1.3. Regulation of Consumer Crediting

2019 was marked by continued growth of consumer crediting volumes that started in 2016. Thus, as compared to 2018, the crediting volume rose significantly (from RUB 14,901 bln to RUB 17,652 bln), which was largely due to the reduction of the key interest rate by the Bank of Russia from 7.75 to 6.25% and the respective reduction of credit rates. These developments were accompanied by a certain decrease in the share of overdue private debt – from 5.1% in 2018 to 4.3%.

⁷¹ Pursuant to Clause 6 Article 13 of the Consumer Protection Law, such fine may only be collected by the court in case of the decision to satisfy a consumer claim.

⁷² Financial Ombudsman finombudsman.ru/finnews/o-rassmotrenii-finansovym-upolnomochennym-sporov-svyazannyh-s-nezakonnym-perevodom-pensionnyh-nakoplenij-v-npf/.

⁷³ New Financial Ombudsman Service Mechanism to Be Tested in Russian Court Action in 2020, 23 December 2019 // Finmarket Online News Agency finmarket.ru/insurance/?nt=0&id=5142143.

⁷⁴ Ibid.

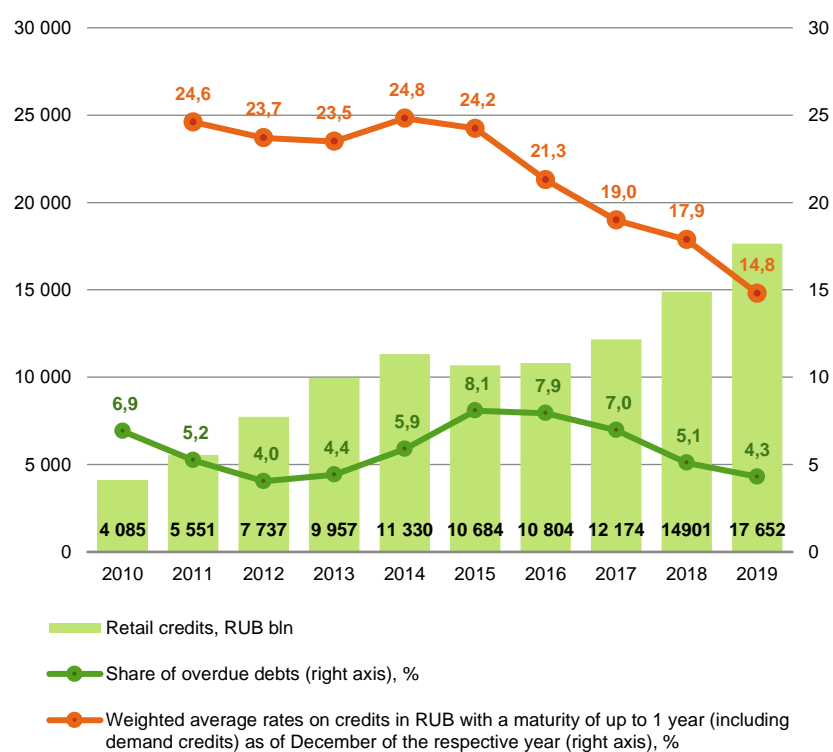
⁷⁵ Financial Ombudsman finombudsman.ru/finnews/chislo-obrashhenij-klientov-mfo-k-finansovomu-upolnomochennomu-vyroslo-v-1-5-raza/.

⁷⁶ Financial Ombudsman finombudsman.ru/finnews/sluzhba-finansovogo-upolnomochennogo-obespechila-rabotu-v-distantsionnom-rezhime/.

⁷⁷ Financial Ombudsman finombudsman.ru/wp-content/uploads/2020/03/2709-01-20-ot-26.03.2020.pdf.

Summary information on consumer crediting for 2010-2019 is provided in Figure 1.2.

Figure 1.2. Dynamics of the Volume of Retail Credits, Share of Overdue Private Debt, and Weighted Average Interest Rates in 2010-2019



Source: Bank of Russia⁷⁸

Besides, the downward trend for the maximum amounts of FCLV for institutions issuing consumer credits to individuals persisted (Table 1.1).

Table 1.1. Maximum Amounts of FCLV for Institutions Issuing Consumer Credits (Loans) to Individuals, Q1-Q4 2017-2019

Year	Range of maximum amounts of FCLV, %			
	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
2019	16.2-33.3	15.6-38.4	15.7-40.4	14.4-40.6
MFOs				
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
2019	38.9-850.4	38.9-388.0 ⁷⁹	37.5-365.0	35.7-365.0
Pawnshops				
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
2019	90.3-150.9	91.4-149.6	88.8-145.4	89.6-144.5
CCCs				
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

⁷⁸ Analytics // Bank of Russia cbr.ru/analytics/bnksyst/.

⁷⁹ Reduction in accordance with Clauses 1 and 3 Part 4 Article 3 of 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 Organizations".

Year	Range of maximum amounts of FCLV, %			
	Q1	Q2	Q3	Q4
2019	26.6-265.4	24.8-266.5	23.4-264.9	24.7-263.5
ACCCs				
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
2019	22.9-50.0	20.0-48.9	22.7-47.6	24.0-45.8

Source: Bank of Russia⁸⁰

Novelties in the Consumer Crediting Regulatory Framework

The significant rise in the crediting volumes referred to above coincided with important changes in the legislation of the Russian Federation regarding consumer crediting. Thereat, as far as consumer protection issues are concerned, the new restrictions imposed by Law No. 554-FZ are of particular significance⁸¹.

Thus, in the period from 28 January through 30 June 2019 inclusive, the interest rate under a consumer loan agreement may not exceed 1.5% per day. Thereat, the amount of the interest, damages (fines, penalties) and other sanctions charged under this agreement, and amounts due for the services that the borrower is provided with by the creditor for an extra fee under a consumer loan agreement (with a maturity of up to 1 year at the most as of the agreement date) may not exceed 250% of the loan amount.

Starting from 01 July 2019, the interest rate under a consumer credit (loan) agreement may not exceed 1% per day, and starting from 01 January 2020, it is disallowed to charge interest under a consumer credit (loan) agreement after total charges reach 150% of the consumer credit (loan) amount.

This restriction equally applies to the damages (fines, penalties) and other sanctions, as well as to amounts due for the services that the borrower is provided with by the creditor for an extra fee under a consumer credit (loan) agreement. In the meantime, it applies to consumer credit or loan agreements with a maturity of up to 1 year at the most as of the agreement date.

The provision containing such restriction must be spelled out on the first page of the consumer credit (loan) agreement above the table containing the individual terms of this agreement.

Besides, effective from 01 October 2019, the maximum interest rate on loans granted by CCCs, ACCCs to individuals for purposes unrelated to their business activities and secured by mortgage may not exceed 17%.

In addition to the above restrictions applicable to interest rates and damages under consumer agreements, Law No. 554-FZ changes the definition of professional consumer lending activities: currently, they are construed as activities providing for granting of consumer loans in monetary form pursued by a legal entity or individual entrepreneur at the expense of funds attracted on a regular and repayable basis for a fee and/or involving granting of at least four loans within a year (except for loans granted by the employer to an employee and except as provided otherwise by the federal law)⁸².

The Consumer Credit Law has been amended by adding new Article 6.2. "Peculiarities of the Terms of an Unsecured Consumer Credit (Loan) Agreement with a Maturity of up to 15 Days at the Most for an Amount of up to RUB 10 Thous. at the Most" that establishes the rules for a new special type of a loan for an amount of up to RUB 10 thous. with a maturity of up to 15 days (the so-called "payday loan").

Under this article, pursuant to unsecured consumer credit (loan) agreements with a maturity of up to 15 days at the most and for an amount of up to RUB 10 thous. at the most, the requirements limiting the interest rate under a consumer credit (loan) agreement to 1% per day and setting the maximum FCLV at 365% per annum or at an amount that does not exceed the average market FCLV calculated by the Bank of Russia by more than a third shall not apply, provided that the following conditions are concurrently met:

- 1) The creditor charges no interest, sanctions under the consumer credit (loan) agreement and amounts due for the services that the borrower is provided with by the creditor for an extra fee under such agreement, except for the damages (fines, penalties) at the rate of 0.1% of the overdue debt amount for each day of default after the fixed charge reaches 30% of the credit (loan) amount;
- 2) This provision is spelled out on the first page of the agreement above the table containing its individual terms;
- 3) The daily fixed charge does not exceed the value equal to the quotient of the maximum allowable value of the fixed charge and 15;
- 4) The agreement contains a clause that disallows to increase the credit (loan) maturity and amount.

Besides, pursuant to revised Article 13 of the Consumer Credit Law, legal entities and individuals are not entitled to demand performance under a consumer credit (loan) agreement from the borrower, if the initial creditor was not a legal entity engaged in professional consumer lending activities as of the agreement date and the new creditor did not enjoy the

⁸⁰ Information on the Market Averages for the Full Consumer Credit (Loan) Value // Bank of Russia cbr.ru/analytics/consumer_lending/inf/.

⁸¹ 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 Organizations".

⁸² Previously, the definition of professional consumer lending activities included the words "pursued at the expense of funds attracted on a regular and repayable basis for a fee and/or involving granting of at least four loans within a year".

status of a legal entity engaged in professional consumer lending activities, a legal entity engaged in overdue private debt recovery activities as its principal activity, a specialized financial company, or an individual designated in the borrower's written consent as of the date of assignment of claims under the consumer credit (loan) agreement.

In addition, the legislative amendments introduced in 2019 changed the procedure for disclosing personal credit histories⁸³.

Thus, under the new regulatory framework, the subject's consent is valid for 6 months from the date of issue. If a credit/loan agreement is concluded with a credit history subject during this period, the consent shall be valid throughout the whole validity period of the agreement.

The retention period for the consent to receive the essential part of the credit history was changed as well – the user shall retain the credit history subject's consent to receive the essential part thereof for 3 years upon expiry of this consent that may be requested by the CHB at any time⁸⁴. Besides, persons are now entitled to obtain a credit report in electronic form from each CHB keeping the credit history twice a year free of charge. However, a free hard copy of the report may be obtained once a year only.

In addition, persons are entitled to obtain the information on the credit history subject's individual rating (if any), including the collected information on the credit history sources and credit history users that have received credit reports.

Yet another noteworthy development is the enactment of amendments to Bank of Russia Ordinance No. 4892-U dated 31 August 2018 "On Types and Characteristics of Assets for Which Risk-Based Capital Buffers are Set and on the Methodology for Applying These Buffers to the Said Types of Assets for Credit Institutions to Calculate Their Capital Adequacy Ratios"⁸⁵ on 01 October 2019 that effectively adjusted the procedure for calculating the individual borrower's DBI.

Concurrently, financial organizations were advised to make the individual borrower aware of the DBI value calculated for this borrower when making the decision to grant a credit (loan) or increase the credit limit⁸⁶.

It was advised as follows:

1. To notify the persons of the credit institution's duty to calculate their DBI when making the decision to grant a credit (loan) for the amount (with a credit limit) of up to RUB 10 thous. and more or for an equivalent amount in foreign currency and the decision to increase the credit limit under a credit (loan), and to notify them of the resulting DBI value;
2. To request the documents that are necessary to calculate the average monthly income from the person filing a request for the relevant credit (loan). Thereat, the person should be made aware of his/her right to determine the list of documents to be submitted to the institution that are necessary to calculate his/her average monthly income at his/her own option;
3. To notify the person on the fact that the institution is free to use the Federal State Statistics Service's data on per capita income in the region of his/her residence or stay to calculate the DBI in case of failure to submit the documentary proof of his/her income. If the DBI estimated in accordance with this procedure proves higher than 50%, this may have an adverse effect on the crediting terms.

Pivotal changes in consumer credit regulation were introduced by Federal Law No. 271-FZ dated 02 August 2019 "On Amendments to Certain Legal Acts of the Russian Federation".

Thus, pursuant to this law, MFOs are not entitled to issue loans to individuals starting from 01 November 2019 for purposes unrelated to their business activities and secured by pledge of:

- a) Residential property of the borrower and/or any other individual pledgor under such loan;
- b) Shares in the right to common shared property of a participant in the common shared ownership of the residential property of the borrower and/or any other individual pledgor under such loan;
- c) Shared construction participant's claims to the residential property of the borrower and/or any other individual pledgor arising from a shared construction participation agreement.

It is expected that the enactment of this ban will totally eradicate any instances when consumers are stripped off of their housing due to their inability to repay a microloan for an amount insignificant as compared to the value of such housing that used to be recorded in the past.

Besides, the law referred to above entitles MCCs to delegate client identification to banks, and all types of MFOs – to carry out client identification by means of state information systems starting from 01 November 2019. This will make it possible to narrow down the range of opportunities for fraud when loans are obtained using third parties' passport details.

Concurrently, the equity requirements applicable to MCCs were tightened.

On 27 December 2019, Federal Law No. 483-FZ "On Amendments to Articles 7 and 11 of the Federal Law "On Consumer Credit (Loan)" and Article 9.1 of the Federal Law "On Mortgages (Pledges of Immovable Property)"⁸⁷ was adopted.

The law stipulates that in case of early credit repayment, the bank shall refund a portion of the insurance premium under the insurance agreement to the borrower less the amount of the insurance premium prorated to the period when the

⁸³ On 31 January 2019, all amendments introduced by Federal Law No. 327-FZ dated 03 August 2018 "On Amendments to Federal Law "On Credit Histories" to Federal Law No. 218-FZ dated 30 December 2004 "On Credit Histories" came into force.

⁸⁴ Previously, this consent used to be valid for 2 months from the date of issue, and the original copy was supposed to be retained for 5 years upon expiry of the loan or credit agreement.

⁸⁵ Bank of Russia Ordinance No. 4892-U dated 31 August 2018 "On Types and Characteristics of Assets for Which Risk-Based Capital Buffers are Set and on the Methodology for Applying These Buffers to the Said Types of Assets for Credit Institutions to Calculate Their Capital Adequacy Ratios".

⁸⁶ Bank of Russia Information Letter No. IN-05-35/76 dated 02 October 2019 "On Communicating to an Individual Borrower Information on the Value of the Debt Burden Ratio Calculated for This Borrower in the Process of Decision-Making on the Extension of a Loan or Expansion of Its Limit".

⁸⁷ The provisions of this law will apply to agreements concluded after its effective date, i.e. after 01 September 2020.

insurance coverage was actually valid (in the absence of an insured event).

Furthermore, a borrower is now entitled to terminate an insurance agreement within 14 calendar days from the date of his/her consent to receive an insurance service and get a full refund for the insurance premium in the absence of any events bearing the marks of an insured event.

However, if the borrower refuses to conclude an insurance agreement or repudiates it, the bank shall be entitled to raise the interest rate under the credit (loan) agreement up to the interest rate set for credits granted without conclusion of a voluntary insurance agreement as of the date of granting the credit.

A respective adjustment was equally made in Article 958 Part 2 of the CC RF⁸⁸.

Other important changes in the legislation of the Russian Federation concerning consumer crediting are equally noteworthy.

For instance, on 01 May 2019, Federal Law No. 76-FZ “On Amendments to Certain Legal Acts of the Russian Federation with Regard to Specific Features of Changing Terms of a Credit Agreement, Loan Agreement Concluded with an Individual Borrower for Purposes Unrelated to Business Activities and Secured by Mortgage at the Borrower’s Request” was adopted.

This law provides for implementation of a new assistance mechanism for borrowers unable to perform their obligations under a credit agreement in full when the obligations under this agreement are secured by mortgage in the form of a grace period for mortgage credits (the so-called “mortgage holidays”, including credits granted prior to 31 July 2019. Adoption of this law should be treated as a pivotal milestone for development of a modern approach to interpretation of reciprocal rights and obligations of the parties to a credit agreement and protection of consumers as a weaker party thereto.

Thus, the Consumer Credit Law was amended by adding Article 6.1-1 stipulating that a borrower that concluded a credit agreement (loan agreement) secured by mortgage is entitled to request the creditor to change its terms at any time during the validity period of this agreement so as to authorize the borrower to suspend performance of his/her obligations thereunder or reduce the amount of the borrower’s payments for a period named by the borrower, provided that the requirements established for the borrower are concurrently met.

Moreover, it establishes that a credit agreement (loan agreement) secured by mortgage is required to contain information on the borrower’s right to request mortgage holidays from the creditor. Thereat, this information shall be spelled out on the first page of the credit agreement (loan agreement).

The borrower shall submit its request to the creditor either in the manner provided for by the agreement or by sending the request by registered mail with advice of delivery. In addition, the request may be delivered against receipt.

A creditor receiving a borrower’s request must consider it within five business days and (subject to conformity to the applicable requirements) notify the borrower of the change of the credit agreement (loan agreement) terms as requested by the borrower by giving a notice in the manner provided for in the agreement, and if such manner is not provided for therein – by registered mail with advice of delivery or by delivery against receipt.

Starting from the date when the creditor sends the relevant notice to the borrower, the terms of the respective credit agreement (loan agreement) shall be deemed changed for the duration of the grace period on the terms as requested by the borrower. The creditor shall send an adjusted repayment schedule under the credit agreement (loan agreement) to the borrower upon or before expiry of the grace period.

Thereat, if the borrower receives no request to present documentary proof or no rejection of his/her request from the creditor within ten business days from the date of sending such notice, the grace period shall be deemed in effect from the date when the borrower sends the request to the creditor, except as a different starting date of the grace period is set out in the relevant notice.

The new debt repayment terms shall be in effect from the starting date of the grace period.

FOR REFERENCE

It is the duty, not the right of the financial organization to grant mortgage holidays at the consumer’s request – failure by the consumer to meet the requirements stipulated by Article 6.1-1 of the Consumer Credit Law is the only valid reason for rejecting this request.

It is not allowed to call for early performance of obligations under a credit agreement (loan agreement) and levy execution upon the mortgaged property securing the obligations under the relevant credit agreement (loan agreement) during the grace period.

Among other borrower assistance measures introduced in 2019, it is worth mentioning the new credit repayment mechanism involving the use of funds granted by the government as provided for by Federal Law No. 157-FZ dated 03 July 2019 “On Government Support Measures for Families with Children as They Regard Repayment of Liabilities Under Residential Mortgage Credits (Loans) and on Amendments to Article 13.2 of the Federal Law “On Civil Status Certificates”.

The law establishes the grounds for implementing government support measures for families with children to facilitate repayment of their liabilities under a residential mortgage credit.

Thus, government support measures shall be available to a Russian citizen – a mother or father acting as a borrower under a residential mortgage credit, whose third or subsequent child was born in the period from 01 January 2019 through 31 December 2022. In this case, the children who are not Russian citizens and children whose parents have been deprived of parental rights or whose adoption has been cancelled shall not be taken into account.

⁸⁸ Federal Law No. 489-FZ dated 27 December 2019 “On Amendment to Article 958 Part 2 of the Civil Code of the Russian Federation”.

Government support measures shall be used only once (for a single RMC, and regardless of whether any children were born after the government support measures implementation) in the form of full or partial repayment of obligations thereunder in the amount of RUB 450 thous. at the most. These funds shall be allocated to principal debt repayment, and if such debt is less than RUB 450 thous., the outstanding amount shall be used to repay the interest.

Under this law, the liabilities under a residential mortgage credit shall be repaid on condition that the respective citizen concludes a credit agreement (loan agreement) by 01 July 2023 for the following purposes:

1) For a purchase of residential property, including an item of private housing construction or land plot allocated for private housing construction, in the Russian Federation under a purchase and sale agreement from a legal entity or individual, or purchase of residential property under a shared construction participation agreement or deed (contract) of assignment of claims under such agreement;

2) For full repayment of the RMCs mentioned above, including those issued earlier.

Government support measures are implemented by DOM.RF JSC in line with the procedures established by the Government of the Russian Federation⁸⁹.

In March 2019, amendments⁹⁰ were introduced to the Rules of Granting Subsidies as Compensation for Lost Income Under Mortgage Credits Granted to Individuals with Children⁹¹ to extend the period of subsidizing family mortgage over the entire credit period. 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.

In pursuance of individual Instructions on Implementation of Presidential Address to the Federal Assembly of the Russian Federation dated 15 January 2020, a draft law⁹² providing for expanding the scope of the maternity (family) fund for families whose first child was born (or adopted) after 01 January 2020 was brought before the SD RF.

Thus, in 2020, the size of the maternity (family) fund amounts to RUB 466.6 thous. If the second child is born or adopted, the size of the maternity fund shall be increased by RUB 150 thous. and total RUB 616.6 thous. In addition, there is an opportunity to obtain this money for the third child and subsequent children, except as this right has been exercised before.

This amount is supposed to be indexed every year, and the very maternity (family) fund program will be extended until 31 December 2026. Furthermore, the draft law referred to above provides for an option to allocate the maternity (family) fund to construction (reconstruction) of an item of private housing construction on a garden plot.

FOR REFERENCE

Letter of the Ministry of Finance of the Russian Federation No. 05-05-06/96858 dated 11 December 2019 "On the Use of Government Support Measures for Families with Children to Facilitate Repayment of Liabilities Under Residential Mortgage Credits (Loans)" clarifies the option to allocate the amount of support to repayment of a credit (loan) issued by a CCC.

Alongside with the above, residents of the rural areas of the Far Eastern Federal District are now able to take a mortgage loan at 5% interest rate to buy 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 through 31 December 2022. The persons who have refinanced credits will be able to refinance them once again under the program.

Effective from 14 November 2019, the RMC rate subsidy program has been expanded to cover families with disabled children. This benefit is available to Russian citizens with a disabled child born on or prior to 31 December 2022. Besides, the total amount of credits to be subsidized has been raised from RUB 600 bln to RUB 800 bln.

It is noteworthy that the amount of the credit (loan), and in the event of concluding an additional refinancing agreement – of the outstanding debt under the credit (loan) – is set at RUB 6 mln, and in case of residential property located in Moscow, Moscow Region, St. Petersburg, and Leningrad Region – up to RUB 12 mln. Thereat, the down payment must be at least equal to 20% of the value of the residential property to be purchased.

However, as banks were refinancing RMCs using the maternity (family) fund in accordance with the terms depicted above, credit institutions and consumers encountered the following problems (risks) associated with the registration of the pledge in the new creditor's name:

- Necessity to obtain custody and guardianship agencies' approval of the pledge of the residential property purchased at the expense of the maternity fund, which is impossible in practice due to contradictions in the terms and requirements;
- Necessity to register the item of immovable property as common property at the stage of changing the creditor.

To overcome these problems, a draft law⁹³ that essentially transforms the relations between the borrower and the creditor into a lasting relationship to be deemed terminated only after the borrower pays for the item of immovable property in full

⁸⁹ The relevant Rules of Granting Subsidies to DOM.RF Joint-Stock Company as Compensation for Lost Income and Costs due to Implementation of Government Support Measures for Families with Children to Facilitate Repayment of Liabilities Under Residential Mortgage Credits (Loans) and Regulation on Implementation of Government Support Measures for Families with Children to Facilitate Repayment of Liabilities Under Residential Mortgage Credits (Loans) were approved by Resolution of the Government of the Russian Federation No. 1170 dated 07 September 2019.

⁹⁰ 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 with Children".

⁹¹ 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 with Children".

⁹² Draft Law No. 846971-7 "On Amendments to Certain Legal Acts of the Russian Federation Concerning Disposal of the Maternity (Family) Fund".

⁹³ Draft Law No. 880655-7 "On Amendments to Certain Legal Acts of the Russian Federation to Simplify Transition to a Mortgage with More Beneficial Terms for a Family with Children".

was brought before the SD RF.

In December 2019, the terms of the program “Far Eastern Mortgage” were approved⁹⁴. Specifically, a credit at a preferential 2% rate in accordance with the program “Far Eastern Mortgage” may be (normally) obtained by:

- A married citizen. Thereat, the age of both spouses may not be above 35 years old;
- A single citizen aged 35 or younger having a child under 18 years of age;
- A citizen granted a land plot in the Far Eastern Federal District for uncompensated use⁹⁵.

In case of the first two groups, a credit may be issued to purchase housing in the Far Eastern Federal District or build a house on the land plot located therein, and in case of other persons – to build a house on the land plot allocated thereto.

Thereat, the amount of the credit shall not exceed RUB 6 mln, or 80% of the value of the housing to be purchased (built), and the maturity of the credit shall not exceed 240 months. The credit is supposed to be issued in the period from 01 December 2019 through 31 December 2024.

It is worth mentioning other remarkable legislative initiatives that arose in 2019 and in early 2020 in the area of consumer credit regulation⁹⁶.

Thus, the efforts to draft the Federal Laws “On Amendments to the Criminal Code of the Russian Federation and to the Criminal Procedure Code of the Russian Federation”⁹⁷ and “On Amendments to the Administrative Offenses Code of the Russian Federation”⁹⁸ were continued.

The draft laws provide for increasing the amount of administrative fines imposed on officials engaged in illegal consumer lending activities, and introducing criminal prosecution of officials and suspension of legal entities’ activities in case of a repeated offense⁹⁹.

In addition, the Draft Federal Law “On Amendments to the Federal Law “On Consumer Credit (Loan)”¹⁰⁰ was developed.

The draft law provides for amending Clauses 3 and 5 Part 4 Article 6 of the Consumer Credit Law to establish that the FCLV shall be calculated by considering, among other things, the borrower’s payments to the creditor or third parties in the instances when the borrower gives a consent to the purchase of the service offered by the creditor or to the purchase of the goods (services) offered by a third party or by the creditor acting on behalf of a third party from such third party during the granting of the credit at the expense of the consumer credit (loan) and/or own funds.

Besides, the draft law proposes to place the creditor under an obligation to compensate the borrower for the losses suffered due to infringement by the creditor of the borrower’s freedom to choose services at the doubled amount of the costs incurred by the borrower to pay for the additional services provided by the creditor and/or third parties.

In addition, the draft law proposes to establish that if the borrower repays the total amount of the consumer credit (loan) early, within five calendar days from the date of receiving the notice and based on the amount of the consumer credit (loan) to be repaid early, the creditor shall calculate the amount of the principal debt and interest for the actual period of using the consumer credit (loan) payable by the borrower as of the following day (provided that under the relevant law and/or consumer credit (loan) agreement, the borrower is entitled to repay the relevant amount of the consumer credit (loan) early) specifying the relevant date and provide the information mentioned above.

The law-drafting activities to raise the level of borrower protection were continued as well.

Thus, Rospotrebnadzor developed the Draft Federal Law “On Amendment to Article 16 of the Law of the Russian Federation “On Consumer Protection” (to prohibit the seller (service provider) to refuse to conclude, change, terminate, or perform an agreement due to refusal by the consumer to provide personal data and to establish a list of terms infringing upon consumer rights (non-permissible and unfair terms) and a list of unfair practices in consumer markets)¹⁰¹ and brought it before the Government of the Russian Federation.

The draft law was developed to suppress any unfair practices in the consumer market, including in the form of forced or unwarranted collection of consumer personal data for purposes unrelated to conclusion or performance of the agreement, and provides for a ban on compelling the consumer to provide personal data by menacing to deny a transaction in the instances when provision of such data is not required by the legislation of the Russian Federation and is not related to the goods (works, services) sale transaction.

Judicial Practice

In 2019, special attention was given to consolidation of legal precedents accumulated by the SC RF over a lengthy period of judicial use of legal provisions governing voluntary personal insurance related to granting of consumer credits in order to ensure efficient protection of infringed rights and legitimate interests of insureds, beneficiaries, and insurers.

These efforts have been depicted in the Judicial Review of Disputes Arising from Relations Under Voluntary Private Insurance Related to Granting of Consumer Credits approved by the Presidium of the SC RF on 05 June 2019.

⁹⁴ Resolution of the Government of the Russian Federation No. 1609 dated 07 December 2019 “On Approval of the Terms of the Program “Far Eastern Mortgage” and on Amendments to Executive Order of the Government of the Russian Federation No. 1713-r dated 02 September 2015”.

⁹⁵ Federal Law No. 119-FZ dated 01 May 2016 “On Peculiarities of Granting Land Plots Owned by the Federal or Local Government and Located in the Constituent Entities of the Russian Federation That Form Part of the Far Eastern Federal District to Individuals and on Amendments to Certain Legal Acts of the Russian Federation”.

⁹⁶ Individual issues concerning legal regulation and legislative initiatives in the area of consumer risk assessment will be addressed in Section 2 hereof.

⁹⁷ Draft Law No. 237666-7 “On Amendments to the Criminal Code of the Russian Federation and to the Criminal Procedure Code of the Russian Federation”.

⁹⁸ Draft Law No. 237560-7 “On Amendments to the Administrative Offenses Code of the Russian Federation”.

⁹⁹ It is noteworthy that similar laws are being drafted on the initiative of members of the SD RF.

¹⁰⁰ Draft Federal Law “On Amendments to the Federal Law “On Protection of Competition” (Draft ID 02/04/10-18/00085246) // Federal Portal of Draft Regulations regulation.gov.ru/projects#npa=85246.

¹⁰¹ According to Rospotrebnadzor.

Thus, the SC RF provided crucial clarifications as follows:

- The relations between an individual financial consumer who has concurrently concluded a voluntary private insurance agreement and a consumer credit agreement, and a financial organization fall under the purview of the Consumer Protection Law.
- When registering a borrower for a voluntary insurance program, he/she is supposed to be notified on the nature of and payment terms for the financial services to be provided, including on the right to refuse to participate in the insurance program¹⁰².
- Successors inherit the right to demand performance of a voluntary private insurance agreement concluded by the testator, and hence, the relations between the successors and the insurer fall under the purview of the Consumer Protection Law¹⁰³.
- If a borrower subscribes for an insurance program and pays the relevant subscription fee, the insurance shall cover the property interest of the borrower qualifying as an insurant under this agreement.
- In the instances when the insurance agreement establishes that the insured event, validity period of this insurance agreement, and insurance compensation amount do not depend on the early repayment of credit and on outstanding credit balance, early repayment of the credit shall not terminate a voluntary private insurance agreement and shall not entail any refund of the insurance premium¹⁰⁴.
- If a voluntary life and health insurance agreement concluded by a borrower makes the payment of an insurance compensation dependent on the outstanding credit debt, then – should the credit be repaid ahead of the agreement expiration date – it shall be terminated early, and the paid insurance premium shall be refunded to the insurant by prorating it to the period until the early termination date of the agreement¹⁰⁵.
- Assignment of a disability group upon expiry of a voluntary private insurance agreement due to a disease that occurred during the validity period of the voluntary private insurance agreement may not serve as a reason for the insurer to deny an insurance compensation¹⁰⁶.
- Deliberate misrepresentations on the insured person's health condition during conclusion of a voluntary private insurance agreement may be used as a reason for denying an insurance compensation and invalidating this agreement¹⁰⁷.
- An insurer under a voluntary private insurance agreement shall be liable for the losses caused by late payment of an insurance compensation securing performance of the credit service obligation¹⁰⁸.

Apart from the clarifications mentioned above, it is worth mentioning the SC RF position on the instances when banks withhold a portion of the credit amount, and yet charge interest on the total credit amount, including on the amount withheld.

Thus, Decision of the Judicial Board on Civil Cases of the SC RF No. 82-KG19-2 dated 16 July 2019 stipulates that if a bank withholds a non-recurrent fee as a compensation for collection, processing, and technical transfer of information associated with the application of insurance agreement terms to the borrower, it is against the law to charge interest on the total credit amount, including the funds that have not been actually granted. Payment of excessive interest qualifies as borrower losses, and such interest is supposed to be collected from the bank.

Regulatory Measures Associated with the COVID-19 Pandemic

The COVID-19 pandemic made it necessary to adopt emergency legislative measures in early 2020 to assist the borrowers.

Thus, Federal Law No. 106-FZ "On Amendments to the Federal Law "On the Central Bank of the Russian Federation (the Bank of Russia)" and Certain Legal Acts of the Russian Federation with Regard to Specific Features of Changing Terms of a Credit Agreement, Loan Agreement" providing for a possibility of a grace period with a deferral of repayment of the principal debt amount and payment of interest on credits (loans) was adopted on 03 April 2020.

As provided for by Article 6 thereof, a borrower concluding a credit agreement (loan agreement) may at any time during the validity period of such agreement, but no later than by 30 September 2020, request a creditor to change the terms of the agreement to suspend performance of obligations for a period named by the borrower (grace period).

In this case, it is necessary to concurrently meet the statutory requirements, including those concerning the credit (loan) amount and decline in the borrower's income. The borrower is entitled to set the duration of the grace period (six months at the most) and the grace period starting date subject to certain requirements. The grace period starting date may not come earlier than 14 days prior to the date of the request.

The borrower's request shall be delivered to the creditor either in the manner provided for by the agreement or by phone using the number communicated to the creditor by the borrower. The creditor receiving the borrower's request must consider it within 5 days at the most, and should this request conform to the requirements set forth by the law, notify the borrower on

¹⁰² Decision of the Judicial Board on Civil Cases of the SC RF No. 6-KG17-2 dated 20 June 2017.

¹⁰³ Decision of the Judicial Board on Civil Cases of the SC RF No. 35-KG18-4 dated 24 April 2018.

¹⁰⁴ Decision of the Judicial Board on Civil Cases of the SC RF No. 35-KG17-14 dated 06 March 2018. A similar legal reasoning is reflected in Decision of the Judicial Board on Civil Cases of the SC RF No. 44-KG17-22 dated 13 February 2018 and Decision of the Judicial Board on Civil Cases of the SC RF No. 44-KG18-8 dated 28 August 2018.

¹⁰⁵ Decision of the Judicial Board on Civil Cases of the SC RF No. 78-KG18-18 dated 22 May 2018.

¹⁰⁶ Decision of the Judicial Board on Civil Cases of the SC RF No. 42-KG18-6 dated 04 December 2018.

¹⁰⁷ According to the Chelyabinsk Region court's case material.

¹⁰⁸ Applicable to the instances when despite improper performance by the insurer of the obligation to pay an insurance compensation to the bank by the established due date, the debtor's obligations to the bank would be deemed duly performed.

the changes in the terms of the credit agreement (loan agreement) in accordance with the request submitted by the borrower in the manner provided for by the agreement.

Starting from the date when the creditor sends the relevant notice to the borrower, the terms of the respective credit agreement (loan agreement) shall be deemed changed for the duration of the grace period as requested by the borrower and as required by the law. The creditor shall send an adjusted repayment schedule under the credit agreement (loan agreement) to the borrower before expiry of the grace period.

During the grace period, it is disallowed to charge damages (fines, penalties) for non-performance or improper performance by the borrower of his/her obligations to repay the credit (loan) and/or pay interest on the credit (loan) amount, accelerate performance of obligations under the credit agreement (loan agreement) and/or levy execution upon the pledged item or mortgaged property under the relevant credit agreement (loan agreement), and/or present claims to the surety (guarantor).

The amount of interest, damages (fines, penalties) for non-performance or improper performance by the borrower of his/her obligations to repay the credit (loan) and/or pay interest on the credit (loan) amount that were not paid by the borrower before the grace period effective date shall be documented as of the grace period effective date.

Upon expiry of the grace period, a credit agreement (loan agreement), except for a credit agreement (loan agreement) secured by mortgage, shall continue subject to the terms that had existed before the grace period was granted. Thereat, the credit (loan) maturity date shall be extended for a period at least equal to the duration of the grace period. The amount of interest charges shall be documented as well.

Besides, the borrower is entitled to repay the credit (loan) amount (whether in whole or in part) early at any time during the grace period, which will not entail termination of the grace period. If the borrower repays its principal debt liabilities (whether in whole or in part) early, the principal debt amount forming part of the borrower's current debt to the creditor under the credit agreement (loan agreement) shall be decreased by the amount of the relevant payments made to repay such debt for interest accrual purposes.

In addition, the borrower is entitled to terminate the grace period at any time over the duration thereof by giving the creditor a relevant notice. In this case, the grace period shall be terminated on the date when the creditor receives the borrower's notice.

Resolution of the Government of the Russian Federation No. 435 dated 03 April 2020 (hereinafter referred to as Resolution No. 435) sets the maximum credit (loan) amount for credits (loans) when the borrower is entitled to request the creditor to change the terms of the credit agreement (loan agreement) in order to suspend performance of obligations by the borrower (Table 1.2.).

Table 1.2. Summary Information on the Maximum Amounts of Consumer Credits (Loans) Eligible to a Grace Period by Type of Credits (Loans)

Credit (loan) type	Maximum credit (loan) amount
Consumer credit (loan)	RUB 250 thous.
Consumer credit (loan) providing for the granting of a credit (loan) with a credit limit (credit card)	RUB 100 thous.
Consumer credit to purchase a vehicle secured by pledge of the vehicle	RUB 600 thous.
Credit (loan) issued for purposes unrelated to business activities and secured by mortgage	RUB 4.5 mln – to purchase housing in Moscow; RUB 3 mln – to purchase housing in Moscow Region, St. Petersburg, or the Far Eastern Federal District; RUB 2 mln – to purchase housing in any other area

Source: Resolution No. 435

FOR REFERENCE

The maximum RMC amounts set by Resolution No. 435 were picked up so that they covered the average mortgage amount in most constituent entities of the Russian Federation.

However, Expert RA estimated the average RMC amount at year-end 2019 in Russia at RUB 2.2 mln. National Credit Ratings (NCR) Agency estimated the average mortgage amount in Moscow at RUB 4.8 mln, and in the two other major mortgage regions – in Moscow Region and St. Petersburg – at RUB 3.4 mln and RUB 3 mln. In addition, NCR noted that the approved maximum RMC amount deprives a significant share of mortgage borrowers of the chance to secure credit holidays¹⁰⁹.

The situation with the other types of credits is similar. Thus, NBCH statistics implies that in February 2020, the share of consumer credits up to RUB 250 thous. accounted for 71.5% of all credits. The largest quantity of credits is accounted for by credits up to RUB 100 thous. (53%). Credits from RUB 250 thous. to RUB 500 thous. and from RUB 500 thous. accounted for 16.2% and 12.3% of all credits respectively. In turn, credit cards with a limit up to RUB 100 thous. accounted for 76.2% of all credit cards.

¹⁰⁹ The Government Raises the Limit for Mortgage Holidays due to Coronavirus, 10 April 2020 // RBC rbc.ru/economics/10/04/2020/5e9064149a7947bf4b30bd83.

Besides, the assistance measures cover less than a half of all borrowers with car credits: only 41% of such credits is under RUB 600 thous. Equifax CHB has similar data¹¹⁰.

In addition, Resolution of the Government of the Russian Federation No. 436 dated 03 April 2020 (hereinafter referred to as Resolution No. 436) approved the Methodology for Calculating the Borrower's Average Monthly Income (Borrowers' Aggregate Average Monthly Income) for the Purposes of Establishing the Grace Period Providing for Suspension of Performance by the Borrower of His/Her Obligations Under the Credit Agreement (Loan Agreement). Besides, the regulator issued recommendations for financial organizations regarding application of the rules of granting a grace period¹¹¹.

Due to the COVID-19 pandemic, the regulator further advises as follows:

- To abstain from charging damages (fines, penalties) for improper performance of obligations under an agreement during temporary disability;
- To abstain from levying execution upon the mortgaged property until 30 September 2020 (to take all possible efforts to suspend any enforcement proceedings associated with the sale of the mortgaged property), if such mortgaged property is the only residential property used as permanent residence by the borrower and his/her family members sharing his/her household;
- To abstain from charging damages (fines, penalties) on the insurant and from imposing any other sanctions for improper performance of obligations under a voluntary insurance agreement during the insurant's temporary disability resulting from the COVID-19 whenever such sanctions are provided for by the voluntary insurance agreement¹¹².



In the context of the growth in consumer crediting volumes in 2019, important amendments were introduced to the legislation of the Russian Federation to reduce the consumer debt burden, improve the transparency of concluding credit agreements, and institute additional borrower protection measures. This trend continued in early 2020 in the form of emergency regulatory measures adopted due to the COVID-19 pandemic.

1.4. Development of the Private Bankruptcy Institution

The issue concerning introduction of the bankruptcy institution for individuals not enjoying the status of individual entrepreneurs was widely debated over the past years, and it was ultimately resolved positively after the relevant amendments and additions to the Bankruptcy Law¹¹³ and Individual Legal Acts of the Russian Federation¹¹⁴ were adopted in 2014-2015.

From the time of its introduction, this institution has become increasingly popular with the persons unable to perform their obligations under a credit. Thus, the total number of bankrupt individuals rose significantly: while in the year when the private bankruptcy institution was introduced (2015), the number of insolvent persons amounted only to 870, in 2018, the number of such persons reached 43,984 (1.5 times more as compared to 2017)¹¹⁵.

Among other factors, this increase was due to a certain decline in the cost of the private bankruptcy procedure: in particular, effective from 01 January 2017, the amount of the state duty for filing a petition was reduced from RUB 6 thous. to RUB 300.¹¹⁶

This trend continued in 2019. Furthermore, as compared to 2018, the number of potentially bankrupt individuals grew by 4.9% and exceeded 1 mln persons for the first time. Thus, according to the data on 4 thous. creditors disclosing data to NBCH, as of 01 November 2019, the number of persons formally falling under the purview of the Bankruptcy Law was 1,031.4 thous.

Just as previously, the majority of potentially bankrupt individuals was accounted for by the consumer crediting sector (65.7%), and the minority – by the mortgage crediting segment (2.2%). Moreover, as compared to November 2018, a larger share of debtors was accounted for by persons with MFO loans (+2.8 pp) and by potential bankrupts under credits of various types (+0.3 pp). Concurrently, there was a decline in the share of potentially bankrupt borrowers under credit cards (-1.7 pp) and under consumer credits (-1.4 pp), and the shares of such borrowers under secured credits (mortgage and car credits) remained unchanged (Figure 1.3).

¹¹⁰ Credit Holidays Fail to Apply to Two-Thirds of Mortgage Loans, 06 April 2020 // RBC rbc.ru/finances/06/04/2020/5e8b08f99a79476959012e7e.

¹¹¹ Bank of Russia Information Letter No. IN-06 59/49 dated 05 April 2020 "On Peculiarities of Applying Federal Law No. 106-FZ dated 03 April 2020".

¹¹² Bank of Russia Information Letter No. IN-06-59/22 dated 20 March 2020 "On Granting a Deferral (Reduction) of Payments due to the Spread of the Coronavirus Disease (COVID-19)". See more details in Section 2 hereof.

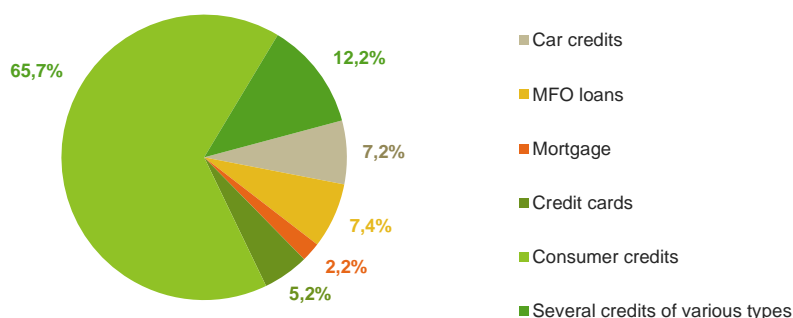
¹¹³ Federal Law No. 127-FZ dated 26 October 2002 "On Insolvency (Bankruptcy)".

¹¹⁴ Part 2 Article 14 of Federal Law No. 154-FZ dated 29 June 2015 "On Settling the Peculiarities of Insolvency (Bankruptcy) in the Republic of Crimea and Federal City of Sevastopol and on Amendments to Certain Legal Acts of the Russian Federation".

¹¹⁵ UFRBI Statistical Bulletin as of 31 December 2018 // Fedresurs fedresurs.ru/news?classifier=7.

¹¹⁶ Federal Law No. 407-FZ dated 30 November 2016 "On Amendment to Article 333-21 Part 2 of the Tax Code of the Russian Federation".

Figure 1.3. Percentage of Potentially Bankrupt Individuals by Types of Credits in 2019, %



Source: NBCH

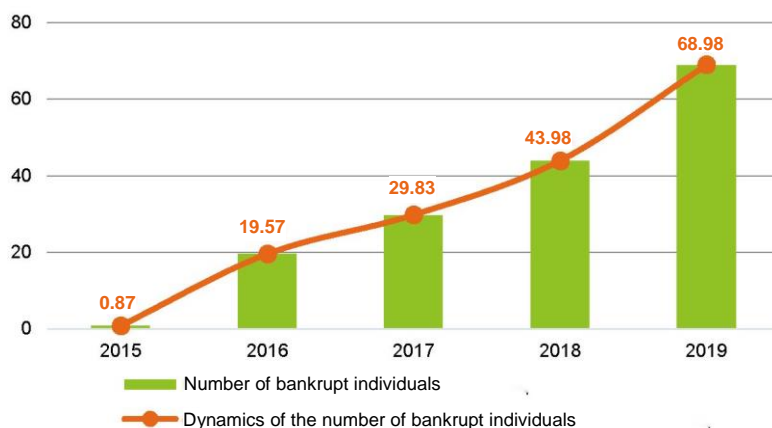
The highest growth rates for the number of potential bankrupts in 2019 (out of 30 regions with the highest number of borrowers with current obligations) were recorded in Sverdlovsk (+15.1%), Samara (+10.6%), Chelyabinsk (+9.7%), and Irkutsk Regions (+9.5%), as well as in Moscow (+9.2%) and Moscow Region (+8.6%). However, certain regions of the Russian Federation recorded a decline in the number of debtors, including the Khanty-Mansi Autonomous Area (-2.5%), Krasnodar (-1.3%) and Stavropol (-1.3%) Territories, and Republic of Bashkortostan (-0.7%)¹¹⁷.

As for the total number of persons declared bankrupt, it grew by around 69 thous. in 2019, which is 56.8% more than in 2018¹¹⁸. Thereat, individuals initiated their own bankruptcy procedure in 90.7% of total private bankruptcy cases (86.1% in 2018), while creditors did so in 7.5% of cases (12.5%), and the Federal Tax Service of the Russian Federation – in 1.7% of cases (1.4%)¹¹⁹.

As noted by Fedresurs analysts, over the first four years of the consumer bankruptcy mechanism existence, it was resorted to by 163.2 thous. Russian citizens, or 16% of potential bankrupts¹²⁰.

The annual growth rates for the number of bankrupt individuals for 2015-2019 are provided in Figure 1.4.

Figure 1.4. Growth Rates for the Number of Bankrupt Individuals for 2015-2019, thous.



Source: UFRBI

FOR REFERENCE

The period from January through March 2020 witnessed an upsurge in private bankruptcies: the courts declared 22.4 thous. individuals, including individual entrepreneurs, bankrupt. This is 68% more than in the same period of 2019.

Thereat, private bankruptcy growth rates went up in the regions: in Moscow, the quantity of such court decisions rose by 40.5%, while in Krasnodar and Perm Territories, Rostov and Novosibirsk Regions, and Udmurt Republic, the quantity of bankruptcies more than doubled.

It is noteworthy that an exponential growth in the quantity of completed proceedings was recorded in the regions that are not among the leaders for the quantity of bankruptcies, namely, in Orenburg, Tyumen, Kursk, Orel, Magadan Regions, Kamchatka Territory, Karachay-Cherkess Republic, and Republic of Ingushetia.

According to Fedresurs, the recorded growth in the quantity of bankruptcies may be a natural phenomenon that is primarily due to judicial practice development and dissemination of information on the bankruptcy procedure. However, this does not rule out the risk of yet another upsurge in bankruptcies in the context of the crisis caused by the COVID-19

¹¹⁷ NBCH: Major Slowdown in the Growth of the Number of Potential Bankrupts Under Credit Obligations in 2019 // NBCH nbki.ru/company/news/?id=26389.

¹¹⁸ Including individual entrepreneurs.

¹¹⁹ Russians Became Bankrupt 1.6 Times More Frequently in 2019 // Fedresurs fedresurs.ru/news/93d11ca7-8f4d-4171-8ece-41ee3d191c94.

¹²⁰ UFRBI Statistical Bulletin as of 31 December 2019 // Fedresurs https://goo.su/00De.

pandemic¹²¹.

Thereat, it is worth noting that Federal Law No. 98-FZ dated 01 April 2020 "On Amendments to Certain Legal Acts of the Russian Federation Regarding Prevention and Response to Emergency Situations" stipulates that the Government of the Russian Federation is entitled to impose a moratorium on initiation of bankruptcy cases by virtue of petitions filed by creditors in exceptional cases (in case of natural and man-made emergencies, major fluctuations of the Ruble exchange rate, and in other similar circumstances) for the sake of economic stability.

Thus, the growth in the quantity of bankruptcies may be halted in case of such moratorium.

In a similar vein, it is worth mentioning the dynamics of the percentages of private bankruptcy cases in 2015-2019 (Table 1.3). In particular, as compared to 2018, there was a major increase in the quantity of decisions to uphold petitions to declare a person bankrupt and place his/her debts under restructuring – from 9.7 thous. to 15.7 thous. (61.7% growth), as well as decisions to complete personal debt restructuring (from 312 to 731, 134.2% growth) and complete personal property sale (from 21.3 thous. to 37.9 thous., 77.3% growth). However, it is noteworthy that similar to the previous year, the restructuring procedure was not popular enough with the individuals¹²².

Table 1.3. Dynamics of the Quantity of Court Decisions on Private Bankruptcy Cases in 2015-2019 by Types of Decisions, Units

Quantity of court decisions	2015	2016	2017	2018	2019
to declare a person bankrupt and initiate personal property sale	870	19,574	29,827	43,984	68,980
to uphold a petition and place debts under restructuring	338	7,730	7,998	9,749	15,768
to approve the debt restructuring plan	5	165	188	179	204
to complete property sale	6	2,495	12,358	21,358	37,868
to complete debt restructuring	-	79	182	312	731
to dismiss the case	339	446	633	838	1,400

Source: UFRBI

Besides, a continuously low satisfaction rate for creditor claims deserves attention – out of RUB 225.6 bln claimed by creditors in 2019, only those for RUB 8.0 bln were satisfied (3.5%). For the sake of comparison, this rate was equally insignificant in 2018 when it amounted to 2.7%¹²³.

FOR REFERENCE

If declared bankrupt, a person is both discharged from debts and incurs certain obligations.

Benefits of the bankruptcy procedure:

- *A single case involves consideration of all debts and simultaneous write-off of debts to all creditors;*
- *Immediately upon filing of a bankruptcy petition, all writs of execution and court orders, charging of interest and fines for overdue payments are suspended;*
- *During the bankruptcy procedure, the debtor is discharged from the duty to deal with debt collectors, bank collection department officers, and bailiffs;*
- *Personal bankruptcy provides for a debt restructuring procedure making it possible to solve the debt repayment problem by generating a 3-year payment schedule. Compliance with the requirements stipulated by the plan makes it possible to write off all debts and yet keep personal property in whole;*
- *Lack of funds to repay the debts and property that could be sold to repay the debts does not prevent a debtor from being declared bankrupt;*
- *Oftentimes, the bankruptcy procedure proves to be the only way for currency mortgage borrowers to avoid repayment of the mortgage debt that rose significantly due to the increase in the foreign exchange rate.*

Downsides of the bankruptcy procedure:

- *During the bankruptcy procedure, the person is disallowed to dispose of his/her property and funds without coordinating his/her actions with the financial manager. However, the person is allocated an amount at the subsistence rate that may be increased if necessary;*
- *During the bankruptcy procedure, the person has to hand over his/her bank cards to the financial manager and provide access to his/her bank accounts, online banking accounts, electronic currency wallets. Upon completion of the procedure, these restrictions shall be lifted;*

¹²¹ Quantity of Personal Bankruptcies in Russia Increases by 70%, 07 April 2020 // RBC rbc.ru/finances/07/04/2020/5e8b25379a794778c10ab0f3.

¹²² UFRBI Statistical Bulletin as of 31 December 2018 // Fedresurs fedresurs.ru/news?classifier=7.

¹²³ UFRBI Statistical Bulletin as of 31 December 2018 // Fedresurs fedresurs.ru/news?classifier=7.

- *International travel may be prohibited as a security;*
- *Errors in the documents may result in the rejection of the petition or longer duration of the bankruptcy procedure. Due to these reasons, the petitioner may need professional legal services;*
- *High costs of the bankruptcy procedure – around RUB 70-80 thous. if managed on one's own. The costs of the bankruptcy procedure managed with legal support depends on the complexity of the case and multiple other factors. As a result, they are calculated on a case-by-case basis and normally start from RUB 120-150 thous.;*
- *After the person is declared bankrupt, certain restrictions will be imposed:*
 - *3-year disqualification from holding senior positions;*
 - *5-year ban on repeat bankruptcy, and duty to report one's current status to banks when applying for a loan over a 5-year period. The latter may cause problems with obtaining a credit.*

When the private bankruptcy institution was introduced, it was expected that the persons wishing to write off their debts would file petitions in great numbers and at a very quick rate, but these expectations proved false – no mass filing of private bankruptcy petitions took place. The reasons are quite diverse: low public awareness of the bankruptcy procedure, excessive complexity, costliness, and long duration of the bankruptcy procedure for an ordinary person, and the psychological factor.

From the standpoint of a relatively short history of the private bankruptcy procedure, the law enforcement practice in this area makes it possible to identify the following basic problems that have been and are continuously encountered by individuals at the initial and subsequent stages of this procedure:

1. Excessive amount of evidence to be collected before filing a bankruptcy petition with the court.
2. In certain instances, it is virtually impossible to obtain the pre-trial documents required to file a bankruptcy petition. For instance, oftentimes, financial organizations act against the law by refusing to provide a current debt statement and other documents supposed to be appended to the bankruptcy petition.
3. Receivers' reluctance to be involved in bankruptcy cases due to low remuneration, unavailability of any liquid personal property for sale, and lack of established judicial practice for this kind of cases entailing uncertainty about the outcome of the case.
4. Excessive costs of the private bankruptcy procedure.
5. Long distance of the courts from the individual's place of residence.

FOR REFERENCE

In case of the lowest permissible debt equal to RUB 500 thous. legal costs prove too high, which discourages a person to take legal action. Despite the statutory right to declare an individual bankrupt, there is a problem of payment for the services related to the administration of the bankruptcy procedure. Oftentimes, individuals are unable to initiate a private insolvency (bankruptcy) procedure due to the lack of required financial resources. As a rule, the majority of potential private bankrupts are individuals with a low level of earnings or other income who oftentimes have employment problems and are literary on the brink of or below the poverty line. This is the reason why they lack financial resources to pay for a costly bankruptcy procedure. In addition, the instances when receivers deny their services due to a low commercial appeal of this type of bankruptcy are quite common¹²⁴.

Innovations in the Regulation of the Private Bankruptcy Institution

Combined with the growth of the overall private debt overburden, the problems referred to above strengthened the commitment to changing the current private bankruptcy procedure on the part of the government bodies, financial experts, and the public at large in 2019. To that end, special attention was given to law-making initiatives.

As previously noted in the Financial Consumer Protection Reports for 2017 and 2018, the Ministry of Economic Development of the Russian Federation embarked upon the drafting of the respective Law "On Amendments to the Federal Law "On Insolvency (Bankruptcy)" to Introduce a Simplified Private Bankruptcy Procedure" as early as back in 2015. This draft law was revised on multiple occasions due to the objections raised¹²⁵. In 2019, the efforts to draft the law were continued.

Since the time when the drafting of the law was launched, major amendments have been introduced thereto, and its current revision proposes to make major innovations in the Bankruptcy Law by providing for the introduction of two new mechanisms – the simplified (judicial) private bankruptcy procedure and the extrajudicial private bankruptcy procedure.

Thus, it has been proposed to amend Chapter X of the Bankruptcy Law by adding Paragraph 5 "Extrajudicial Private Bankruptcy" to entitle a person to file a bankruptcy petition extrajudicially in the instances when satisfaction of the claims filed by a single creditor or multiple creditors makes it impossible for the person to discharge his/her money liabilities and/or duties to pay mandatory charges to other creditors in full, and he/she is not under ongoing insolvency (bankruptcy) procedures.

An extrajudicial private bankruptcy petition shall be filed in writing to the receivers' SRO. Within a business day following the date of receiving the person's petition, the SRO shall appoint a receiver from amongst its members accepting their appointment as administrators of the relevant extrajudicial private bankruptcy procedure.

¹²⁴ See Grishmanovsky D. E., Erokhina E. V. The Problem of Private Bankruptcy Costliness // Vestnik SMUS74. 2018. No. 4 (23). cyberleninka.ru/article/n/problema-dorogovizny-prohozhdeniya-protsedury-bankrotstva-fizicheskikh-lits (accessed on: 19 March 2020). Pp. 3-6.

¹²⁵ See the 2017 and 2018 Reports.

Within ten business days from the day following the date when the SRO receives the petition, the receiver shall certify compliance with the requirements to the petition or issue a reasoned refusal to certify.

If the receiver does certify compliance with the requirements to the petition, he/she shall enter the information on the initiation of an extrajudicial private bankruptcy procedure in the UFRBI within one business day from the date of such decision. The period of the extrajudicial private bankruptcy procedure shall start from the date of entering the relevant information in the UFRBI.

In addition, the draft law provides for establishing extrajudicial bankruptcy financing rules. In particular, the petitioner has to pay RUB 3 thous. for the extrajudicial bankruptcy administration services to the extrajudicial private bankruptcy administration fund created by the receivers' SRO.

Thereat, the petitioner may not be charged any other amounts for consideration of his/her extrajudicial private bankruptcy petition and for administration of an extrajudicial private bankruptcy procedure by the receivers' SRO and by the receiver.

As for the simplified judicial procedure, the draft law stipulates that adjudication of a private bankruptcy case may involve restructuring of the petitioner's debt, sale of the petitioner's property, and amicable settlement.

Thus, a simplified bankruptcy procedure is a property sale procedure that may be effected in simplified form if as of the date of filing a private bankruptcy petition, the petitioner meets the totality of eligibility requirements established by the draft law (these requirements are similar for both a judicial and an extrajudicial private bankruptcy procedure).

A creditor's petition to declare a person bankrupt under the simplified procedure shall be accepted by the arbitration court on condition that the relevant creditor's claims against the person amount to RUB 500 thous. at the least and do not exceed RUB 700 thous., and that such claims have not been satisfied within three months from the relevant due date.

A debtor's bankruptcy petition under the simplified procedure shall contain a declaration of compliance with the requirements established to that effect drawn up in arbitrary form. Thereat, this petition may contain appended evidence justifying the minimum amount of the petitioner's monthly expenses (including expenses on his/her dependents) to be covered from the funds to be excluded from the bankruptcy estate.

To prepare and file a debtor's bankruptcy petition under the simplified procedure with the arbitration court, the petitioner is entitled to request assistance from the receiver or receivers' SRO that shall propose the candidacy of the receiver to the petitioner within five business days upon receipt of the petitioner's request at the latest.

The receiver must provide the debtor with a service providing for preparation and filing of the debtor's bankruptcy petition under the simplified procedure with the arbitration court within five business days upon receipt of the petitioner's request and relevant documents required to file this petition at the latest. This petition shall be signed by the petitioner and by the receiver.

The fee payable to the receiver for such service may not exceed one-tenth of the working-age population's subsistence rate nationwide in the Russian Federation effective as of the petitioner's request date.

A receiver and a receivers' SRO shall be liable for an unjustified denial of the services set forth in this Clause to the petitioner.

Thereat, it should be taken into account that lack of personal property that could be used to satisfy creditors' claims after covering the bankruptcy procedure costs may not obstruct the initiation and completion of the procedure used in bankruptcy cases.

When making the decision to declare a debtor bankrupt under the simplified procedure, the arbitration court is entitled to use the evidence from the case files to determine the maximum amount of the petitioner's monthly expenses (including expenses on his/her dependents) to be excluded from the bankruptcy estate while making the debtor aware of the ban to use any other property of the debtor included in the bankruptcy estate.

The financial manager's fee shall be payable at the expense of the relevant petitioner at the rate set forth in the agreement with the financial manager. The amount paid by the petitioner under such agreement shall be reimbursed from the bankruptcy estate after all other costs of the simplified private bankruptcy procedure have been covered in whole.

If no other candidates have been proposed for the position of the financial manager accepting this appointment for a simplified bankruptcy procedure, the financial manager shall not be appointed, and his/her duties shall be assigned to the debtor.

In case of a simplified private bankruptcy procedure, the petitioner's financial position shall not be analyzed, and the marks of deliberate and fraudulent bankruptcy shall not be investigated.

The current revision of the draft law provides for no peculiarities of the decision to declare a person bankrupt under the simplified procedure to be made by the court or consequences of such decision.

As deliberations on the regulatory framework for the simplified private bankruptcy procedure proposed by the Ministry of Economic Development of the Russian Federation continued, and the draft law was under revision based on the relevant objections thereto, yet another draft law titled "On Amendments to the Federal Law "On Insolvency (Bankruptcy)" and Certain Legal Acts of the Russian Federation" regarding extrajudicial private bankruptcy developed by the lawmakers¹²⁶ was brought before the SD RF.

In a similar vein, this draft law aims at implementing the extrajudicial private bankruptcy mechanism and is very similar to the draft law developed by the Ministry of Economic Development of the Russian Federation.

Thus, a person may file an extrajudicial bankruptcy petition in the instances when satisfaction of the claims filed by a

¹²⁶ Draft Law No. 792949-7 "On Amendments to the Federal Law "On Insolvency (Bankruptcy)" and Certain Legal Acts of the Russian Federation" regarding extrajudicial private bankruptcy.

single creditor or multiple creditors makes it impossible for the person to perform his/her liabilities and/or duties to pay mandatory charges to other creditors in full, and the total amount of such liabilities amounts to RUB 50 thous. at the least, but does not exceed RUB 500 thous. This petition shall be filed in writing with a receivers' SRO enjoying the status of a member of the national association of SROs.

Within ten business days from the day following the date when the SRO receives the relevant petition, the receiver shall certify compliance with the requirements provided for by Clauses 1 and 2 Article 2232 of the draft law or issue a reasoned refusal to certify it.

The receiver shall notify the petitioner of such certification or refusal to certify compliance with the requirements to the petition within one business day following the date of the decision by sending a registered mail with advice of delivery to the petitioner.

If the receiver does certify compliance with the said requirements, he/she shall enter the information on the initiation of an extrajudicial private bankruptcy procedure in the UFRBI within one business day from the date of such decision. The period of the extrajudicial private bankruptcy procedure shall start from the date of entering the relevant information in the UFRBI.

Upon expiry of a year from the date of entering the information on the initiation of the extrajudicial private bankruptcy procedure in the UFRBI, the extrajudicial private bankruptcy shall be completed, the person shall be declared bankrupt under the law and discharged from the duty to satisfy the creditors' claims farther on.

As noted by the drafters, the consequences of initiating an extrajudicial bankruptcy procedure proposed thereby are similar to those of debt restructuring initiation. In particular, the damages (fines, penalties) and other financial sanctions shall no longer be charged along with the interest on the petitioner's liabilities as a whole. Within a year, creditors and authorized bodies may file a petition to declare a debtor bankrupt with the court under the standard procedure. In addition, a similar period shall be allowed to improve the person's circumstances, find a better-paying job, or come into inheritance. The person shall report such circumstances to the receiver and his/her creditors. In this case, the extrajudicial procedure shall be terminated. Otherwise, the extrajudicial procedure shall terminate due to declaration of private bankruptcy by force of law.

Yet another important aspect provided for by this draft federal law is the fact that the administration of this procedure is free of charge for the person. Specifically, the draft law stipulates that a receiver is entitled to a fee for extrajudicial private bankruptcy administration services and reimbursement of expenses incurred thereby to perform the duties assigned thereto under administration of extrajudicial private bankruptcy.

The receiver shall receive the fee and reimbursement from the SRO he/she is affiliated with at the expense of the extrajudicial private bankruptcy administration fund. The receiver's fee for extrajudicial private bankruptcy administration services is RUB 3 thous.

The Government of the Russian Federation has supported the draft law subject to revision and incorporation of provisions governing the simplified judicial bankruptcy procedure without mandatory involvement of a receiver¹²⁷.

Furthermore, the President of the Russian Federation has recommended to adopt this draft federal law by providing for simplification of the private bankruptcy procedure, reduction of its costs, and shortening of its duration, along with the mechanisms to improve availability of the bankruptcy procedure to financially disadvantaged groups¹²⁸.

Independent experts further pointed at such drawbacks in the regulatory framework proposed by the draft law as complexity and unreasonable length of the proposed private bankruptcy procedure¹²⁹.

It is noteworthy that some of the issues with the draft law mentioned above were addressed in the draft law developed by the Ministry of Economic Development of the Russian Federation. Hence, it may be expected that the draft law will be revised for the sake of ultimate consideration by the SD RF taking into account the regulatory approaches previously proposed by the Ministry of Economic Development of the Russian Federation, especially as they regard the simplified judicial bankruptcy procedure.

The universally acknowledged expediency of changing the current private bankruptcy mechanism combined with the lack of consensus on the crucial matters of its regulation made it possible for the interested experts (working group created under the Faculty of Law of M. V. Lomonosov Moscow State University headed by S. A. Karelina, Doctor of Law, Professor) to offer an alternative concept of the would-be draft law.

Thus, the authors of this concept suggest that to be declared bankrupt under the extrajudicial procedure, a person has to meet the following eligibility requirements:

- The petitioner's total outstanding liabilities under money claims filed by MFOs and credit institutions, housing and utility payments, and tax bodies' claims do not exceed RUB 1.4 mln as of the date of filing a private financial insolvency petition;
- The turnover on the petitioner's bank accounts with credit institutions for six months preceding the date of filing a private financial insolvency petition does not exceed RUB 300 thous.;
- The petitioner has not changed his/her place of domicile (registered place of residence) within six months preceding the date of filing a private financial insolvency petition;
- The petitioner has not changed his/her place of domicile (registered place of residence) within six months preceding the

¹²⁷ Official Opinion of the Government of the Russian Federation on Draft Law No. 792949-7 "On Amendments to the Federal Law "On Insolvency (Bankruptcy)" and Certain Legal Acts of the Russian Federation" regarding extrajudicial private bankruptcy.

¹²⁸ Clause 5 of the List of Instructions Issued After the Address of the President of the Russian Federation due to the Spread of the Coronavirus Disease in the Country No. 586 dated 28 March 2020.

¹²⁹ Presentation by the Working Group Under the Faculty of Law of M. V. Lomonosov Moscow State University (Headed by S. A. Karelina, Doctor of Law, Professor // According to Rospotrebnadzor.

date of filing a private financial insolvency petition;

- The petitioner has no unexpunged criminal record for economic crimes and no record of economic administrative offenses that has not been removed;
- The petitioner has no title to any property whereon execution may be levied to satisfy his/her creditors' claims in accordance with the current legislation;
- The petitioner has not been declared bankrupt, subject to a personal property sale procedure, and has not resorted to the extrajudicial procedure within 5 years preceding the date of filing a financial insolvency petition.

It is proposed to assign the power to declare individuals bankrupt under the simplified procedure to an independent government control body (administrative body) devoid of any reciprocal relations and mutual interests with the sector of banking services.

Thereat, the proposed private bankruptcy procedure is as follows:

1. The petitioner meeting the statutory requirements referred to above shall file an insolvency petition with an administrative body (either online on the relevant body's website or via the State Services website or in person in the MFC). After a petition has been filed, no claims may be presented to the petitioner, and he/she may not discharge his/her liabilities on a voluntary basis.

2. Within 2 weeks, the creditors shall present objections and provide evidence.

3. The administrative body shall check the validity of the petition filed within 30 days at the most.

4. Upon completion of the check, the administrative body shall either declare the petitioner financially insolvent and discharge him/her from liabilities to the specific categories of creditors (debt to MFOs and credit institutions, debt for housing and utilities; tax debt) or refuse to declare the petitioner financially insolvent.

A procedure to appeal against the decisions mentioned above is also provided for.

According to the authors of the concept, implementation of the extrajudicial bankruptcy procedures proposed thereby will not require significant additional funding and will reduce the judicial system costs associated with adjudication of private bankruptcy cases. Besides, it will make it possible to reallocate the funding allocated to support the bankruptcy procedures.

Thus, multiple alternative legal regulation methods for the private bankruptcy mechanism are currently proposed. Considering the strong commitment to changing the current regulation referred to above, it may be expected that all stakeholders will reach a consensus in 2020-2021, and the much needed law will finally be adopted to improve the financial situation of *the* badly indebted persons.

FOR REFERENCE

As early as in 2018, Rospotrebnadzor successfully implemented a pilot project that provided for consulting individuals on bankruptcy issues in the MFCs, including by providing assistance with filing a bankruptcy petition.

At present, consumers are continuously advised on bankruptcy issues by Rospotrebnadzor employees. Individuals may request assistance with the protection of their rights either in writing on Rospotrebnadzor website, State Services website or by appointment in consumer consultation offices and centers or by calling a hotline¹³⁰.

In addition, all regional offices of Rospotrebnadzor, community liaison offices and consultation centers have been equipped with information booths offering interactive content and information booklets.

Moreover, the Rospotrebnadzor virtual consumer reference system is available online at help.rospotrebnadzor.ru.

It should be noted that despite this high law-making activity in the area of private bankruptcy institution regulation, 2019 saw no significant legislative changes, predominantly in anticipation of a totally new regulatory framework for the institution referred to above.

Judicial Practice

Without regard to legislative changes, 2019 stands out for important decisions and clarifications of the SC RF concerning private bankruptcy issues, including the following (Table 1.4.).

Table 1.4. SC RF Clarifications Concerning Private Bankruptcy

Court decision	Clarifications
Decision of the Judicial Board on Economic Disputes of the SC RF No. 301-ES18-13818 dated 28 January 2019 on Case No. A28-3350/2017	<p>The provisions of Clause 9 Article 45 of the Bankruptcy Law on dismissal of a case due to failure to propose a candidate for the position of a receiver to the court do not apply to relations arising from private bankruptcy.</p> <p>The court has to be proactive on the issue concerning the appointment of the receiver, in particular, with the person's consent, provided that he/she is willing to proceed with the bankruptcy case, and send queries to all SROs.</p>
Decision of the Judicial Board on Economic Disputes of the SC RF No. 308-ES18-25635	A bankruptcy case has to be referred to the court at the place of the debtor's permanent or primary residence if he/she creates formal pretexts for changing the venue of such

¹³⁰ Multifunctional Centers to Consult Russian Citizens on Private Bankruptcy Issues Under a Pilot Project – Rospotrebnadzor // Fedresurs fedresurs.ru/news/2f8bcbdc-cb9a-47ea-b48a-7ce9fdc788e1?attempt=1.

Court decision	Clarifications
dated 21 March 2019 on Case No. A63-9583/2018	case by means of a formal change of registered residence without actually moving in order to obstruct the exercise by the creditors of their rights to receive due performance.
Decision of the Judicial Board on Economic Disputes of the SC RF No. 307-ES16-12310(4) dated 30 September 2019 on Case No. A56-71378/2015	As the procedure involving the sale of the property owned by the person who is declared bankrupt does not repay the creditors' outstanding claims in full, in particular, the claims in the instances when the debtor failed to act fairly during the origination and satisfaction thereof, the creditors under the outstanding claims are entitled to file a petition with the court to obtain the writs of execution.



The growth of overdue debt in the consumer crediting sector that continued in 2019 both strengthened public interest in the personal bankruptcy procedure and led to the legislative process initiators' close attention to enhancement of the current private bankruptcy institution.

The year was marked by such key trends as deliberations on the expediency of introducing new simplified and extrajudicial private bankruptcy mechanisms and relevant law-drafting activities along with anticipation of the new regulatory framework.

1.5. Consumer Protection During Debt Collection

The growth of consumer crediting volumes recorded in 2019 was accompanied by major problems encountered by individuals when repaying their debts on credits.

According to NAPCA, on the average, a quarter of the Russian population had trouble performing their credit obligations in 2019. The list of primary reasons for overdue debt includes eroding income (30% of respondents), inability to manage the credit burden (20%), job loss (18%), and shortage of free funds due to price increase (17%).

Often times, debt was due to the lack of skill to budget available funds properly and family reasons. 9% of debtors were unwilling to service a credit due to disagreements with the debt amount, 6% were in arrears with payments due to the fact that they did not understand the terms of the credit agreement and did not know how to make a payment. Experts classified around 5% of borrowers as credit fraudsters who took a loan without any intention to repay it. In the meantime, one in ten Russian citizens intended to pay overdue debt only after the respective court decision was made¹³¹.

Spending priorities for 70% of borrowers constitute yet another characteristic feature. Thus, purchasing food topped the list, paying for housing and utilities ranked 2nd, purchasing household goods and domestic services – 3rd, servicing credits – 4th, paying for healthcare services – 5th, purchasing clothes – 6th, and paying for recreation – 7th. Thereat, in case of financial problems, the borrower would forgo entertainment, purchase of clothes, and other consumer expenses, reduce food expenditures by 10-30% before allowing any overdue debt.

In the meantime, individuals spent about 40% of their income to purchase food, 20% – to service credits, 15% – to pay for housing and utilities, 8% – to purchase household goods and domestic services, 5% – to purchase clothes, 5% – to pay for health services and products, 4% – to pay for recreation, and 3% – for miscellaneous purposes¹³².

Besides, as demonstrated by the relevant statistical research, occupation had a certain effect on the person's capacity to pay. Thus, according to NAPCA, over a third of all delinquent debtors in 2019 was accounted for by such occupations as security guards, health professionals, drivers, waiters, metalworkers, installers, handlers, welders, stock-keepers, etc.

This list is topped by drivers with a share of 9%, followed by sellers – 8.5%, and blue-collar occupations (metalworkers, installers, handlers, etc.) – 6%. Besides, the persons in these occupations proved to have the highest debt burden – on the average, they had to part with 30% of their total income to repay their credit liabilities.

The situation is a bit better for such occupations as office personnel (sales managers, secretaries, etc.): taken together, they account for about 15-20% of debtors.

Military personnel proved to be the best-disciplined borrowers – they accounted for 0.6% of debtors at the most. Analysts noted that service discipline has a certain effect on civilian life: it is conducive to the development of the skill to plan and handle one's obligations responsibly. In addition, involvement in enforcement proceedings may obstruct further career growth. Taken together, these factors ensure the best discipline on the part of the representatives of this occupation.

Besides, the list of TOP-3 occupations with the best capacity to pay includes teachers and medical doctors with a share of 0.3% – this group values public image and respect that may suffer in case of any information indicating that they have overdue payments under a credit¹³³.

¹³¹ Debt Collectors Name the Primary Reasons of the Russian Population's Arrears with Credit Payments, 05 March 2020 // Rossiyskaya Gazeta Internet Portal rg.ru/2020/03/05/kollektory-nazvali-osnovnye-prichiny-prosrochki-rossiian-po-kreditam.html.

¹³² One Borrower in 4 Is in Arrears; Servicing of Credits Ranked 4th in the List of Expenditures in Russia // NAPCA napca.ru/press-tsentr/analitika/detail.php?ID=11354.

¹³³ Arrears Are Most Typical for Drivers, Sellers, and Blue-Collar Occupations and Less Typical for Military Personnel and Teachers // NAPCA napca.ru/press-tsentr/analitika/detail.php?ID=11474.

At year-end 2019, total private debt to banks exceeded RUB 17.6 trn, including around RUB 740-750 bln of overdue debt net of fines and penalties (according to the RAS reporting system). Thus, the share of overdue debt accounted for about 4-4.2%.

Thereat, one economically active person accounted for RUB 18-20 thous. of overdue debt on the average, which is comparable to the average monthly wages (66% of average wages). Over the previous 10 years, this index has grown by 6 times – as of early 2010, overdue debt of each economically active person did not exceed RUB 3 thous., or 15% of average wages¹³⁴.

It is noteworthy that in 2018, total overdue private debt to banks did not exceed RUB 757.5 bln accounting for about 5% of the portfolio. Thus, 2019 witnessed a certain downward trend in terms of overdue debt, both in absolute figures and as a share. In the meantime, the share of overdue debt in 15 regions was at the minimum level and did not exceed 3%.

However, in individual regions of the Russian Federation, the share of overdue debt (Republic of Ingushetia, Altai Republic, Republic of North Ossetia, Republic of Dagestan, Republic of Adygea, Nenets Autonomous Area, Ryazan, Lipetsk and Tambov Regions) was 1.5-3 times as high as the national average: this was due both to the economic situation in the regions and to the overall low level of public financial literacy.

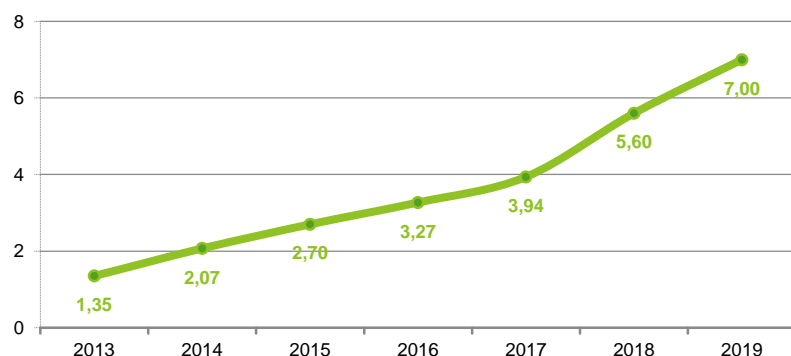
Thereat, overdue debt on credit cards was declining virtually in all regions. The strongest decline in overdue debt on credit cards (in 30 regions with the highest volumes for this type of retail crediting) as compared to Q4 2018 was recorded in Stavropol (-10.5 pp) and Altai (-9.7 pp) Territories, as well as in the Omsk (-8.4 pp), Kemerovo (-7.8 pp) and Orenburg (-7.8 pp) Regions. In Moscow, overdue debt on credit cards declined by 0.9 pp over the course of the year, and in St. Petersburg – by 1.4 pp¹³⁵.

It is noteworthy that the lowest shares of overdue debt on credit cards (in 30 regions with the highest volumes for this type of retail crediting) were recorded in Moscow (5.7%), St. Petersburg (7.1%), Khanty-Mansi Autonomous Area (7.6%), Moscow Region (8.0%), Udmurt Republic (9.6%), Sverdlovsk (9.7%) and Samara (9.9%) Regions.

Despite the decline in the share of overdue private debt mentioned above – from 5.1% in 2018 to 4.3% in 2019, the quantity of civil cases on credit debt collection adjudicated by the courts increased and exceeded 7 mln for the first time. This translates into 1.4 mln (20%) more cases than in 2018 (when 5.6 mln cases were adjudicated). Thus, one in twenty Russian citizens was involved in a case of this sort¹³⁶. According to V. M. Lebedev, Chairman of the SC RF, this increase was due, without limitation, to failure to provide the public with exhaustive and accurate information on the credit services¹³⁷.

The dynamics of the quantity of civil cases on credit debt collection adjudicated by the courts is provided in Figure 1.5.

Figure 1.5 Dynamics of the Quantity of Civil Cases on Credit Debt Collection in 2013-2019, Mln



Source: SC RF

FOR REFERENCE

Currently, the Russian Federation legislation and financial organizations' practices provide for a great diversity of mechanisms of voluntary interaction between borrowers and creditors for the sake of overdue debt repayment.

In particular, a consumer is entitled to request a creditor to restructure his/her debt on the credit (or on any other type of loan).

Debt restructuring represents a rehabilitation procedure applied to the debtor in order to restore his/her paying capacity and repay the debt to the creditor in accordance with the agreed debt restructuring plan.

The restructuring is effected by virtue of the financial organization's decision on the financial service recipient's debt entailing changes in the debt repayment procedure and/or due date and/or debt amount, including full or partial cancellation of the principal debt and/or interest charged, reduction or waiver of the damages (fines, penalties) for delayed repayment of the amount of the loan (including a microloan), payment by installments and/or deferral of payments, waiver of the debt collection measures without debt cancellation.

¹³⁴ Average Overdue Debt Grows by 6 Times in Russia with the Worst Payment Discipline Recorded in the Republic of Ingushetia, Karachay-Cherkess Republic, Republic of North Ossetia – Alania, Buryatia and Adygea // NAPCA napca.ru/press-tsentr/analitika/detail.php?ID=11509.

¹³⁵ Ibid.

¹³⁶ Based on Russia's population in 2019 estimated at 146 mln 780 thous. by Rosstat (Federal State Statistics Service of the Russian Federation).

¹³⁷ The Supreme Court Sums up Court Performance in 2019, 11 February 2020 // "Pravo.ru" Internet Portal pravo.ru/story/218428.

From the legal perspective, restructuring consists in amending the terms of an existing agreement as agreed by the parties (novation of obligations, Article 414 of the CC RF) and must be documented by making an addendum to the agreement or a new agreement.

The basic types of restructuring are as follows:

- *Extension of the agreement – extension of the validity period of the agreement and reduction of the scheduled monthly payment;*
- *Granting of credit holidays – during the months named by the financial organization, the debtor may make payments on the principal of the credit or microloan or on the interest only, or the debtor shall be temporarily released from all payments;*
- *Change of the loan currency;*
- *Reduction of the credit (microloan) interest rate;*
- *Write-off of damages;*
- *Some combination of the above.*

Debt restructuring makes it possible to lower the consumer's debt burden, reduce his/her monthly payment, or convert a loan from a foreign currency into the national currency. However, the restructuring may entail an increase in the total amount of overpayment on the credit over the entire period.

Thereat, it is necessary to bear in mind that under the general rule, debt restructuring is the right, not the duty of the creditor, and every financial organization has its own regulations governing the restructuring decision-making procedure.

However, MFOs are subject to special binding restructuring requirements.

Thus, in accordance with Article 12 of the Basic Standard on Protection of Rights and Interests of Individuals and Legal Entities Receiving Financial Services from Members of Self-Regulating Organizations of MFOs in the Financial Market Sector, in case of overdue debt under a consumer loan agreement, the financial service recipient (successor, representative thereof) is entitled to file a debt restructuring request with the MFO.

Upon receipt of a request to restructure a debt under a consumer loan agreement, the MFO must consider such request and analyze the facts referred to therein and the documentary proof of such facts in the manner provided for by Article 12 of this Basic Standard.

Novelties in the Regulation of Consumer Protection During Debt Collection

Despite a minor decline in overdue private debt, problems in relations between individuals and debt collectors were continuously reported in 2019, which fact could not be ignored by the legislators.

Thus, along with the assistance measures for borrowers in trouble referred to above, other additional measures to protect debtors were introduced in 2019. Thereat, adoption of Federal Law No. 214-FZ dated 26 July 2019 "On Amendments to Articles 155 and 162 of the Housing Code of the Russian Federation and Article 1 of the Federal Law "On Protection of Rights and Legitimate Interests of Individuals During Overdue Debt Recovery Activities and on Amendments to the Federal Law "On Microfinancing and Microfinance Organizations" was a pivotal development.

This law bans assignment of the right to claim overdue debt on payments for residential property and utility services to third parties, including credit institutions or persons engaged in overdue private debt recovery activities.

The right to claim such debt may be assigned solely to the newly selected management company. Thereat, assignment of the debt due to the old operating company is strictly subject to notification of the debtor in writing, and overdue debt shall be continuously paid to the old company until receipt of such written notification. The operating company may assign the right to claim consumer debts solely to the newly elected management company¹³⁸.

Thus, a lengthy debate on the right to assign overdue debt on payments for residential property and utility services to professional debt collectors was resolved in favor of consumers.

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

In addition, it is worth mentioning the new expanded revision of Part 1 Article 162 of the Housing Code of the Russian Federation stipulating that each owner of residential property in an apartment building shall perform his/her duties under an apartment building management agreement on his/her own, including the duty to pay for the residential property and utility services, and shall be not liable for the liabilities of the other owners of residential property in such building. Hence, the management company is not entitled to distribute a certain consumer's debt among the other owners and other tenants in an apartment building.

FOR REFERENCE

According to the Ministry of Construction of the Russian Federation, household debt for housing and utilities amounted to about RUB 573 bln as of early 2020.¹³⁹

Effective from 01 June 2020, Federal Law No. 12-FZ dated 21 February 2019 "On Amendments to the Federal Law "On Enforcement Proceedings" expands the list of items of debtor incomes whereupon execution may not be levied: among

¹³⁸ Paragraph 2 Sub-Clause "b" Clause 1 Article 1 of Law No. 214-FZ, Paragraph 3 Sub-Clause "b" Clause 1 Article 1 of Law No. 214-FZ.

¹³⁹ Minister of Construction Qualifies Disconnection from Housing and Utility Services for Debts as the Last Resort, 21 February 2020 // Interfax Group Internet Portal interfax.ru/russia/696202.

other things, this list now includes the funds allocated to persons injured as a result of an emergency as a non-recurrent monetary aid and/or financial aid due to loss of essential property, and/or as a non-recurrent allowance payable to the family members of the persons who were killed (died) as a result of an emergency and persons who suffered harm to their health of various degrees of severity.

The law further stipulates that the parties paying wages or any other types of income subject to restrictions and/or whereupon execution may not be levied, must specify the relevant income type code in the payment documents at all times.

Besides, the law enshrines the debtor's duty to present the relevant documents to prove availability of funds whereupon execution may not be levied, and places the credit institution servicing the debtor's accounts under an obligation to calculate the amounts of funds whereupon execution is to be levied (subject to the established restrictions and bans related to levy of execution). Thereat, the parties paying wages and/or other types of income to the debtor by wire transfer to the debtor's account with a credit institution must specify the amount collected under the writ of execution in the payment document¹⁴⁰.

Thus, any receipt qualifying as a social payment to the person's account will be marked in the banking system entailing a ban on any debiting thereof by default.

The law further guarantees the immunity of any social payments against levy of execution thereupon during enforcement proceedings: they may neither be debited nor frozen. It is noteworthy that such statutory ban did exist in the past, but its mechanism was not flawless – bailiffs and banks were able to see the debtor's account, but not the nature of receipts thereto, which entailed a risk that they might be debited to repay the debt¹⁴¹.

In 2019, the list of important developments included the finalization and adoption of Federal Law No. 24-FZ dated 06 March 2019 "On Amendments to the Federal Law "On Enforcement Proceedings" that discharges the persons participating in the government borrower assistance programs from the duty to pay the enforcement fee.

Thus, no enforcement fee shall be collected in the instances when the enforcement proceedings are initiated against an indebted person undergoing RMC restructuring in accordance with the assistance programs for individual groups of borrowers approved by the Government of the Russian Federation. In the meantime, the law specifies that in case of multiple debtors under a joint collection to the benefit of a single debt collector, the enforcement fee shall be payable jointly (previously, the enforcement fee was payable by each debtor individually).

In addition, the law stipulates that enforcement proceedings shall be terminated if the individual borrower's obligations to the creditor holding the pledge are terminated, 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 creditor holding the pledge.¹⁴²

It is equally worth mentioning the adoption of Federal Law No. 377-FZ dated 12 November 2019 "On Amendments to Certain Legal Acts of the Russian Federation".

In accordance with this law, the list of data to be entered in the UFRBI includes the information on the creditor and on the person engaged to deal with the debtor to recover overdue debt along with the number and date of the agreement (agreements) giving rise to the debt to be recovered by the person engaged by the creditor to deal with the debtor, last name, first name, and patronymic (except as implied otherwise by the law or national custom), series and number of the identity document, and taxpayer identification number (if any) of the debtor. No other information on the debtor may be disclosed. Thereat, the last name, first name, and patronymic, series and number of the identity document, and taxpayer identification number (if any) of the debtor may not be posted on the Internet to be available to the public.

The data listed above shall be provided solely to the creditor, to the person engaged to deal with the debtor in order to recover overdue debt, and to the debtor.

To ensure legal regulation of the issues concerning enhancement of the procedure for notifying the parties involved in the enforcement proceedings, Federal Law No. 375-FZ dated 12 November 2019 "On Amendments to the Federal Law "On Enforcement Proceedings" was adopted.

The law provides for the option to notify the parties to the enforcement proceedings via the account in the UPSMS and by text messages with the relevant parties' consent. Implementation of this law will ensure transparent and prompt interaction between the parties involved in the enforcement proceedings and control over timely notification.

In addition, a lot of attention in 2019 was devoted to the law-drafting activities in the area of overdue debt collection.

In this context, the Draft Federal Law "On Overdue Private Debt Recovery Activities and Amendments to Certain Legal Acts of the Russian Federation"¹⁴³ deserves most attention.

The draft law provides for reforming legal regulation in the area of extrajudicial recovery of overdue private debt. It is intended to supersede Law No. 230-FZ that is currently in force¹⁴⁴: in accordance with the draft law, the said Federal Law, except for individual provisions, shall be invalidated.

As compared to the current legal regulation, the draft law proposes to expand and adjust the conceptual framework in place. In particular, the draft law introduces the concept of "automated intelligent agent" ("collection bot") construed as a

¹⁴⁰ Order of the Ministry of Justice of the Russian Federation No. 330 dated 27 December 2019 "On Approval of the Procedure for Calculating the Account Balance Whereupon Execution May Be Levied or Which May Be Frozen Subject to the Requirements Provided for by Articles 99 and 101 of Federal Law No. 229-FZ dated 02 October 2007 "On Enforcement Proceedings"; Bank of Russia Ordinance No. 5286-U dated 14 October 2019; Bank of Russia Information Letter No. IN-05-45/10 dated 27 February 2020.

¹⁴¹ The President Signs the Law to Ban Collection From Social Payments, 21 February 2019 // SD RF duma.gov.ru/news/29771/.

¹⁴² In accordance with Clause 5 Article 61 of Federal Law No. 102-FZ dated 16 July 1998 "On Mortgage (Pledge of Immovable Property)".

¹⁴³ Draft Federal Law "On Overdue Private Debt Recovery Activities and Amendments to Certain Legal Acts of the Russian Federation" (Draft ID 02/04/05-19/00091227) // Federal Portal of Draft Regulations regulation.gov.ru/projects#npa=97204.

¹⁴⁴ Federal Law No. 230-FZ dated 03 July 2016 "On Protection of Rights and Legitimate Interests of Individuals During Overdue Debt Recovery Activities and on Amendments to the Federal Law "On Microfinancing and Microfinance Organizations".

voice messaging tool operating via telecommunications networks, including mobile wireless communication networks, using a speech generation system and supporting a variety of spontaneous scripts for conversations with debtors or other parties depending on the course of the conversation and information communicated by debtors or other parties during the conversation.

In addition, the draft law defines the concept of “professional debt collection company” as a legal entity engaged in overdue private debt recovery activities as its principal activity included in the state register. Besides, the draft law introduces the concept of “telephone conversations” defined as a communication method involving the use of telephone communication facilities enabling a conversation between the representative of the creditor or person acting for or on behalf of the creditor and the debtor to exchange information on overdue debt repayment matters.

In addition, the draft law provides for a mandatory pre-trial (extrajudicial) procedure of overdue private debt recovery, under which overdue debt may be claimed through the courts by a party only upon receipt of the other party’s rejection of the proposal to repay overdue debt or failure to perform the duty to repay overdue debt within thirty days upon receipt of such proposal, or failure to receive any response within thirty days. The claim shall be sent to the debtor by registered mail with advice of delivery or by delivery against receipt, or sent by the creditor to the debtor’s email address (if duly provided). It is permitted to send the claim by any other method specified in the agreement made between the creditor and the debtor.

Chapter 2 of the draft law governing overdue private debt recovery practices provides for keeping the current model set out in Law No. 230-FZ intact.

In addition, the draft law stipulates that the Government of the Russian Federation may establish the peculiarities of dealing with the debtor during recovery of overdue debt on payment for housing and utility services. Such debt may only be recovered by management companies, home owners partnerships, housing cooperatives, or other specialized consumer cooperatives, utility providers, regional solid household waste operators supposed to receive payments for residential property and utility services under the Housing Code of the Russian Federation.

The new regulatory framework proposed by the draft law stands out for the expansion of control (supervisory) powers enjoyed by the FBS of Russia that shall apply to all business entities engaged in overdue private debt recovery activities, irrespective of whether the constituent documents designate this type of activities as a principal activity or not.

This will lead to a major growth in the number of entities subject to control (supervision) of their overdue private debt recovery activities by the FBS of Russia.

FOR REFERENCE

According to the drafters, should this draft law be adopted, the number of entities subject to control (supervision) of their overdue private debt recovery activities by the FBS of Russia will amount to 43,350, including: 300 – professional debt collection companies, 1,900 – MFOs, 800 – credit institutions, 2,100 – CCCs, 900 – ACCCs, 4,000 – pawnshops, 20,000 – management companies, 12,900 – utility providers, 250 – regional solid household waste operators, 200 – communication providers.

In addition, it has been proposed to modify the approaches to forming the State Register of Legal Entities Engaged in Overdue Debt Recovery Activities as Their Principal Activity currently maintained by the FBS of Russia. Specifically, it has been recommended that this register include both professional debt collectors and entities engaged in recovery of overdue debt arising from private money liabilities under credit (loan) agreements (credit institutions, MFOs, CCCs, ACCCs, pawnshops).

The entities included in the register will be subject to stricter requirements, e.g. the requirements to audio record all instances of direct communication, record all text, voice, and other messages, retain the information mentioned above along with all paper documents drawn up when conducting overdue debt recovery activities, both in hard copies and in electronic form, for two years at the least. In addition, such entities will be required to own a website, have an electronic mailbox, and conclude a compulsory liability insurance agreement on a mandatory basis.

It has been proposed to include the right to restrict certain methods of dealing with debtors in the list of new powers to be assigned to the FBS of Russia taking into account the proposals of the business community representatives engaged in overdue private debt recovery activities. In addition, the FBS of Russia will retain the right to remove legal entities from the state register for commission of severe, repeated, or other violations set forth in the draft law.

According to the drafters, the proposed changes will make it possible to duly protect the rights of individuals during overdue debt recovery activities and will establish intelligible rules and requirements for the overdue debt recovery market participants¹⁴⁵.

Another piece of legislation under development is the Draft Federal Law “On Amendments to the Administrative Offenses Code of the Russian Federation (Regarding Enhancement of Administrative Liability to Protect the Rights and Legitimate Interests of Individuals During Overdue Debt Recovery Activities)”¹⁴⁶ providing for unconditional inclusion of credit institutions in the list of potential administrative offenders set forth in Part 1 Article 14.57 of the AOC RF¹⁴⁷. Concurrently, the draft law proposes to strengthen administrative liability for such offenses.

In addition, the draft law proposes to delegate the powers to consider administrative offense cases provided for by

¹⁴⁵ Explanatory Note to the Draft Law “On Overdue Private Debt Recovery Activities and Amendments to Certain Legal Acts of the Russian Federation” // Federal Portal of Draft Regulations regulation.gov.ru/projects#npa=97204.

¹⁴⁶ Draft Federal Law “On Amendments to the Federal Law “On Protection of Competition” (Draft ID 01/05/08-19/00094007) // Federal Portal of Draft Regulations <https://regulation.gov.ru/projects#npa=94007>.

¹⁴⁷ Violation of legal requirements as they regard protection of rights and legal interests of individuals during overdue debt recovery activities.

Article 14.57 of the AOC RF to the officials of the FBS of Russia.

Adoption of the draft law will make it possible to enhance the mechanisms intended to protect individuals against unfair overdue debt recovery practices and create an environment conducive to the purpose of administrative punishment to prevent repeated offenses, both on the part of the offender and on the part of any other persons.

Furthermore, it is worth mentioning the Draft Federal Law “On Amendments to Certain Legal Acts of the Russian Federation (to Establish the Powers of the Federal Executive Body Authorized to Control (Supervise) the Activities of Legal Entities Engaged in Recovery of Overdue Debt to Request and Obtain Documents and Information)”¹⁴⁸.

The purpose of the draft law is to expand the powers to control compliance with the requirements of Law No. 230-FZ exercised by the FBS of Russia.

The draft law proposes to amend Federal Law No. 230-FZ to empower the officials of the FBS of Russia to request and obtain the information and documents from legal entities to check the information on potential violations of the requirements stipulated by the relevant law.

The amendments proposed by the draft law will make it possible to protect the rights of individuals against unscrupulous participants of the overdue debt recovery market and create additional prerequisites for enforcing the principle of inevitability of punishment for offenses committed.

In addition, the Draft Law “On Amendments to Article 4.5 of the Administrative Offenses Code of the Russian Federation to Increase the Limitation Period for Imposition of Administrative Sanctions for Failure to Comply with the Requirements of the Legislation on the Protection of Rights and Legitimate Interests of Individuals During Overdue Debt Recovery Activities”¹⁴⁹ was developed.

The draft law provides for increasing the limitation period for imposition of administrative sanctions for failure to comply with the requirements of the legislation on protection of rights and legitimate interests of individuals during overdue debt recovery activities from three months to three years.

Besides, the Draft Federal Law “On Amendments to Article 4 of the Federal Law “On Protection of Rights and Legitimate Interests of Individuals During Overdue Debt Recovery Activities and on Amendments to the Federal Law “On Microfinancing and Microfinance Organizations” was developed¹⁵⁰.

As justly pointed out by the drafters, the current legislation contains a discriminatory provision allowing for collectors’ interaction with the debtor’s family members, other relatives, neighbors, or other third parties with the debtor’s personal consent and without the necessity to obtain consent from the persons listed above.

Besides, pursuant to Part 7 Article 4 of Law No. 230-FZ, the debtor is the only person entitled to revoke the debtor’s consent to collectors’ interaction with the debtor’s family members, other relatives, neighbors, or other third parties, which constitutes a gross infringement of the rights and legitimate interests of the persons forced to interaction with collectors at the debtor’s discretion.

This is the reason why the draft law stipulates that any interaction with the debtor’s family members, other relatives, neighbors, or other individuals aimed at recovering overdue debt shall be strictly subject to such persons’ prior written consent. In addition, the draft law entitles them to revoke such consent at any time.

Furthermore, the concept of a draft law to criminalize violation of the rules of debt collection activities is currently under development. The idea is to impose administrative sanctions in the form of a fine on debt collectors for the first offense and to prosecute them for subsequent offenses¹⁵¹.

Judicial Practice

In addition, 2019 witnessed important legal precedents in the area of overdue private debt collection (Table 1.5).

Table 1.5. The SC RF Clarifications Concerning Overdue Private Debt Collection

Court decision	Opinion of the court
Decision of the Judicial Board on Civil Cases of the SC RF No. 4-KG19-40 dated 17 September 2019	If a payment document contains no billing period data, the funds transferred under such payment document shall be offset against payment for residential property and utility services for the period specified by the person. If a tenant (owner) fails to specify the period of performance, the performance shall be offset against performance for the periods where the limitation period has not expired ¹⁵² .
Decision of the Judicial Board on Civil Cases of the SC RF No. 67-KG19-2 dated 14 May 2019	The current legislation does not rule out the possibility of assigning claims under a credit agreement with a consumer (individual) to parties that hold no valid banking license, but such

¹⁴⁸ Draft Federal Law “On Amendments to the Federal Law “On Protection of Competition” (Draft ID 02/04/10-19/00096561) // Federal Portal of Draft Regulations <https://regulation.gov.ru/projects#npa=96561>.

¹⁴⁹ Draft Law No. 690358-7 “On Amendments to Article 4.5 of the Administrative Offenses Code of the Russian Federation to Increase the Limitation Period for Imposition of Administrative Sanctions for Failure to Comply with the Requirements of the Legislation on the Protection of Rights and Legitimate Interests of Individuals During Overdue Debt Recovery Activities”.

¹⁵⁰ Draft Law No 922037-7 “On Amendments to Article 4 of the Federal Law “On Protection of Rights and Legitimate Interests of Individuals During Overdue Debt Recovery Activities and on Amendments to the Federal Law “On Microfinancing and Microfinance Organizations”.

¹⁵¹ It Is Proposed to Put Collectors in Jail, 05 December 2019 // Parlamentskaya Gazeta Internet Portal pnp.ru/social/kollektorov-predlagayut-posadit-v-tyurmu.html.

¹⁵² The SC RF yet again confirmed this opinion previously stated in Clause 32 of Resolution of the Plenum of the SC RF No. 22 dated 27 June 2017 “On Certain Issues Associated with Adjudication of Disputes Concerning Payment for Utility Services and Residential Property in an Apartment Building Occupied by Individuals Under a Social Rent Agreement or Fully Owned Thereby”.

Court decision	Opinion of the court
	assignment may be allowed on condition that it is provided for by the agreement between the credit institution and the consumer and has been agreed by the parties when concluding it.
Decision of the SC RF No. 305-ES19-6910 dated 31 May 2019	Overdue debt recovery activities involve infringement of rights of the borrower in the capacity of a consumer who is entitled to count on compliance by the creditor or persons authorized thereby with the legal requirements in case of overdue debt when purchasing a financial service. Debt collectors' practices of interacting with debtors are evaluated on a case-by-case basis and are not lasting ¹⁵³ .
Decision of the SC RF No. 306-AD18-15825 dated 09 January 2019 on Case No. A72-2327/2018	The terms of the agreement concerning a different frequency of the interaction with the debtor that prejudice the consumer rights as compared to the rules set out by Law No. 230-FZ are null and void.

Debt Collection Agencies' Activities

As implied by the State Register of Legal Entities Engaged in Overdue Debt Recovery Activities as Their Principal Activity, the number of such entities rose from 252 to 292 in 2019, and by the beginning of 2020, it had reached as many as 337¹⁵⁴, which is an obvious indicator of the fact that this business segment is becoming increasingly popular with the business community.

Thereat, according to NAPCA, at the end of 9M 2019, the volume of initial assignments of overdue debt under bank credits (i.e. those that have not been previously handled by debt collectors) under the agency scheme amounted to RUB 453 bln, 10% more than in 2018.

However, as compared to 2018, the growth rate for this type of assignments went down (10% in 2019 as compared to 40% in 2018), which may be due to the low base effect in 2018 – the agency collection market just started recovering from a lengthy slump caused by economic crisis – and hence, to contraction of the retail credit market.

There were major changes in the structure of debts assigned to collectors in terms of breakdown by credit products. Thus, over 9M 2019, there was an increase in the share of collected debts on credit cards (5 pp) and car credits (9.7 pp); by contrast, the share of consumer credits (including POS credits and cash credits) declined by 14.2 pp and amounted to 67.6%. These changes in the debt collection structure were due to the preceding credit issue activity in the retail credit market that had been predominantly driven by credit cards – overdue liabilities on credit cards started accounting for a noticeable share in the market of debt assignments to collectors.

As for debt collection performance, a survey conducted by NAPCA at year-end 2019 indicates that debt collectors made significant progress under both the assignment and the agency portfolios. Specifically, in 2018, the average monthly collection rate more than doubled reaching 3.1% under the assignment scheme and increased 1.7-fold up to 4.37% under the agency scheme¹⁵⁵. In the meantime, as for collection under the assignment scheme,¹⁵⁶ collectors noticed no changes in debtor behavior. In particular, the debtor availability rate (when the telephone number provided by the debtor is active and can be effectively used to reach the debtor in person) in 2019 was 29.4% (as compared to 30% in 2018), and the rate of the promises to pay fulfilled by individuals amounted to 51.1% (as compared to 51.2% in 2018). By contrast, in case of the agency portfolios, the availability rate rose in 2019 as compared to 2018 by 8.3 pp reaching 27.6%, and the rate of the relevant promises added 19 pp to reach 45.5%.

According to the market participants, this improvement in the collection performance rate is due to multiple factors: improvement of the debt collection rate under enforcement proceedings, individual management of clients, increasingly "younger age" of assigned portfolios (there is an upward trend in the share of credits assigned for collection that are overdue for 180-360 days combined with a consistently downward trend in the share of credits that are overdue for over 720 days), and effect of the provisions stipulated by Law No. 230-FZ¹⁵⁷.

As repeatedly noted in the Financial Consumer Protection Reports for 2017 and 2018, adoption of Law No. 230-FZ and certain related legal acts effectively ended the public debate on the issue of legitimacy of professional debt collectors' activities and protection of indebted persons' rights against illegal collection methods by establishing a regulatory framework for the recovery of overdue private debt arising from money liabilities, and mechanisms to protect the rights and legitimate interests of individuals during the relevant debt collection process. However, the law mentioned above failed to resolve all issues associated with the interaction between the indebted persons and debt collection agencies.

Rospotrebnadzor and consultation centers (offices) are receiving an increasingly larger quantity of consumer complaints concerning the interaction between the consumers and creditors during overdue debt recovery, which is due to frequent infringement of consumer rights by financial organizations and debt collection agencies during calculation and forced collection of debts.

The growing quantity of complaints associated with overdue debt recovery and complaints against MFOs (over a half of

¹⁵³ Resolution of the Moscow District Arbitration Court dated 28 March 2019 on Case No. A40-131158/2018.

¹⁵⁴ State Register of Legal Entities Engaged in Overdue Debt Recovery Activities as Their Principal Activity as of 27 March 2020 // FBS of Russia fssprus.ru/gosreestr_jurlic/.

¹⁵⁵ Under an agency agreement one party (the agent) undertakes to make legal and other arrangements as instructed by the other party (the principal) on its own behalf but at the expense of the principal, or on behalf and at the expense of the principal (Article 1005 of the CC RF).

¹⁵⁶ Assignment of a claim by the creditor (the assignor) to another party (the assignee) (Article 388 of the CC RF).

¹⁵⁷ Debt Collectors Improve Collection Rates // NAPCA napca.ru/publishing/11480/.

total complaints at the end of 9M 2019) was equally noted by the FBS of Russia that supervises debt collectors' activities¹⁵⁸. Thereat, gross violations are most typical for the entities that are not included in the register (the so-called illegal or "shadowy" debt collectors).

Thus, in 2019, the FBS of Russia accepted 28.4 thous. complaints from individuals (as compared to 22 thous. complaints accepted in 2018), including 9.3 thous. complaints filed against legal entities included in the state register, 13 thous. complaints filed against MFOs, 2.7 thous. complaints filed against credit institutions, and 3.4 thous. complaints filed against other persons. Following the consideration, 3.1 thous. complaints were declared valid (including 1.2 thous. complaints filed against the legal entities included in the state register, 1.6 thous. complaints filed against the MFOs, 87 complaints filed against the credit institutions, and 171 complaints filed against other persons).

The analysis of the complaints referred to above by the FBS of Russia indicates that most of these complaints concerned violations of the provisions included in Law No. 230-FZ that restrict the timing and frequency of the interaction with the persons engaged in overdue debt recovery in the form of phone calls, text, voice and other messages addressed to the persons with overdue money liabilities.

Besides, other reasons for individuals to file complaints with the FBS of Russia against the persons engaged in overdue debt recovery are as follows:

- Contacting third parties or persons that do not have any debts,
- Exerting psychological pressure on the debtor and other persons;
- Using expressions and taking other steps that are degrading to the honor and dignity of the debtor and other persons, threatening to inflict harm to the debtor and other persons;
- Interacting with the debtor despite his/her statement of refusal from interaction.

Based on the proven instances involving violation of the provisions included in Federal Law No. 230-FZ, the officials of territorial bodies of the FBS of Russia initiated 3.1 thous. cases on administrative offenses provided for by Article 14.57 of the AOC RF in 2019 (as compared to 1.8 thous. cases initiated in 2018). Thereat, the courts adjudicated 2.1 thous. cases in 2019 ending in administrative punishments in the form of a fine worth of RUB 114.7 mln in total (as compared to 1.2 thous. cases in 2018 ending in administrative punishments in the form of a fine worth of RUB 60.6 mln in total). Thus, the quantity of administrative cases initiated in 2019 proved 72% higher, and the quantity of cases adjudicated by the courts ending in an administrative fine – 69%¹⁵⁹ higher.

However, despite the measures adopted by the FBS of Russia, multiple issues concerning debt collectors' activities have not been resolved. In particular, the problem concerning total eradication of illegal debt collection agencies is still relevant¹⁶⁰. Despite the fact that it became somewhat less acute in 2019, and such debt collectors proceeded with more caution, they introduced new illegal practices.

In particular, this concerns the illegal debt collection call centers created by a certain MFO¹⁶¹. Multiple other instances of wrongdoing on the part of illegal debt collectors were identified¹⁶².

Aware of the problem, the FBS of Russia published a memo for consumers titled "How to Defend Against Wrongdoing by Debt Collectors"¹⁶³; however, the issue calls for more effective steps, including preventive identification and prosecution of illegal debt collectors.

Yet another outstanding issue concerns the credit institutions that conduct debt collection activities despite that they do not qualify as potential offenders under Part 1 Article 14.57 of the AOC RF.

For instance, territorial bodies of the FBS of Russia receive regular complaints about violations of the provisions set out in Federal Law No. 230-FZ by credit institutions (2.4 thous. complaints filed in 2017, 2.6 thous. complaints filed in 2018, and 1.1 thous. complaints filed over 5M 2019).

It is noteworthy that the quantity of complaints about violations of Federal Law No. 230-FZ filed against legal entities not engaged in overdue debt recovery as their principal activity and accepted for consideration is almost twice as high as the quantity of complaints filed against legal entities included in the state register (10.1 thous. complaints and 5.8 thous. complaints respectively in 2017, 14.7 thous. complaints and 7.1 thous. complaints respectively in 2018, and 7.8 thous. complaints and 4.1 thous. complaints respectively over 5M 2019).

FOR REFERENCE

In the instances when debt collectors' overdue debt collection practices infringe upon the rights and legitimate interests of consumers, it is necessary to seek protection with the relevant bodies or institutions.

The primary body for filing complaints about debt collection agencies' illegal practices is the FBS of Russia. Thereat, a complaint may be filed with the FBS of Russia either in hard copy or in electronic form on the service's website.

Besides, a complaint about debt collectors' practices may be filed with the financial organization represented by the debt collection agency and with NAPCA, including online using the dedicated section on this organization's website.

¹⁵⁸ Order of the Ministry of Justice of the Russian Federation No. 332 dated 30 December 2016 "On Approval of the Administrative Regulation on the Exercise by the Federal Bailiffs Service of the Public Function to Control (Supervise) the Activities of Legal Entities Included in the State Register of Legal Entities Engaged in Overdue Debt Recovery Activities as Their Principal Activity".

¹⁵⁹ Final Progress Report by the FBS of Russia for 2019 // FBS of Russia fssprus.ru/2680712/.

¹⁶⁰ See more details in the 2017 and 2018 Reports.

¹⁶¹ Illegal MFOs Are Creating Illegal Debt Collection Call Centers, 11.03.2019 // Klerk.Ru Internet Portal klerk.ru/buh/news/483300/.

¹⁶² E.g. Shadowy Debt Collectors Are Becoming More Active in Russia, 05 February 2019 // Finanzen.net Internet Portal finanz.ru/novosti/lichnyye-finansy/v-rossii-aktivizirovalis-chernye-kollektory-1027923687/.

¹⁶³ URL: r77.fssprus.ru/pamjatka_kak_zashchitsja_ot_kollektorovquot/.

Where debt collectors' illegal practices consist in the use of communication facilities (e.g. in the form of phone calls or messages sent over online messengers, unauthorized posting of materials about the debtor online), a relevant complaint should be filed with Roskomnadzor (Federal Service for Supervision of Communications, Information Technology, and Mass Media).

Where debt collectors' illegal practices are due to violation of the legislation by a financial organization (e.g. breach of banking secrecy, disclosure of personal information), a complaint may equally be filed with the Bank of Russia.

Control (supervision) over overdue debt collection activities is beyond the scope of Rospotrebnadzor's competence. Therefore, Rospotrebnadzor may provide consumers solely with consulting assistance on this matter within its competence.

Should the practices employed by a debt collection agency bear the marks of crimes, this must be immediately reported to law enforcement bodies (the police, prosecutor's office).

It is equally necessary to bear in mind that pursuant to Article 8 of Law No. 230-FZ, a person enjoys an inalienable right to refuse to engage in any kind of interaction with the creditor or its representatives whatsoever without giving any reasons.

The current problems with infringement of indebted persons' rights during overdue debt recovery are acknowledged even by the collectors taking self-regulation efforts. For instance, in 2019, they implemented an internal standard for overdue debt management developed by SRO MiR¹⁶⁴.

The instrument standardizes the overdue debt recovery for MFOs and represents an internal standard of SRO MiR binding upon all its members. Besides, it supplements and expands the requirements and restrictions established by Law No. 230-FZ.

In particular, the provisions of the standard allow for the interaction only with those third parties that were designated personally by the debtor as potential collection process participants. Thereat, such interaction shall be discontinued immediately if the relevant third party expresses a disagreement of any kind. Besides, MFO employees are not allowed to introduce themselves as officials of central or local government bodies – it is the collector's duty to report his/her affiliation with a specific MFO immediately.

In addition, the standard stipulates that should an overdue debt portfolio be assigned to another entity for collection, the MFO must incorporate a clause concerning mandatory compliance by the agent with this standard and punitive sanctions for failure to comply in the relevant agreement. In turn, the MFO employees committing a violation of the requirements set out in the standard shall pay damages.

In the context of the COVID-19 pandemic, financial companies and debt collection agencies equally took certain precautions by changing their operating procedures. Thereat, certain entities switched over to remote communication with the debtors instead of field collection practices¹⁶⁵.

Besides, according to NAPCA, debt collectors have developed debtor support measures for the duration of the pandemic. Thus, all debt collection agencies of this SRO have developed and enacted debtor support programs, take efforts to write off a portion of overdue debt for borrowers, and provide them with a deferral for the duration of the pandemic¹⁶⁶.



In the context of consistent growth in the overdue private debt collection market, new debtor protection measures were adopted in 2019. A lot of attention was given to law-drafting activities with a view to improving the protection of individuals during their interaction with debt collectors.

However, there are multiple outstanding issues. In particular, the most pressing issues that were resolved concern illegal debt collectors' activities along with control and supervision over credit institutions' overdue debt collection activities.

¹⁶⁴ Approved by Resolution of the Board of SRO MiR dated 05 September 2019.

¹⁶⁵ Collectors Tell About Debt Collection During the Pandemic, 20 March 2020 // LLC MIC Izvestia Internet Portal iz.ru/989560/2020-03-20/kollektory-rasskazali-o-vzyskanii-dolgov-v-usloviakh-pandemii.

¹⁶⁶ Debt Collectors Go on Credit Holidays, 06 April 2020 // Kommersant Newspaper No. 61, 06.04.2020, p. 6.

2. Assessment of Financial Consumer Risks from the Perspective of Retail Financial Market Growth

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

The essential risks for the Russian economy are associated with escalation of trade and geopolitical tension, impact of the COVID-19 pandemic, and the resulting global slowdown. Decline in foreign demand for Russian exports, erosion of household income and domestic consumption in the context of the pandemic have a negative effect on economic growth in Russia. Thus, economic growth in Russia slowed down to 101.3% in 2019^{167,168} (as compared to 102.5% in 2018). The growth rate of gross value added in the finance and insurance sectors amounted to 9.7% (+9.1 in 2018). A negative GDP growth rate has been predicted for 2020.

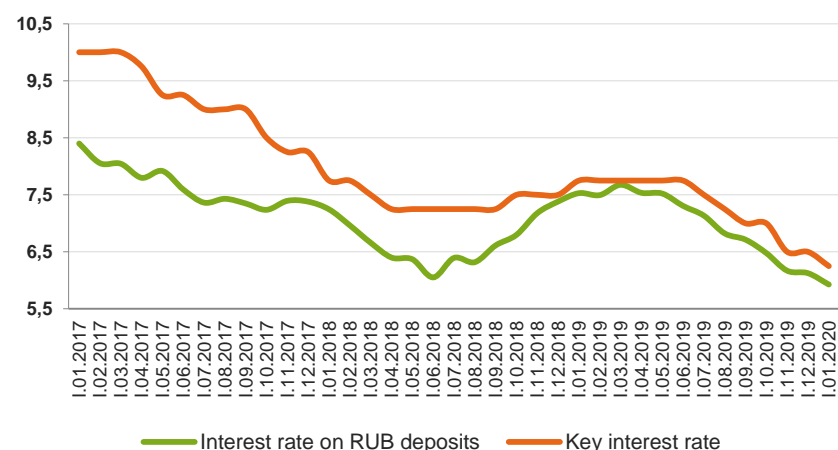
Thereat, the problem of the rising household debt burden combined with a slow growth of disposable income stood out among the key risks to financial stability in the reporting year¹⁶⁹.

The entire 2019 was marked by continued easing of the monetary policy due to deceleration of the inflation rate as compared to 2018 that proved to be below the relevant target. Thus, the consumer price index in the reporting year amounted to 103% as compared to 104.3% in 2018¹⁷⁰.

In general, the transition from a high inflation rate to a low one in recent years has pushed up demand for fixed-yield financial instruments, including bonds and deposits, thus reducing their yield. In the meantime, the key rate ceased to have a significant effect on the yield of deposits with credit institutions.

Thus, as of the first ten days of January 2020, the key rate and the maximum rate on RUB deposits with 10 credit institutions controlling the largest share of retail deposits were virtually equal – 6.25% and 5.927% respectively (Figure 2.1).

Figure 2.1. Dynamics of the Maximum Interest Rate on RUB Deposits with 10 Credit Institutions Raising the Largest Share of Retail Deposits and of the Key Rate in 2017-2019 and January 2020¹⁷¹, %



Source: Bank of Russia

A steady downward trend for the cost of funds was observed in the financial market throughout the entire 2019. This is the reason why the effective interest rates were becoming less attractive for depositors, which slowed down the growth of retail deposits. Thus, according to the Bank of Russia, the periods of growth in retail RUB deposits (+9.9%) gave place to the periods of slowdown during the reporting year; thereat, the similar index for foreign exchange and precious metals declined at year-end (-2%). It is noteworthy that considering the decline in inflation and reduction of the key interest rate, a certain potential for further reduction of interest rates persists.

A 4 pp increase in the consumer confidence index proved to be the engine of growth in the financial market in 2019. (Figure 2.2¹⁷²).

¹⁶⁷ On Production and Use of Gross Domestic Product (GDP) in 2019 // Rosstat gks.ru/bgd/free/B04_03/IssWWW.exe/Stg/d05/19.htm.

¹⁶⁸ Initial estimate.

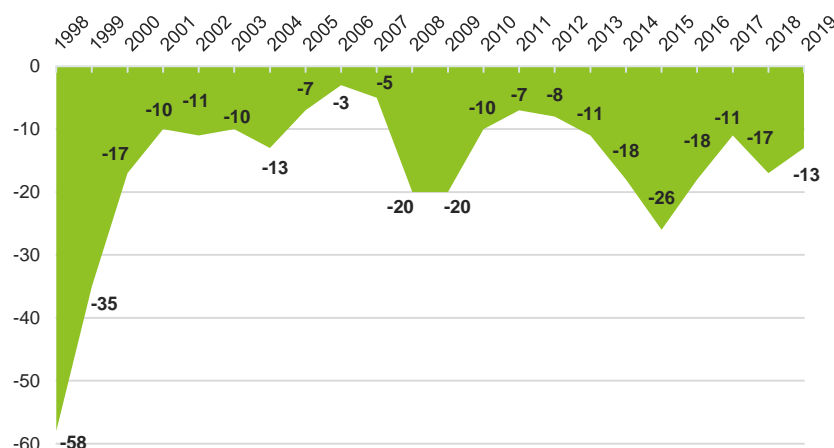
¹⁶⁹ Financial Stability Review No. 2 (15) Q2-Q3 2019 // Bank of Russia cbr.ru/Collection/Collection/File/25489/OFS_19-02.pdf.

¹⁷⁰ Consumer Price Indices for Goods and Services in the Russian Federation in 1991-2019 // Rosstat gks.ru/free_doc/new_site/prices/potr/l_ipc.xlsx.

¹⁷¹ Values for categories as of the first ten days of the respective month and year.

¹⁷² The consumer confidence index is calculated as an arithmetic mean of five particular indices: actual and expected changes in personal financial standing (1-2), actual and expected changes in the economic situation in Russia (3-4), and favorable conditions for major purchases (5). The diagram shows the data for the fourth quarters of the respective years.

Figure 2.2. Dynamics of the Consumer Confidence Index in 1998-2019, %



Source: Rosstat

Improvements in the public opinion on the actual changes in the Russian economy and expected changes in the personal financial standing had the strongest impact on the rise of the consumer confidence index.

According to Rosstat¹⁷³, it was the second year in a row when the real disposable household income did not decline (+0.8% in 2019¹⁷⁴; +0.1% in the previous year). Thereat, 81.2%^{175,176} (80.7%)¹⁷⁷ of funds were allocated to purchase goods and pay for services, 15.4% (15.1%) – to cover mandatory payments, fees and other expenses, 3% (1.7%) – to increase savings, and 0.4% (2.5%) were kept as cash at one's disposal.

Stabilization of real income contributed to a better opinion of households on their financial standing. For instance, in Q2 2019, 14.1%¹⁷⁸ (16.1%)¹⁷⁹ of households had trouble purchasing clothes and paying for housing and utility services, while 49.4% (48.8%) were unable to afford durable goods. Thereat, 32.6% (30.6%) of households had enough money to purchase food, clothes and durable goods, but not enough to purchase a car, an apartment or a country house. Only 2.7% (2.7%) of respondents had enough funds to purchase whatever was necessary. The share of households that did not have enough funds even for food declined – 0.7% (1%).

FOR REFERENCE

In 2019, shortage of funds forced Russian households to save more on vacations (46%; 43% – in 2018), entertainment (29%; 24%), healthcare (27%; 22%), visits to relatives and friends (24%; 16%), purchase of clothes and footwear (21%; 20%), hosting and visiting parties (15%; 14%), education (9-10%; 4%)¹⁸⁰.

Stabilization of real income had a direct effect on consumers with liabilities. Thus, among the households that had fixed payment liabilities, 2.8% (-1.6 pp over the year) had financial problems that made it impossible to make payments under a consumer credit at the end of Q2 2019. The risk group includes families with many children, 7.6% (-2.4 pp) of which had problems.

According to VCIOM¹⁸¹, in the period from January through October 2019, there was a major decline in the share of Russian households concerned about eroding income (-5 pp). However, this risk is ranked second (63%) in the Russians' "map of fear". Thereat, anxiety is most typical for persons aged 45-59 (71%). It is worth highlighting that anxiety about the rise in the social injustice between people tops the "map of fear" (68%).

In 2019, households were forced to spend savings and search for ways to save in order to maintain their standard of living. In this context, despite the nominal increase in household income, the growth of savings slowed down further combined with an even stronger decline in crediting growth rate, which was due, among other reasons, to the policy of restriction of unsecured crediting (Figure 2.3).

However, the percentage of the Russians thinking that it is good time to make savings grew over 3 years (11% in 2016 as compared to 23% in 2019). And yet, 69% of Russian households make no savings whatsoever. Out of those, 51% of respondents will be unable to save any funds within the next year. Thus, the majority of Russian households without any savings need an income of at least RUB 35 thous. or more per family member in order to start making savings comfortably (according to the data as of July 2019).

¹⁷³ Real Disposable Income Nationwide in the Russian Federation (New Methodology) // Rosstat gks.ru/storage/mediabank/urov_12kv-nm(1).doc.

¹⁷⁴ Preliminary data.

¹⁷⁵ Pattern of Household Income Use in the Russian Federation (New Methodology) // Rosstat gks.ru/storage/mediabank/urov_14kv-nm(1).xlsx.

¹⁷⁶ Preliminary data.

¹⁷⁷ From this point onward, the data for 2018 are indicated in brackets.

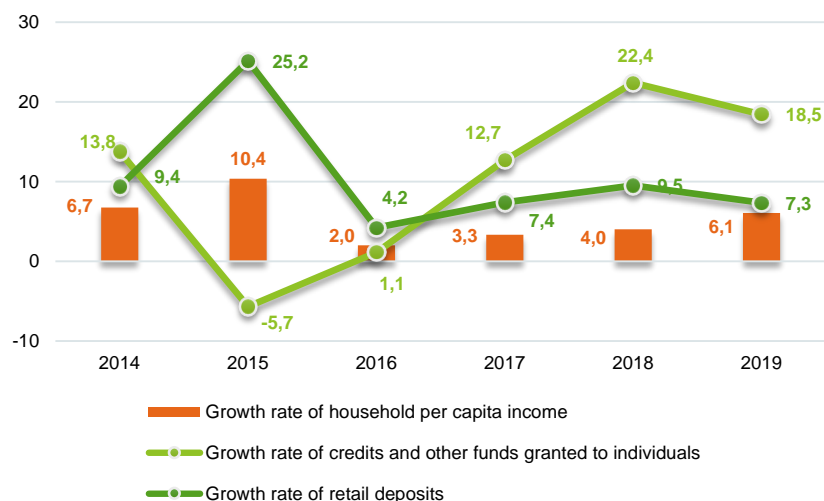
¹⁷⁸ Household Income, Spending and Consumption in 2019 (According to the Sample Survey of Household Budgets) // Rosstat gks.ru/bgd/regl/b19_102/Main.htm.

¹⁷⁹ From this point onward, the data for Q2 2018 are indicated in brackets.

¹⁸⁰ Results of All-Russian Survey Conducted by NAFI Analytical Center in August 2019, 10 October 2019 // NAFI nafi.ru/analytics/rossiyane-stali-bolshe-ekonomit-na-obrazovanii-i-meditsine.

¹⁸¹ Russians' Map of Fear in Fall 2019, No. 4100, 12 November 2019 // VCIOM wciom.ru/index.php?id=236&uid=9999.

Figure 2.3. Dynamics of Annual Growth Rates for Household Per Capita Income, Credits and Other Funds Granted to Individuals, Retail Deposits in 2014-2019¹⁸², %



Sources: Bank of Russia, Rosstat, estimates by FBK Grant Thornton

FOR REFERENCE

As of early 2020, 71% (+4 pp over the year) of the Russians believed that the best strategy is to spend as little as possible and save as much as possible. This is a 5-year high at the beginning of the year¹⁸³.

It is noteworthy that recent years have seen an increase in the percentage of the Russians who are sure that it is better to keep savings in cash than on a bank account (25% in 2015, 31% in 2017, and 32% in 2019). This is largely due to insufficient trust of the public in financial organizations (Figure 2.4)¹⁸⁴.

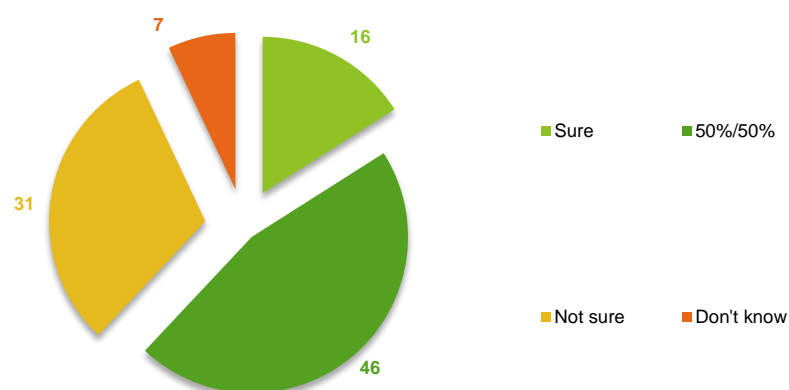


Figure 2.4. Public Confidence in a Just Resolution of a Dispute with a Financial Organization in April 2019, % of Respondents
Source: NAFI

However, in case of disputable situations with financial organizations, e.g. loss of money in a financial pyramid scheme, loss of interest income upon early withdrawal of a deposit, or confiscation of property due to non-repayment of a credit, Russian people are predominantly inclined to blaming these organizations' clients for the relevant damage (41%, 43% and 62% accordingly) rather than these organizations (33%, 32%, 15%) or the government (20%, 15%, 17%).

According to a survey by NAFI conducted in July 2019¹⁸⁵, an overwhelming majority of the Russians (88%) use diverse financial services. Thus, bank cards for pensions, wages or scholarships represent the most popular retail financial product used by 71% of respondents (Figure 2.5).

In recent years, with a view to reducing financial consumer risks, the regulator has been implementing the so-called behavioural supervision defined as supervision over the quality of interaction between the organization and the consumer of its services at all life cycle stages starting from relations preceding conclusion of an agreement through termination of

¹⁸²Household per capita income in 2019 – preliminary data.

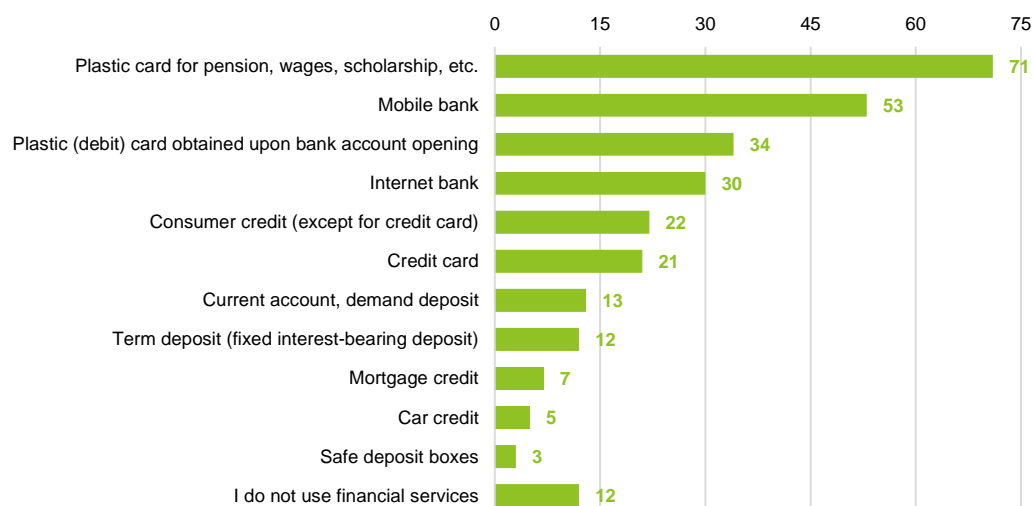
¹⁸³ Purchases, Credits and Deposits, No. 4163, 06 February 2020 // VCIOM wciom.ru/index.php?id=236&uid=10152.

¹⁸⁴ Russians Do Not Believe in Just Resolution of Disputes with Financial Organizations, 25 July 2019 // NAFI nafi.ru/analytics/rossiyane-ne-veryat-v-spravedlivoe-reshenie-sporov-s-finansovymi-organizatsiyami.

¹⁸⁵ Payroll Cards and Mobile Banking Are Financial Products Most Popular with Russians, 11 September 2019 // NAFI nafi.ru/analytics/zarplatnye-karty-i-mobilnyy-bank-samye-populyarnye-finansovye-produkty-u-rossiyan.

relations under the agreement¹⁸⁶.

Figure 2.5. Popularity of Financial Services with Households in July 2019, % of Respondents



Source: NAFI

In February 2019, the Main Directions of Financial Market Development for 2019-2021 were approved. On 27 March 2019, the Action Plan ("Roadmap") to implement them was approved¹⁸⁷ (Figure 2.6).

With a view to specifying the goals of ensuring financial market stability and enhancing its information security, the "Main Directions of Information Security Improvement in the Credit and Financial Sector for 2019-2021"¹⁸⁸ were approved. Under this document, financial consumer protection is included in the list of strategic tasks within the regulator's competence: these efforts will be built around objective data on consumers' financial losses.

With a view to countering illegal financial transactions, mandatory requirements for NFOs to ensure data protection during operations in the financial markets¹⁸⁹ were established on 17 April 2019.

Figure 2.6. List of Sections of the Action Plan ("Roadmap") to Implement the Main Directions of Financial Market Development in the Russian Federation for 2019-2021



Source: Bank of Russia

¹⁸⁶ Warning Before Punishing. Mikhail Mamuta, Head of the Consumer Protection Service of the Central Bank, Speaks About Complaints, Misselling and Compulsory Motor TPL Insurance, 20 December 2018 // Delovoy Peterburg daily dp.ru/a/2018/12/19/Predosterech_prezhde_chem.

¹⁸⁷ Action Plan ("Roadmap") to Implement the Main Directions of Financial Market Development in the Russian Federation for 2019-2021 // Bank of Russia cbr.ru/Content/Document/File/71219/roadmap_onfr2019_2021.pdf.

¹⁸⁸ Bank of Russia Identifies Information Security Improvement Priorities, 16 September 2019 // Bank of Russia cbr.ru/press/event/?id=3869.

¹⁸⁹ Bank of Russia Regulation No. 684-P dated 17 April 2019 "On Mandatory Requirements for Non-Credit Financial Organizations to Ensure Data Protection in Operations in the Financial Markets to Counter Illegal Financial Transactions".

In order to prevent the spread of the COVID-19, Rospotrebnadzor published WHO advice on 15 March 2020 pointing at the need to wash hands and abstain from touching one's face after using cash. In the meantime, the advice does not contain any strict instructions not to use cash, but in theory, cash may serve as a virus transmission channel. Viruses stay active both on paper and on plastic for a certain period.

According to the WHO, the coronavirus survives for 3-4 days on paper and up to 9 days on plastic. The notes transferred to credit institutions are kept by the Bank of Russia for at least 14 days. Thus, credit institutions receive "clean" notes. However, not all notes get to the banks immediately.

When paying for purchases with a card, it is also necessary to use caution when entering the PIN codes. Contactless payments are the safest method.

In any case, people should wash their hands, abstain from touching their face with dirty hands, and wipe their telephones/smartphones with disinfectants.

On 20 March 2020, the measures to support the public, economy, and financial sector during the COVID-19 pandemic¹⁹⁰ were published. In particular:

- Credit institutions, MFOs, CCCs were advised to restructure debts, abstain from charging penalties and fines on credits (loans), provided that a borrower being an individual submits a relevant request and presents proof that he/she has the coronavirus disease;
- Credit institutions and MFOs were advised to abstain from levying execution upon immovable property for any violation of obligations under the agreement in the period until 30 September 2020, provided that an individual borrower submits a relevant request and presents proof that he/she has the coronavirus disease.

With a view to implementing the measures referred to above, the Bank of Russia published Information Letter No. IN-06-59/22 dated 20 March 2020 "On Granting a Deferral (Reduction) of Payments due to the Spread of the Coronavirus Disease (COVID-19)".

On the same day (20 March 2020), the regulator requested financial organizations to notify the public of the precautions to be taken during the pandemic¹⁹¹.

In connection with the package of measures to prevent the spread of the COVID-19 in the country and switchover to remote operation by an increasingly higher quantity of financial organizations, the Bank of Russia disseminated Information Letter No. IN-014-56/17 dated 20 March 2020 "On Measures to Ensure Immunity to Cyber Threats and Information Security During the Spread of the New Coronavirus Disease (COVID-19)".

On 23 March 2020, the Bank of Russia drafted Information Letter No. IN-04-29/26 advising credit institutions on provision of clients with cash services during the spread of the COVID-19.

In addition to the measures adopted earlier and pursuant to the Instructions of the President of the Russian Federation dated 25 March 2020, the regulator published the measures to protect the interests of individual borrowers affected by the spread of the pandemic due to decline in income¹⁹² on 27 March 2020. Specifically:

- In case of receiving a borrower's request to restructure his/her debt due to decline in income in the period starting from 01 March 2020, credit institutions, MFOs, CCCs were advised to consider such requests promptly and make favorable decisions. At that, they were advised not to charge higher interest, fines, and penalties for the borrower;
- MFOs, CCCs were provided with an option not to recognize such loans as restructured loans until 30 September 2020, provided that the debt was not overdue by more than 30 days as of 01 March 2020.

In early April 2020, due to the spread of the COVID-19, the President of the Russian Federation signed a Decree¹⁹³ establishing stay-at-home days subject to retention of employees' wages in the period from 04 April through 30 April 2020. However, this Decree did not apply to financial service providers to the extent of their high-priority functions (primarily, settlement and payment services).

According to the regulator¹⁹⁴, the list of such providers includes, but is not limited to, banks and insurance companies. Besides, it was specified that the obligations supposed to be performed on stay-at-home days had to be performed by the debtors as scheduled. The regulator counted on the good faith of the creditors in terms of considering the debtor's ability to perform his/her obligations, availability or non-availability of remote services, and in case of non-availability – the restrictive regime in the region that might affect the client's ability to visit an office to make transactions.

MFIs were advised the same¹⁹⁵. In addition, should MFOs, CCCs, ACCCs, or pawnshops be unable to accept loan payments during stay-at-home days due to the restrictions, this circumstance shall not be qualified as a violation of obligations. Therefore, borrowers shall not have to pay any extra interests, damages (fines, penalties), and other charges, and the property pledged thereby shall not be sold.

In the meantime, the individuals whose income declined by over 30% as compared to their monthly income in 2019 and

¹⁹⁰ Bank of Russia Approves Measures to Support the Public, Economy, and Financial Sector During the Coronavirus Pandemic, 20 March 2020 // Bank of Russia cbr.ru/press/pr/?file=20032020_133645if2020-03-20T13_36_08.htm.

¹⁹¹ Bank of Russia Requests Financial Organizations to Notify the Public of Precautions During the Pandemic, 20 March 2020 // Bank of Russia cbr.ru/press/event/?id=6519.

¹⁹² Bank of Russia Approves Additional Measures to Support the Public, Economy, and Financial Sector During the Coronavirus Pandemic, 27 March 2020 // Bank of Russia cbr.ru/press/pr/?file=27032020_152031dkp2020-03-27T15_20_11.htm.

¹⁹³ Decree of the President of the Russian Federation No. 239 dated 02 April 2020 "On Measures to Ensure Sanitary and Epidemiological Welfare of the Population of the Russian Federation due to the Spread of the New Coronavirus Disease (COVID-19)".

¹⁹⁴ Bank of Russia Information on Operation of Financial Organizations and Continuity in the Financial Sector to Be Ensured by the Bank of Russia in the Period from 04 Through 30 April 2020, 03 April 2020 // Bank of Russia cbr.ru/press/pr/?file=03042020_132700if2020-04-03T13_25_36.htm.

¹⁹⁵ Information on Operation of Microfinance Institutions in the Period from 04 through 30 April, 04 April 2020 // Bank of Russia cbr.ru/press/pr/?file=04042020_132548if2020-04-04T13_25_10.htm.

who are unable to perform their obligations under loan agreements are entitled to use the so-called “credit holidays” to defer their loan payments for up to 6 months.

Limiting the Debt Burden

In 2019, the list of important inter-sectoral subjects related to financial activity of the public included the issue of limiting the household debt burden.

FOR REFERENCE

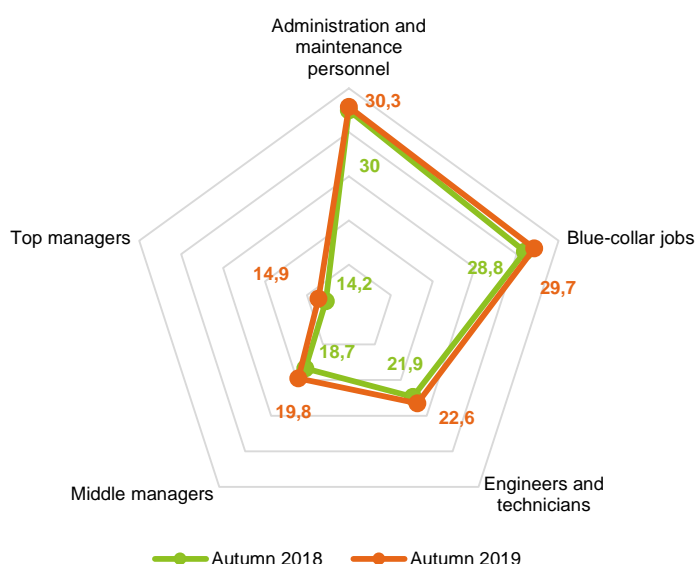
In October 2019, the highest DBI was recorded for employees in the security (34%), pharmaceutical and healthcare (33.2%), and social (32.8%) sectors. The lowest percentage of income was allocated to credit payments by employees in the information technology (13.6%) and communications and data transmission sectors, (15.7%) as well as in the marketing, advertising and PR sector (20%).

Despite the increase in the household nominal income, NBCH data pointed at a higher household debt burden in 2019¹⁹⁶ as compared to 2018¹⁹⁷ (Figure 2.7).

In the period from 01 April through 01 October 2019, the household debt burden under unsecured bank credits calculated as a ratio of scheduled payments to the real disposable household income¹⁹⁸ added 0.4 pp and reached 8.9% coming close to the all-time high of 9.3% recorded in 2014¹⁹⁹.

However, certain banks were raising the share of credits granted to overly indebted borrowers: borrowers with a “Payment/Income” ratio above 80% in the cash credit segment accounted for 9.9% of the total volume of credits granted in Q2 2019. This is 1.2 pp higher than in the previous quarter and 4.9 pp higher than in Q4 2018.

Figure 2.7. Ratio of Total Monthly Credit Payments to Monthly Income Broken down by Corporate Employee Groups in 2018-2019, %



Source: NBCH

Overall, MFO borrowers are characterized by an even higher debt burden than bank borrowers. Thus, according to the data²⁰⁰ provided by 18 largest MFOs (66.1% of the consumer microfinancing market), 53.7% of retail microloans issued in Q4 2019 is accounted for by borrowers with the DBI exceeding 50%, while 36.9% of microloans is accounted for by borrowers with the DBI exceeding 80%.

To discourage MFOs and credit institutions from expanding unsecured consumer crediting of the borrowers who already have a high debt burden, banks and MFOs were put under an obligation to calculate the DBI starting from 01 October 2019²⁰¹.

In order to improve the DBI calculation procedure and enable the Bank of Russia to regulate financial organizations' activities to the extent of using the DBI of a borrower being an individual thereby, a respective action plan was developed for 2019-2020.

¹⁹⁶ NBCH: Employees in the IT and Communications and Data Transmission Sectors Allocating Lowest Percentage of Their Income to Credit Payments, 28 October 2019 // NBCH nbki.ru/company/news/?id=25986&sphrase_id=148863.

¹⁹⁷ NBCH: Employed Persons' Debt Burden Continuously Declining in Most Employment Sectors, 12 November 2018 // NBCH nbki.ru/press/pressrelease/?id=21851.

¹⁹⁸ The indicator factors in the disposable household income in Russia as a whole, including individuals having no credits. Hence, the value of the indicator is understated as it regards the debt burden of a borrower with at least one credit.

¹⁹⁹ Financial Stability Review No. 2 (15) Q2-Q3 2019 // Bank of Russia cbr.ru/Collection/Collection/File/25489/OFS_19-02.pdf.

²⁰⁰ Financial Market Risk Review, No. 1 (39), January 2020 // Bank of Russia cbr.ru/Collection/Collection/File/27273/ORFR_2020-1_january.pdf.

²⁰¹ Bank of Russia Ordinances No. 4892-U dated 31 August 2018, No. 5114-U dated 02 April 2019, and No. 5115-U dated 02 April 2019.

On 02 October 2019, Information Letter IN-05-35/76 was sent to financial organizations advising them to notify consumers on the DBI calculation and value. Thus, a person should be made aware of his/her right to determine the list of documents to be submitted that are necessary to calculate his/her average monthly personal income. In addition, a financial organization has to notify the person that in case of failure to submit the documents to prove his/her income, the organization may calculate the DBI using the statistical data on per capita income in the relevant region. If the DBI estimated in accordance with this procedure proves higher than 50%, this may have an adverse effect on the crediting terms.

The instances of credit and loan denial due to inability to provide documentary proof of income by consumers should be expected to become more frequent.

In a similar vein, it may be expected that the instances of rejected requests to refinance liabilities assumed earlier at a higher interest rate will become more widespread. In this connection, the regulation currently in force may potentially backfire, in particular, by eliminating any possibilities of reducing certain persons' DBI.

Overall, the regulator's policy aimed at restricting high-risk crediting may result in the appreciation of credits (loans) for the public.

In February 2020, a draft law was brought before the SD RF. It authorizes banks to calculate the DBI by using the data of the FTS of Russia as well²⁰², in particular, on the borrower's income.

Introduction of the regulatory framework restricting the debt burden gives rise to certain consumer risks depicted below.

CONSUMER RISKS (in Case of Debt Overburden)

- *Failure to make a credit (loan) payment in time*
- *Exponential growth of total debt, including due to punitive sanctions in case of late payments*
- *Losses from sale of pledge by the financial organization*
- *Assignment of debt to collectors*
- *Initiation of the bankruptcy procedure for an individual*

RECOMMENDATIONS TO CONSUMERS

- *It is necessary to have an income that may be supported with proof*
- *It is advisable to rate the income level. The higher it is, the higher the DBI potentially acceptable by the bank could be*
- *It is necessary to check the credit history from time to time, since creditors obtain debt information from CHBs*
- *It is advisable to keep the DBI under control (at 50% at the most)*



In 2019, economic growth slowed down, and households were forced to spend savings and search for ways to save in order to maintain their living standards in the context of slow growth of real disposable income.

The downward dynamics of the growth of savings was accompanied by a slowdown of crediting growth rates, in particular, due to the unsecured credit restriction policy.

Material consumer risks persisted, especially due to the rising debt burden of the socially vulnerable groups of the population. In this context, the efforts to enhance the current mechanisms to protect the rights and raise the financial literacy of the public (and develop the new ones) are particularly relevant

2.2. Assessment of Consumer Risks Associated with the Development of the Banking Services Market

Banking Market Development Trends

According to the Bank of Russia, in 2019, the Russian banks' assets grew by 2.7% (+10.4% in 2018), while the banking sector's aggregate annual profit grew by 51.5% (-18.8% in 2018). The banking sector equity added 6.9% (+9.3% in 2018).

The role of households in the generation of the banking system's assets increased: in 2019, they accounted for 31.6% of credit institutions' total assets (30.2% as of early 2019, 30.5% as of early 2018).

In 2019, the regulator's policy to rehabilitate the banking sector combined with the credit institutions' efforts to optimize their office networks and staff in order to cut costs contributed to a continuous decline in the quantity of banking institutions (-866) resulting in the survival of 29,984 institutions as of early 2020, including 135 institutions of the regulator (-22), 442 credit institutions (-42), 618 branches of credit institutions (-91), and 28,789 (-711) internal business units of credit institutions. At the same time, the quantity of banking institutions per 1 mln persons declined from 211 to 208²⁰³.

²⁰² Credits to Become Unavailable to Those Who Receive Under-the-Counter Wages, 17 February 2020 // Parlamentskaya Gazeta Online Periodical pnp.ru/economics/kredity-dlya-tekh-kto-poluchaet-serye-zarplaty-stant-nedostupny.html.

²⁰³ Institutional Availability of Payment Services // Bank of Russia cbr.ru/Content/Document/File/105954/t2.xlsx.

FOR REFERENCE

50% of Russian citizens who had to deal with financial organizations have a high opinion of bank employees' professionalism, and this indicator has remained unchanged since 2012. 41% of respondents rate the performance by credit institutions' employees as medium, while 7% are dissatisfied²⁰⁴.

Nonetheless, the period from 2016 through 2020 recorded a more than 8-fold decline in the primary bank loyalty index in Russia: from 43 to 5 pp. The share of clients reluctant to recommend their bank to relatives and friends is on the rise²⁰⁵.

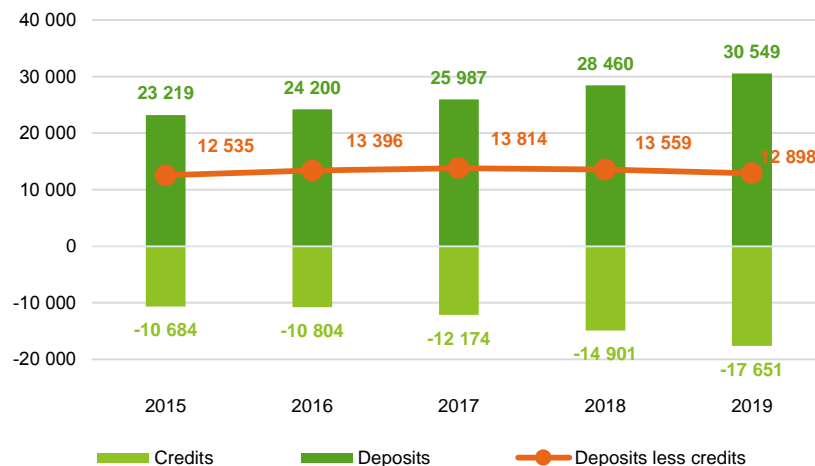
According to DIA, as of early 2019, there were 398 banks participating in the deposit insurance system (hereinafter referred to as the DIS) that were licensed to work with individuals²⁰⁶, while as of early 2020, there were only 363 ones²⁰⁷. In addition, at the end of 2019, 21 credit institutions were under bankruptcy prevention measures (as compared to 28 credit institutions at the beginning of the year)²⁰⁸. The process of client migration from small and medium-sized banks to large banks and banks partially owned by the government virtually reached saturation due to the efforts to rehabilitate the banking sector.

Thus, in 2019, the share of 5 largest banks for the size of assets remained virtually the same (60.4% – at the beginning of the year; 60.3% – at the end of the year). In the meantime, the share of 20 largest banks added 1.3% over the reporting year (82.9%), and the share of 50 largest banks went up to 92.2% (+0.8%). In 2019, the difference between the volumes of household retail deposits and credits continuously declined (- 4.9%, -1.8% in 2018) (Figure 2.8).

Thereat, the credit portfolio grew by 18.5% (+22.4% in 2018), and the volume of deposits – only by 7.3% (+9.5% in 2018).

Despite the regulator's efforts to restrict unsecured consumer crediting, this type of crediting grew by 20.9% (-22.8% in 2018), which slightly outpaced the growth rate of the loan portfolio as a whole.

Figure 2.8. Dynamics of Retail Deposits and Credits in 2015-2019, RUB Bln



Source: Bank of Russia, estimates by FBK Grant Thornton

In 2019, the quality of the retail credit portfolio improved. Thus, loans with payments overdue for more than 90 days as a share of the total volume of loans accounted for 4.5% as of 01 January 2020 (5.4% as of 01 January 2019).

It is worth mentioning that the Bank of Russia is continuously implementing proportional regulation of credit institutions taking the risks assumed thereby and their business scale into account²⁰⁹.

Further steps in this area are provided for by the Main Directions of Financial Market Development in the Russian Federation for 2019-2021²¹⁰.

In 2019, the problem of unjustified denial of services to law-abiding persons by banks under the pretext of the necessity to comply with the requirements of Law No. 115-FZ²¹¹ aggravated.

²⁰⁴ Consumer Trends in Banking Market // Sociology. Statistics. Publications. Sectoral Reviews. No. 2 (18)/NAFI Analytical Center. Authored by: V. I. Khomenko, V. I. Gritsenko, A. V. Lyubavskaya – Moscow: NAFI Publishing House, 2019. – 54 pp.

²⁰⁵ Russians Becoming Less Loyal to Their Banks for the Fourth Year in a Row, 13 February 2020 // NAFI nafi.ru/analytics/loyalnost-rossiyan-k-bankam-padaet-chetvertyy-god-podryad.

²⁰⁶ Changes in the Register of Banks Participating in the Deposit Insurance System, 14 January 2019 // DIA asv.org.ru/agency/for_press/pr/561278.

²⁰⁷ Changes in the Register of Banks Participating in the Deposit Insurance System, 13 January 2020 // DIA asv.org.ru/agency/for_press/pr/642173.

²⁰⁸ Review of the Banking Sector in the Russian Federation // Bank of Russia cbr.ru/statistics/bank_sector/review.

²⁰⁹ Bank of Russia Progress Report on the Action Plan ("Roadmap") "Key Activities to Develop Financial Market of the Russian Federation in 2016-2018", 2019 // Bank of Russia cbr.ru/Content/Document/File/65343/onfr_2016-2018.pdf.

²¹⁰ Main Directions of Financial Market Development in the Russian Federation for 2019-2021 // Bank of Russia cbr.ru/Content/Document/File/71220/main_directions.pdf.

²¹¹ Federal Law No. 115-FZ dated 07 August 2001 "On Anti-Money Laundering and Combating the Financing of Terrorism".

FOR REFERENCE

In March 2019, the SC RF published two decisions providing a legal qualification of restrictive tariffs applied by banks to clients suspected of dubious transactions as defined by Law No. 115-FZ. The court essentially qualified the same fees and came to totally opposite conclusions.

Experts claim that it is not a coincidence that the SC RF decisions diverge.

Thus, in the first case, the courts proceeded from the protected legal interest, i.e. examined whether a higher fee facilitates protection against dubious transactions or not. In the end, they concluded that the fee did not obstruct the transaction; instead, it was simply a source of additional income for the bank.

By contrast, in the second case, the fee was charged at the stage of closing the account when the measures against the bank departing client provided for by Law No. 115-FZ no longer applied, and therefore, the fee did not affect legal interest protection.

According to the experts, banks will take the SC RF decision into account, but are unlikely to cancel the fees²¹².

This was the reason for publishing the Methodological Guidelines²¹³ stating that when a person requests a bank to clarify the reasons for denying a service, the credit institution must provide the client with the relevant information that is sufficient to enable rehabilitation of the client.

Besides, credit institutions are advised to notify clients on the reasons for restricting remote banking services and create an environment to provide clients with clarifications, information and documents that they need to protect their rights.

CONSUMER RISKS (During Enforcement of AML/FT²¹⁴ REQUIREMENTS)

- *Unjustified denial of services by banks under the pretext of the necessity to comply with the requirements of the AML/FT legislation*
- *Denial of services by banks solely on the ground of the information concerning denial of services by other credit institutions*
- *Restriction of services provided to clients by means of remote banking facilities*
- *Refusal by banks to explain the reasons for restricting or denying services*
- *Unjustified "blacklisting" by Rosfinmonitoring (Federal Service for Financial Monitoring)*

RECOMMENDATIONS TO CONSUMERS

The mechanism for removal of a person from Rosfinmonitoring black list²¹⁵ is as follows:

- *The first step is to file a petition with the interdepartmental commission under the Bank of Russia*
- *The Bank of Russia representatives will prepare a draft and forward it to Rosfinmonitoring*
- *If Rosfinmonitoring objects to removing the person from the black list, the consideration will take place at an attendee meeting within 20 days.*
- *The results will be communicated to the petitioner within 3 days*
- *The petitioner may appeal against the blacklisting in court, but the litigation normally takes from 6 to 12 months²¹⁶.*

In 2019, the regulator examined the option of increasing the threshold amount of transactions subject to mandatory control by Rosfinmonitoring up to RUB 1 mln with a view to liberalizing mandatory control over financial transactions.

The idea was supported by the Ministry of Finance of the Russian Federation by reference to the international practice regulated by the Financial Action Task Force²¹⁷. However, according to financial intelligence, it is the range of transactions subject to control that is supposed to be modified²¹⁸.

The list of noteworthy developments that took place in 2019 includes deliberations on potential creation of SROs in the banking sector. Thus, there are plans to create SROs, in particular, to prepare sales standards for financial products and protect the interests of their consumers. At that, banks are adamantly opposed to the creation of SROs²¹⁹.

It should be noted that a simple enactment of sales standards for banking services to ensure consumer protection without defining an efficient compliance control and supervision system will not guarantee compliance with the standards on the part of credit institutions.

²¹² Supreme Court Evaluates Banks' Income from Dubious Clients // Kommersant Newspaper No. 46 dated 18 March 2019, p. 8 kommersant.ru/doc/3915463.

²¹³ Methodological Guidelines for Notification of Clients by Credit Institutions on the Reasons for the Decision to Deny a Transaction or Refuse to Conclude a Bank Account (Deposit) Agreement and on Issues of Interaction with Clients During Provision of Remote Banking Services (approved by Bank of Russia Order No. 5-MR dated 22 February 2019).

²¹⁴ Anti-money laundering and combating the financing of terrorism.

²¹⁵ List of Entities and Individuals with Marks of Involvement in Extremist Activities or Terrorism.

²¹⁶ Banks vs Clients: Why Banks Block Accounts and How to Avoid This, 31 October 2018 // Pravo.ru Portal pravo.ru/story/206440.

²¹⁷ Financial Action Task Force, FATF.

²¹⁸ A Million to Laundering. Regulators Contemplate Raising Amount Subject to Control // Kommersant, 14 May 2019, 17:42 kommersant.ru/doc/3967982.

²¹⁹ Behavioral Watch: Banks Refusing to Oversee Themselves, 16 September 2019 // LLC MIC Izvestia iz.ru/921721/anna-kaledina/povedencheskii-dozor-banki-otkazyvaiutsia-nadzirat-za-soboi.

To protect the funds of the credit institutions and their clients against cybercrime, a regulation²²⁰ was adopted on 17 April 2019 that puts banks under the obligation to ensure the information security of such transactions as attracting funds from individuals and legal entities in the form of deposits, placing the attracted funds on their own behalf and at their own expense, opening and managing bank accounts, etc.

In the past, banks had to ensure information security solely when performing funds transfer transactions.

As part of the effort to suppress illegal currency exchange offices posing for cash offices of an authorized bank and using outdoor advertising heavily, the banks were ordered to place the information on foreign exchange rates solely indoors starting from 24 May 2019²²¹. This requirement does not apply to publication of information in the media, online, and in mobile banking applications.

In addition, banks are now entitled to set and change foreign exchange rates using the automated banking system. In a similar vein, a credit institution must ensure that the foreign exchange rates posted on indoor stands and/or in the system referred to above are identical.

In May 2019, the FAS of Russia (Federal Antimonopoly Service of the Russian Federation) found MTS PJSC, T2 Mobile LLC, VimpelCom PJSC to be in breach of the Competition Law upon completion of a relevant investigation. The investigation established a major difference between the terms of agreements made with privately owned entities and the terms of agreements made with entities partially owned by the government (up to 10 times).

This gives rise to discrimination and is in conflict with the legislation²²².

In the experts' opinion, the prices for text messages offered to banks rose by ten folds over several years, and the bank's text messaging expenses amount to billions of Rubles per year. Thereat, in 2018 alone, the text messaging prices rose by 400% in certain instances.

Due to the persistent rise in the mobile providers' tariffs in 2019, credit institutions embarked upon switching clients from notification by text messages to push notifications in large numbers²²³. However, an involuntary switchover entails wide-scale dissatisfaction. As a result, banks are forced to keep both options (text notifications and push notifications), but take efforts to convince their clients of the benefits associated with the latter method.

With a view to minimizing the risks associated with the use of email and text messages by the banks as a channel of communication with clients, a pilot project was launched in 2019 to develop an email verification algorithm during the interaction between the public and the bank²²⁴.

CONSUMER RISKS (When Using Email, Text Messages and Push Notifications)

- *Push notifications on transactions do not enable to see the history of payments in the absence of internet connection*
- *Risk of missing a push notification as opposed to a text message*
- *Access by trespassers to text or email messages sent by banks that contain confidential information (e.g. account statements)*
- *Access by trespassers to mailboxes and telephones used as a channel of communication with banks*
- *Transfer of email address/phone number to another person (for instance, in case of a corporate email address/phone number)*
- *Consumers oftentimes forget the email address they specified when filling in the form to request a banking service*

RECOMMENDATIONS TO CONSUMERS

- *It is necessary to memorize the email address and phone number specified when filling in the form to request a banking service*
- *It is inadvisable to use corporate phone numbers and email addresses when dealing with banks*
- *It is advisable to set up a comfortable notification method for banking transactions (either push or text messages)*
- *When changing a phone number/email address, it is necessary to notify the bank at all times and disconnect all banking services from the old phone number/email address to minimize the risk of unauthorized debiting of funds*

Yet again in 2019, the problem of funds debited from accounts without the owner's order (direct debiting) was raised.

This practice has been repeatedly declared illegal by Rospotrebnadzor.

Banks oftentimes incorporate a clause allowing for the debiting of overdue debt from other accounts of the borrower into credit agreements. However, signing of such clauses of the agreement developed by the bank does not qualify as the borrower's personal consent, as this right is fully reserved to the borrower and is supposed to be exercised thereby at his/her

²²⁰ Bank of Russia Regulation No. 683-P dated 17 April 2019 "On Mandatory Requirements for Credit Institutions to Ensure Data Protection in Banking to Counter Unauthorized Funds Transfers".

²²¹ Bank of Russia Ordinance No. 5076-U dated 22 February 2019 "On Amending Bank of Russia Instruction No. 136-I dated 16 September 2010 "On the Procedure for Specific Operations by Authorized Banks (Branches) with Foreign Currencies and Foreign Currency Denominated Cheques (Including Traveller's Cheques) Involving Individuals".

²²² FAS: Tele2, VimpelCom and MTS Breach the Competition Law, 15 May 2019 // FAS of Russia fas.gov.ru/news/27562.

²²³ Clients Fall Short of Text Messages, 01 July 2019 // Kommersant Newspaper No. 112 dated 01 July 2019, p. 7 kommersant.ru/doc/4017767.

²²⁴ People to Be Placed by Addresses: Central Bank Planning to Introduce Verification of Individuals' Emails // Kommersant Newspaper No. 94 dated 03 June 2019, p. 8 kommersant.ru/doc/3990107.

own will and to his/her best interest.

A ban on direct debiting may improve the level of borrower protection against the bank's actions, but may concurrently make non-payments under credits more frequent and increase the value of consumer credits.

CONSUMER RISKS (Associated with Direct Debiting of Funds)

- The bank compels the borrower to sign a clause on direct debiting of funds from all of his/her accounts when issuing a credit
- The bank debits funds in repayment of credits from all accounts owned by the person

RECOMMENDATIONS TO CONSUMERS

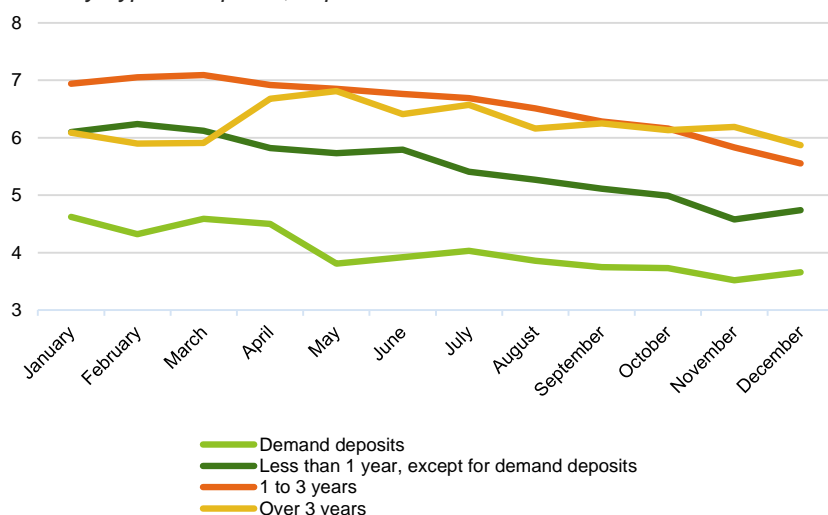
- There is an option to send a statement to revoke the preapproval to debit funds in repayment of the credit from all accounts opened by the borrower with the bank

For a comprehensive review of the matters concerning development of the bank services market, a list of the most widespread and popular types of such services that oftentimes expose consumers to high risk is provided below.

Deposits

In 2019, the deposit market was characterized by a general decline in deposit yields due to reduction of the key interest rate and decrease in the inflation rate (Figure 2.9).

Figure 2.9. Monthly Dynamics of Weighted Average Interest Rates on Retail RUB Deposits Attracted by Credit Institutions in 2019 by Type of Deposits, % p.a.



Source: Bank of Russia

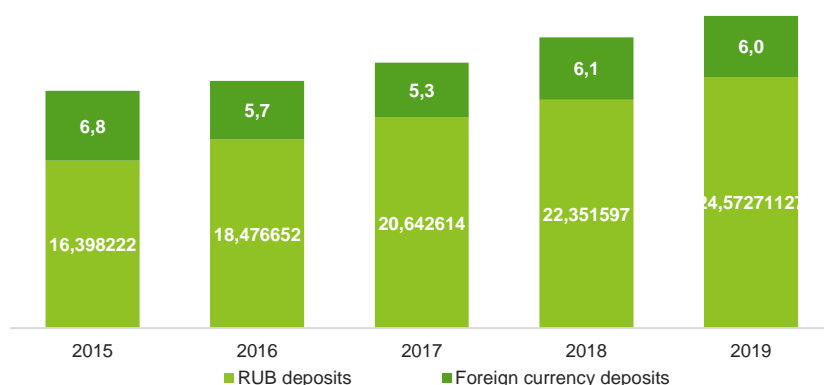
This entailed an increase in the number of the Russians who are sure that it is better to keep savings in cash rather than in a bank. In a similar vein, the number of respondents believing that savings should better be kept on RUB accounts went down (60% in 2015, 46% in 2019)²²⁵. As of early 2020, 48% of the Russians believed that free cash should better be deposited with a bank. A third of respondents disagreed saying that savings should better be withdrawn from the bank (32%). As of early 2019, these opinions were voiced out by 46% and 31% of respondents accordingly²²⁶.

Considering the depreciation of the Russian Ruble against the key currencies and decrease in foreign currency deposit rates in 2019, the percentage of foreign currency deposits in the structure of funds attracted by credit institutions from individuals declined by 1.9 pp in the reporting year (to 19.6%) (Figure 2.10).

²²⁵ Quarter of Russians Believe It Is Good Time to Save, 24 October 2019 // NAFI nafi.ru/analytics/chetvert-rossiyan-schitayut-cto-seychas-khoroshee-vremya-dlya-sberezheniy.

²²⁶ Purchases, Credits and Deposits, No. 4163, 06 February 2020 // VCIOM wciom.ru/index.php?id=236&uid=10152.

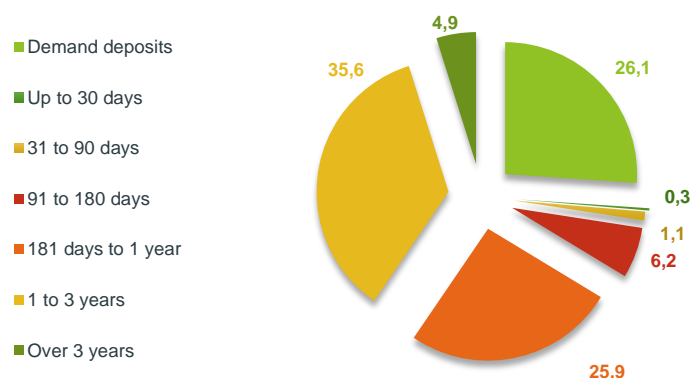
Figure 2.10. Dynamics of the Volume of Retail Deposits Attracted by Credit Institutions Broken down by the Deposit Currency in 2015-2019, RUB Trn



Source: Bank of Russia

In 2019, the outstripping growth in the share of funds on demand deposits (+2.8%; total – 26.1%) continued. Such deposits offer relatively low interest rates, which entails the risk of gradual devaluation of such funds (Figure 2.11).

Figure 2.11. Structure of Retail Deposits Attracted by Credit Institutions at the End of 2019 Broken down by Maturity, %



Source: Bank of Russia

In 2019, the quantity of insured events involving the banks participating in the DIS was more than twice as low as in the previous year amounting to 24 (in 2018 - 57). Thereat, the amount of DIA's insurance liability to depositors proved 3 times as low after it went down from RUB 175.7 bln in 2018 to RUB 56.7 bln in 2019.

In the reporting year, there was a more than 3-fold decline in the amount of compensations paid to depositors: they amounted RUB 59.5 bln (lowest indicator since 2013). The number of depositors claiming a compensation dropped by 64% (from 356.8 thous. to 129.6 thous.).

Over the entire time since the introduction of the DIS, there have been 505 insured events with a total amount insurance liability of RUB 1.98 trn; a compensation has been claimed by 4.1 mln depositors, and they have been paid RUB 1.97 trn. (99.5% of total insurance liability)²²⁷.

CONSUMER RISKS (Associated with Deposit Insurance²²⁸)

- *Withdrawal (cancellation) of the bank's banking license or imposition of a moratorium on satisfaction of bank creditors' claims by the Bank of Russia*

RECOMMENDATIONS TO CONSUMERS

In case of an insured event, depositors are advised to:

- *Contact DIA prior to completion of the bank's bankruptcy procedure (the deadlines may be found on the website of DIA or the bank)*
- *Present 2 documents to DIA (or to the agent bank):*
 - *Claim made in the form provided by DIA specifying the compensation payment method (either in cash or by bank transfer)*
 - *Copy of the identity document specified in the agreement with the bank*

²²⁷ Annual Report 2019 of Deposit Insurance Agency State Corporation // DIA.asv.org.ru/agency/annual/2019/2019_year.pdf.

²²⁸ Federal Law No. 177-FZ dated 23 December 2003 "On Bank Deposit Insurance in the Russian Federation".

- Obtain an extract from the register of the bank liabilities to depositors specifying the compensation amount
- Receive the compensation for the deposit (account) of up to RUB 1.4 mln within 3 days upon presentation of the documents, but no later than after 14 days upon occurrence of the insured event
- If the deposit amount exceeds RUB 1.4 mln, a refund for the outstanding amount may be secured during the subsequent stages of the bank's bankruptcy procedure

In 2019, there were 105 transactions creating artificial deposits worth of RUB 110 mln in total by means of splitting, i.e. entry of technical records on the crediting of funds from accounts of legal entities and individuals to the accounts of designated individuals in the bank's accounting documents for the sake of illegal receipt of an insurance compensation by such individuals. There was a 9.5-fold decrease in the quantity of such transactions as compared to 2018, and a 13.6-fold decrease in their volume.

When preparing and effecting the insurance compensation payments in 2019, DIA revealed no instances of fraud by means of the so-called "off-balance-sheet" accounting when no data on the accounts (deposits) opened by individuals are reported in the bank's accounting records.

Since the beginning of 2019, DIA has considered statements from 142 bank depositors concerning the insured events that occurred in the previous years, which made it possible to recover banks' "off-balance-sheet" liabilities for a total amount exceeding RUB 157 mln and enter them in the register of banks' liabilities to depositors.

Overall in 2019, DIA considered 2 thous. statements of objection to the compensation amount or cancellation of sham credit and debit transactions resulting in an illegal increase of DIA's insurance liability.

It is noteworthy that the list of operating banks participating in the DIS that are entitled to attract funds from individuals in the form of deposits (360 banks as of 12 February 2019) is posted on DIA website in the section "Deposit Insurance/List of Banks" (asv.org.ru/insurance/banks_list/).

CONSUMER RISKS (Associated with Placement of Funds on Deposits)

- Substitution of the deposit for higher-risk financial products (e.g. ILI policy) not covered by the DIS
- When attracting funds from the public, banks may use the concept of "deposit" to refer to investment products or make misrepresentations about the repayable nature and "insurance" of the funds attracted by the banks during an oral consultation
- Illegal use by banks of the so-called "off-balance sheet" accounting when no data on the accounts (deposits) opened by individuals are reported in the accounting records
- Contestation of cash withdrawals by the bankrupted banks' depositors within a short time before bankruptcy and collection of funds from them by DIA

RECOMMENDATIONS TO CONSUMERS

- It is advisable to conclude a deposit agreement solely in the bank premises
- It is necessary to make sure that the agreement specifies the full name of the bank employee and details of his/her credentials
- After signing the agreement, it is necessary to claim one's counterpart bearing 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 advisable to request an account statement from time to time; in case of the bank's refusal to deliver it, it is necessary to file a complaint with the Bank of Russia
- It is inadvisable to convert a bank deposit into any other types of financial services²²⁹

With a view to expanding the range of tools intended to counter "off-balance sheet" deposits, effective from 08 January 2019, failure by a credit organization to enter the information on large amounts of funds deposited by individuals and individual entrepreneurs in its financial documents qualifies as a crime²³⁰ (Article 172.3 of the Criminal Code of the Russian Federation) punishable by up to 4 years of jail, and if committed by an organized gang – by up to 7 years of jail²³¹.

One should note that DIA frequently denies payments if the bank's financial problems were known at the deposit opening time. In this case, the key issue traditionally concerned the extent to which this information was available to the public at large.

To that end, the Bank of Russia developed a procedure for publishing the relevant information²³² that came into force on 26 January 2019. However, consumers may encounter difficulties when trying to find the necessary information on the Bank of Russia website.

²²⁹ At Stake // Kommersant Newspaper No. 81 dated 11 May 2017, p. 13 kommersant.ru/doc/3292802.

²³⁰ A large amount means an amount of concealed funds exceeding RUB 3 mln in total within a period of one financial year.

²³¹ Federal Law No. 530-FZ dated 27 December 2018 "On Amendments to the Criminal Code of the Russian Federation and to the Criminal Procedure Code of the Russian Federation".

²³² Bank of Russia Ordinance No. 4951-U dated 29 October 2018 "On the Procedure for Disclosing on/Removing from the Bank of Russia Website Information on Imposing the Bank of Russia's Ban for Banks to Raise Retail Deposits and Open Bank Accounts to Individuals".

With a view to countering “off-balance sheet” deposits, the possibility of launching a unified register of retail deposits²³³ was contemplated as early as in 2018, but it was ultimately abandoned in 2019 due to, along with other reasons, high costs and major information security risks²³⁴.

It is worth mentioning that DIA is implementing the project “Online DIA” that provides for raising the availability of services by means of modern channels of interaction with the UPSMS, by means of DIA website, and by means of remote service facilities for agent banks²³⁵.

FOR REFERENCE

DIA is planning to substitute agent banks’ insurance compensation payment services for direct payments to the accounts named by depositors. This issue is to be resolved within 1-1.5 years. In this case, the payments will be effected faster: within 2-3 days instead of the current 12 days²³⁶.

Under this project, DIA will offer a new service enabling agent banks to accept claims for insurance compensation online and effect payments via own online applications.

At the beginning of 2020, PJSC Sberbank was the first entity to announce completion of the testing and availability of this service for use. In the future, depositors will be able to file claims remotely and obtain insurance compensations via the UPSMS or DIA website as well.

At the end of 2019, DIA launched an upgraded portal for creditors of the credit institutions to be liquidated (creditors.asv.org.ru/banks)²³⁷ summing up the information on all measures that the banks to be liquidated are subjected to and containing up-to-date information, including the information on insurance compensation payments and settlements with the creditors, as well as the information for borrowers.

In addition, in 2019, the UPSMS opened access to DIA services making it possible to obtain an extract from the register of bank liabilities to depositors specifying the compensation amount for deposits and statement of disbursements and deposits where an insurance compensation has already been paid out²³⁸.

FOR REFERENCE

Under the independent monitoring of financial consumer protection, ConfOP issued guidelines for potential savings consumer protection activities²³⁹, in particular:

Enactment of provisions enshrining the bank’s duty to deliver an agreement containing individual terms to the consumer for review. Execution of contracts in a readily available and intelligible standardized form;

Adjustment of requirements to the standards for consumer notification on financial organizations’ websites;

Adjustment of requirements to the consumer notification on the deposit agreement expiration date.

It is worth noting that in certain instances (e.g. inheritance, sale of immovable property), accounts of individuals may temporarily have balances that are much higher than the maximum insurance compensation amount. Considering the social significance of such events and based on international experience, a draft law was brought before the SD RF in July 2019 that proposes to provide a possibility of receiving a higher compensation amount for such deposits (similar to escrow accounts, the maximum amount will be RUB 10 mln)²⁴⁰.

To implement the Action Plan (“Roadmap”) to Promote Competition²⁴¹, the FAS of Russia and the Bank of Russia issued a joint letter against unfair competition in the deposit market²⁴² in late 2018. Thus, certain credit institutions used to capture depositors by raising interest rates on replenishable term deposits followed by a variety of measures adopted to worsen the terms of the deposits opened earlier, which may give them an unfair advantage over their competitors and distort competition. For instance, multiple depositors would have chosen a different credit institution, had they known about such practices.

Yet again in 2019, the issue concerning potential introduction of the irrevocable deposit institution was raised (when it is possible to withdraw the funds before maturity, whether in whole or in part). On its part, the banking community justifies the practicality of instituting this type of deposits by reference to European practices. The option of withdrawing a deposit at any time was conceived as a means to protect the depositor as a weaker party to the agreement. Therefore, any attempts to

²³³ Central Bank to Launch Unified Register of Retail Deposits, 31 May 2018 // Rossiyskaya Gazeta Internet Portal rg.ru/2018/05/31/cb-zapustit-edinyj-reestr-vkladov-fizlic.html.

²³⁴ Central Bank Deems It No Longer Necessary to Create Unified Register of Depositors, 27 June 2019 // Prime Economic Information Agency 1prime.ru/finance/20190627/830111376.html.

²³⁵ DIA Offering Online Insurance Compensation Payment Service via Agent Banks, 03 February 2020 // DIA asv.org.ru/agency/for_press/pr/649885.

²³⁶ DIA to Make Direct Payments to Depositors in 2-3 Days, 31 January 2019 // Rossiyskaya Gazeta Internet Portal rg.ru/2019/01/31/asv-budet-napriamuiu-vyplachivat-vozmeshcheniia-vkladchikam-za-2-3-dnia.html.

²³⁷ DIA Launches Creditors Portal on Its Website, 03 December 2019 // DIA asv.org.ru/agency/for_press/pr/631463.

²³⁸ Deposit Insurance Agency Services Now Available on the Unified Portal for State and Municipal Services, 16 December 2019 // DIA asv.org.ru/agency/for_press/pr/634891.

²³⁹ Twelfth Interim Report on Contract No. FEFLP/QCBS-4.11 “Independent Monitoring of Financial Consumer Protection”, December 2018 – May 2019 // ConfOP konfor.ru/мониторинг-рынка-финансовых-услуг.

²⁴⁰ Draft Law No. 757296-7 “On Amendments to Certain Legal Acts of the Russian Federation” (to enhance the system of compulsory insurance of deposits with banks in the Russian Federation).

²⁴¹ Executive Order of the Government of the Russian Federation No. 1697-r dated 16 August 2018 “On Approval of the Action Plan (“Roadmap”) to Promote Competition in Economic Sectors of the Russian Federation and on Change of Status of Individual Natural Monopolies from a Natural Monopoly to an Entity Acting Competitively for 2018-2020”.

²⁴² FAS of Russia Letter No. IA/108764/18, Bank of Russia Letter No. IN-01-52/82 dated 29 December 2018 “Against Unfair Competition in the Deposit Market”.

introduce the respective regulatory framework will significantly compromise the level of consumer protection in the deposit market.

In pursuance of the List of Instructions Issued After the State-of-the-Nation Address of the President of the Russian Federation on 25 March 2020 due to the Spread of the COVID-19, a law²⁴³ was enacted stipulating that starting from 2021, interest on deposits shall be subject to a 13% personal income tax to the extent they exceed the “non-taxable minimum” (product of RUB 1 mln and the key interest rate as of the first day of the tax period). The first tax payment shall be due in 2022. Thereat, the extra income referred to above shall be allocated to payments to families with children, unemployed and temporarily disabled individuals.

CONSUMER RISKS (in the Savings Services Market)

- *Inability to obtain reliable information on deposit parameters due to the lack of a uniform information provision standard*
- *Lack of opportunity for the client to review a deposit agreement before signing it*
- *Losses caused by hard selling of the services unnecessary for the consumer*
- *Failure to obtain an insurance compensation in case of an insured event because of “off-balance sheet” deposits*
- *Failure to obtain an insurance compensation in full*
- *Claims for the depositor's funds previously withdrawn from a bank the license whereof was revoked afterwards*
- *The bank's offer of a deposit interest rate that is significantly higher than the average market rate*
- *Refusal to refund a deposit/delayed refund of a deposit*
- *Restrictive deposit withdrawal tariffs*
- *Charging of a deposit replenishment fee*
- *Charging of a fee for transactions on accounts whereto the deposit amounts are transferred at maturity*
- *Reduction of the interest accrued on deposits starting from a certain deposit replenishment date*
- *Setting of a low value for the maximum amount by which a deposit may be replenished within 1 calendar month*
- *Significant increase in the minimum amount for a lump-sum deposit replenishment*
- *Ban on deposit transactions that were allowed in the past*
- *Expropriation of an unclaimed deposit by the state*
- *Amendment of deposit terms due to amendment of deposit insurance and/or deposit income taxation terms*
- *Low deposit interest rates due to deterioration of the competitive environment and stronger positions of major credit institutions in the banking market in certain areas*
- *Misappropriation of funds from a deposit due to depositor data compromise*
- *Refusal to refund a deposit under the pretext of AML/FT requirements*
- *Renewal of deposits on less beneficial terms by default, in particular, without notifying depositors*
- *Adoption of regulations institutionalizing irrevocable deposits*

RECOMMENDATIONS TO CONSUMERS

- *When choosing the bank to open a deposit, it is necessary to check the availability of a valid banking license*
- *It is advisable to subject the information on the banks from diverse sources to a critical examination: documents and service terms on banks' websites, feedback from clients (on dedicated websites, e.g. banki.ru)*
- *It is necessary to check whether the bank participates in the DIS (on the Bank of Russia or DIA website)*
- *It is advisable to review the types of savings services (Table 2.1.)*
- *It is necessary to compare the offers by reliable banks for basic parameters and choose the most beneficial of them (Table 2.2.)*
- *It is advisable to read the deposit agreement thoroughly*
- *It is necessary to monitor the market situation, since a bank deposit may depreciate due to a high inflation rate*
- *It is advisable to open term deposits with a relatively low maturity (1-3 years) in order to be able to review the terms upon expiry*
- *It is unadvisable to keep large amounts on a bank account and on a demand deposit. This makes sense in two situations: if the funds will have to be used within 1 month or if this is a minor reserve just in case (in an amount not exceeding 1-month income)*
- *Consumers should remember that if the agreement contains a clause allowing for a unilateral reduction of the rate on a term deposit by the bank, this clause is null and void: the rate may be reduced solely when provided so by the law*
- *Consumers should remember that a bank deposit certified with a registered savings certificate (issued to the person specified in the form of the certificate) is insured by the DIS. If a savings certificate is issued to a bearer, the deposit*

²⁴³ Federal Law No. 102-FZ dated 01 April 2020 “On Amendments to Parts One and Two of the Tax Code of the Russian Federation and Certain Legal Acts of the Russian Federation”.

shall not be covered by insurance

- After a deposit matures, it is necessary to review the renewal terms; should they become less beneficial, it is advisable to close this deposit and open a new one on the optimum terms
- A deposit may be withdrawn at any time. In this case, the interest set out in the agreement will be lost. If a bank refuses to refund a deposit early, consumers may file a complaint with the Bank of Russia
- A compensation may be claimed in case of breach of bank secrecy. For instance, the information on the depositor, deposit and account transactions qualifies as bank secrecy. It is not subject to disclosure, except as provided otherwise by the law (the information may be disclosed solely to the CHBs and government bodies to the extent applicable)
- Consumers should remember that during the opening of a deposit or account, a bank is not entitled to compel depositors to conclude any additional transactions (e.g. insurance agreements). However, a bank may offer more beneficial terms to those consumers who are willing to conclude additional transactions
- Upon closure of the bank office where the deposit was opened, a consumer may use the services of any other office operated by this bank

Table 2.1. Comparison of Types of Savings Services by Yield, Reliability and Liquidity

Service type	Yield, %	Reliability ²⁴⁴	Liquidity ²⁴⁵
Term deposit	High	High	Medium ²⁴⁶
Demand deposit	Extremely low	High	High ²⁴⁷
Bank account	Extremely low	High	High
Savings certificate	High	High	Medium

Table 2.2. Key Parameters to Compare Bank Offers for Savings Services and Recommendations to Consumers

Comparison parameter	Recommendations
Deposit interest rate and maturity	• It is preferable to secure the highest possible interest rate for a period when depositors can do without the amount to be deposited
Interest payment frequency	• In case of an identical interest rate, a depositor will benefit from receiving the interest payments as frequently as possible
Capitalization of interest (interest accrual on the interest)	• Capitalization is recommended to those depositors who are not sure that they will not need to withdraw their deposit before maturity
Terms of premature deposit closure (whether in whole or in part)	• The simpler, the better
Option to replenish the deposit during the validity period of the agreement	• Useful in case of the opportunity to replenish the deposit. However, this option will push down the interest rate all else being equal
Amount of fees for additional services (commission fees, etc.)	• The lower the better

Credits: Key Trends

Following a downturn in crediting volumes in 2015, stagnation in 2016, recovery in 2017 and major growth in 2018 (+22.4%), the credit market stabilized in 2019 (+18.5%) combined with a traditional decline in the share of foreign currency credits (from 0.7% to 0.5%).

FOR REFERENCE

According to VCIOM, the credit confidence index²⁴⁸ amounted to 29 pp at the beginning of 2020, 5 pp higher than in January 2019.

The growth coincided with stagnation of real disposable household income. Thereat, households were forced to spend savings and search for ways to save in order to maintain their standard of living.

The portfolio of unsecured consumer loans was growing at an outstripping pace as compared to the RMCs and car

²⁴⁴ High on condition that the savings service is covered by the DIS.

²⁴⁵ Option to withdraw or encash funds.

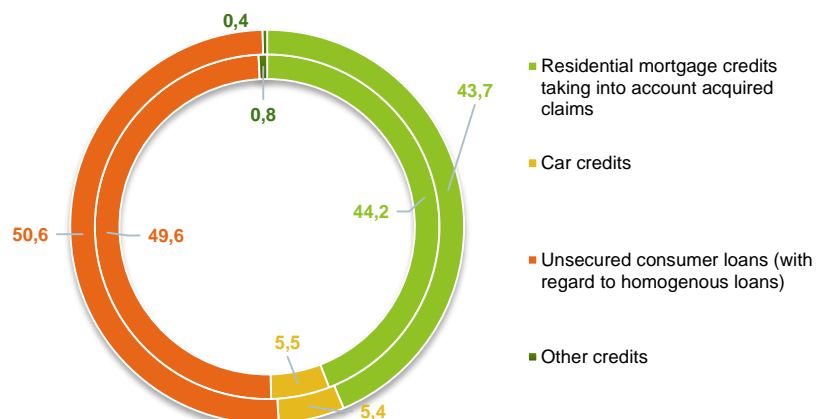
²⁴⁶ Subject to a reduction of the interest that has not been accrued yet to the demand deposit rate.

²⁴⁷ Instantaneously and loss-free.

²⁴⁸ Purchases, Credits and Deposits, No. 4163, 06 February 2020 // VCIOM wciom.ru/index.php?id=236&uid=10152.

credits (Figure 2.12).

Figure 2.12. Structure of the Retail Credit Portfolio at the Beginning (Inner Circle) and at the End of 2019 (Outer Circle) by Credit Types



Source: Bank of Russia

Reduction of interest rates served as the growth engine for crediting volumes. The weighted average rate on retail RUB credits net of PJSC Sberbank with a maturity exceeding 1 year amounted to 11.8% p.a. in December 2019 (as compared to 12.6% in December 2018)²⁴⁹. In 2020, experts expect a further slowdown of retail credit growth²⁵⁰.

According to NAFI, a third of the Russian population (33%) used credit services as of early 2020²⁵¹. Most frequently, such services are used by employed persons (41%), and less frequently – by retirees (17%).

It is noteworthy that 23% of respondents aged 18-22 have credits. Thereat, 2019 witnessed a higher number of instances when credit cards for high amounts (RUB 100-200 thous.) were issued to non-working borrowers 18 years of age. Considering that a high number of young people in this age group are dependents, the credit burden fully rests on the parents.

According to the representatives of the SD RF, it is absolutely necessary to prevent a situation when the credits obtained by teenagers of age are repaid at the expense of their parents. This type of crediting must become unprofitable for banks through imposition of provisioning requirements and other measures²⁵².

Oftentimes, the borrowers of banks with licenses revoked encounter the problem concerning the ways to service their credit farther on. Thus, in late 2018, DIA launched a payment portal (payasv.ru) in order to provide borrowers with an opportunity to continue the servicing of their credits online from a card or e-wallet²⁵³.

CONSUMER RISKS (Associated with Repayment of a Credit with a Bank with a License Revoked)

- Unavailability of channels to service a credit from a bank the license whereof was revoked afterwards

RECOMMENDATIONS TO CONSUMERS

- Consumers can continue servicing the credits from banks the licenses whereof were revoked by means of the payment portal payasv.ru

At the beginning of 2019, with a view to increasing bankruptcy estate receipts and reducing legal costs and in order to speed up the liquidation of credit institutions, DIA simplified the consideration procedure for requests to settle the debts owed by the borrowers of the banks the licenses whereof were revoked, NSPFs and insurance companies the liquidation procedures whereof are administered by DIA in the capacity of a receiver²⁵⁴.

The information on the restructuring of debts under credit agreements and conclusion of settlement agreements is available on DIA website in the section “For Borrowers of Financial Organizations to Be Liquidated” (asv.org.ru/debtor).

At the beginning of 2020, borrowers started complaining about the lack of possibility to service credits due to the COVID-19 and quarantine²⁵⁵.

According to the representative of a financial services aggregator, continuous spread of the coronavirus disease will

²⁴⁹ Weighted Average Interest Rates on RUB Credit and Deposit Transactions Net of PJSC Sberbank // Bank of Russia cbr.ru/vfs/statistics/pdco/int_rat/loans_deposits_except_for_Sberbank.xlsx.

²⁵⁰ Banking Sector Forecast for 2020: March Madness, 16 March 2020 // Expert RA raexpert.ru/researches/banks/bank_sector_forecast2020#part4.

²⁵¹ Borrower Profile: Who Resorts to Credits Most Frequently in Russia? 16 January 2020 // NAFI nafi.ru/analytics/portret-zaemshchika-kto-v-rossii-chashche-vsego-beret-kredit.

²⁵² Unaffordable Pocket Expenses. Crediting of Schoolchildren Gathering Pace, 14 June 2019 // Kommersant Newspaper No. 101 dated 14 June 2019, p. 1 kommersant.ru/doc/3999739.

²⁵³ DIA Launches New Online Project: Payment Portal for Borrowers of Banks with Licenses Revoked, 05 December 2018 // DIA asv.org.ru/agency/for_press/pr/556066.

²⁵⁴ DIA Adopts New Approach to Settlement of Debts with Borrowers of Financial Organizations to Be Liquidated, 06 March 2019 // DIA asv.org.ru/agency/for_press/pr/568904.

²⁵⁵ Collectors and Banks Report Refusals to Pay Debts due to the Epidemic, 26 March 2020 // RBC rbc.ru/finances/26/03/2020/5e7b90319a79471126d8c2cf.

result in one in 15 debtors discontinuing payments in the near future. This prediction is based on the assumption that the clients' income will decline in a situation when sports complexes, restaurants, movie theaters and shopping malls are closed. Statistics indicates that over 25% of all borrowers are employed in the service sector, and therefore, they will fall in the risk group before anyone else. It is impossible to rule out the risk that a certain share of debtors will simply attempt to evade liability.

CONSUMER RISKS (Associated with the Loss of Income When Servicing Credits)

- *Loss of the possibility to repay credits*

CONSUMERS ARE STRONGLY ADVISED TO:

- *Report the current situation to the bank without delay and take all efforts to agree on debt restructuring or credit holidays*
- *Examine the terms of the insurance agreement (if any): the current situation may potentially qualify as an insured event*
- *Evaluate other banks' debt refinancing offers*
- *If the bank violates the terms of the agreement – contact Rospotrebnadzor, the Bank of Russia, Financial Ombudsman, court, or consumer protection organizations*
- *Demand credentials from debt collectors, refuse to let them in*

On 20 March 2020, the measures to support the public, economy, and financial sector during the COVID-19 pandemic²⁵⁶, in particular, to support credit institutions, were published:

- They establish the right to refuse to recognize credits restructured to create provisions and waive macroprudential mark-ups with respect to such credits until 30 September 2020, provided that the borrower submits a relevant request and presents proof of being infected with the COVID-19;
- They establish the right to increase credit provisions until 30 September 2020 in case of deterioration of the borrower's financial situation and/or debt service quality, provided that the borrower presents proof of being infected with the COVID-19.

In addition to the measures adopted earlier and pursuant to the Instructions of the President of the Russian Federation dated 25 March 2020, the measures to protect the interests of individual borrowers affected by the spread of the pandemic related to decline in income²⁵⁷ were published on 27 March 2020.

In particular, credit institutions were provided with an option not to recognize credits, provided that the borrower submits a request to restructure the debt due to decline in income after 01 March 2020 entailing objective problems with performance of credit obligations restructured to create provisions until 30 September 2020 on condition that the relevant debt was not overdue for more than 30 days as of 01 March 2020.

Pursuant to the List of Instructions Issued After the Address of the President of the Russian Federation due to the Spread of the Coronavirus Disease in the Country No. Pr-586 dated 28 March 2020, the legislation was amended on 03 April 2020 so as to provide the possibility of suspending performance of obligations under a credit agreement due to the spread of the COVID-19²⁵⁸.

Thus, the amendments provide for entitling individuals and individual entrepreneurs to request the creditor (on or before 30 September 2020) to suspend performance of their obligations for up to 6 months, in particular, in case of decline in the borrower's income (all borrowers' total income) for the month preceding that of the request by more than 30 percent as compared to the average monthly income for 2019. In this case, the information on failure to make credit (loan) payments during the said grace period shall be removed from the individual's credit history. It is worth noting that the banking legislation novelties and provisions continuously in force expose the borrowers of credit institutions to the following essential risks.

CONSUMER RISKS (in the Credit Services Market)

- *Absence of any obligations for the banks to provide the consumer with a model agreement containing the general and individual crediting terms and detailed credit calculation for review before signing, or to post model agreements containing these crediting terms on their websites*
- *Incorporation of unwarranted terms, fines and fees into credit agreements*
- *Unavailability of necessary information in the consumer credit tabular form, including the information on the total amount payable by the borrower (credit principal + interest + other charges); on the amount payable by the borrower for a unit of currency borrowed thereby; on the terms of early repayment of the credit*
- *Failure by the banks to notify the public on the range of credit interest rates (minimum and maximum ones); on the effect of additional terms (active account with the bank, purchase of insurance products, active payroll card with the*

²⁵⁶ Bank of Russia Approves Measures to Support the Public, Economy, and Financial Sector During the Coronavirus Pandemic, 20 March 2020 // Bank of Russia cbr.ru/press/pr/?file=20032020_133645if2020-03-20T13_36_08.htm.

²⁵⁷ Bank of Russia Approves Additional Measures to Support the Public, Economy, and Financial Sector During the Coronavirus Pandemic, 27 March 2020 // Bank of Russia cbr.ru/press/pr/?file=27032020_152031dkp2020-03-27T15_20_11.htm.

²⁵⁸ Federal Law No. 106-FZ dated 03 April 2020 "On Amendments to the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)" and Certain Legal Acts of the Russian Federation with Regard to Specific Features of Changing Terms of a Credit Agreement, Loan Agreement".

bank, etc.) on the interest rate

- Use of the lowest possible interest rates on the credit for credit calculator estimations on the websites by the banks
- When the credit parameters are estimated by means of the credit calculator on the bank's website, the bank provides no information on the total debt amount and on the amount overpaid for the credit, including for a credit with a maturity that is longer than the maturity requested by the consumer
- Unavailability of highlighted textual/infographic information on the steps to be taken by the consumer in case of unauthorized debiting of funds from an account or loss/theft of a card with mandatory provision of the bank's hotline number and notice to report the problem to the bank immediately (within 24 hours) on the banks' website
- Unavailability of a public register of unfair practices used by the banks in the credit services market
- Purchase of a financial product at a price that is excessively high for the borrower
- Receipt of a credit that is exorbitant for the household's budget due to unfair practices on the part of financial service providers
- Hard selling of insurance (e.g. "financial protection"), information and other services during the crediting process
- Incorporation of the insurance service cost into the credit principal by the bank
- Unavailability of the option to choose an insurance company to purchase a credit insurance policy at one's own discretion. As a rule, the insurance services offered by a bank are much more expensive than similar services elsewhere
- Misunderstanding of the reasons for incurring overdue debt and procedure for charging fines and penalties
- Errors in recording the performance of obligations by the borrower, both through the fault of the borrower and that of the bank, entailing a situation when the borrower deems his/her liabilities discharged and the bank deems the opposite and continues charging interest and penalties
- Debiting of funds by the bank without the borrower's authorization from accounts not intended for credit repayment in accordance with the credit agreement (or addenda/amendments thereto) signed by the parties
- Rejection by the bank of the consumer's request to refinance the credit at a lower interest rate under similar circumstances
- Unjustified denial of services to the public under the pretext of the necessity to comply with the AML/FT requirements for the banks

RECOMMENDATIONS TO CONSUMERS

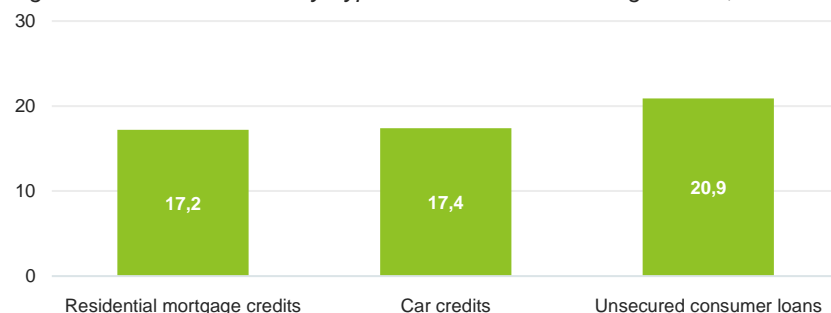
- A credit may be rejected before it is actually taken
- To make a preliminary estimate (before filing a request) of the amount of payments and interest for the crediting period, it is advisable to use financial calculators (for instance, vashifinancy.ru/finansovye-kalkulyatory)
- It is necessary to rate one's solvency for the entire validity period of the agreement. To do so, it is necessary to deduct total expenses from total income and make sure that the difference exceeds the amount of payments
- It is advisable to remember that monthly payments on all credits combined should not exceed 30% of the household monthly income
- It is necessary to create a financial reserve against emergencies (equal to the income for 3 months at the very least)
- It is advisable to remember that the total credit amount should not exceed the total value of the property that could be sold in case of an emergency
- It is necessary to evaluate the necessity of insurance (of life, health, property, etc.) for the amount of the credit at the least. In this case, it is advisable to rate the offers by as many insurance companies as possible
- It is necessary to examine the terms of the agreement thoroughly before signing it. The bank must provide the borrower with the individual terms of the credit agreement. For 5 days upon receipt by the borrower, the bank may not change them at its sole discretion

In order to provide a detailed description of development trends in individual segments of the credit services market, the section below contains some reviews of the most large-scale and popular categories of credit products (which is the reason why they expose consumers to highest risk).

Mortgage Crediting

In 2019, the RMC portfolio grew by 17.2% and reached RUB 7.7 trn. (Figure 2.13).

Figure 2.13. Growth Rates by Types of Consumer Crediting in 2019, %



Source: Bank of Russia

In the meantime, the quantities and volumes of issued RMCs declined as compared to the 2018 record highs. Thus, 1.269 mln new RMCs were issued worth of over RUB 2.8 trn in total, which is 13.8% less in terms of quantity and 5.5% lower in terms of volumes than in 2018.

FOR REFERENCE

According to NAFI²⁵⁹, 7% of Russian households are servicing a mortgage credit.

A slowdown of RMC growth is partly due to the toughening of the monetary policy in late 2018 – early 2019 and introduction of new regulations on shared construction financing. Gradual reduction of interest rates that was resumed in mid-2019 (in December, the RMC rate fell to the all-time low 9% and was continuously declining at the beginning of 2020) will support RMC growth in 2020. Demand will be further supported by the implementation of the national projects “Housing and Urban Environment” and “Demography” (in particular, expansion of the maternity fund program).

Increase in the prices for new housing resulting from implementation of new mechanisms of shared housing construction financing is a negative factor.

The quality of RMCs is persistently high. Thus, the share of overdue debt on RMCs in 2019 went down from 1.1% to less than 1%²⁶⁰. Thereat, RMCs account for a large share of retail crediting: as of 01 January 2020, RMCs accounted for about 44% of the total retail credit portfolio²⁶¹.

Thus, a high share of good-quality RMCs in the total retail credit portfolio significantly reduces the exposure of credit consumers to risks.

However, the measures providing for an increase in risk factor mark-ups under RMCs (when the ratio of the credit amount requested to the value of the property pledged by the borrower falls between 80% to 90% from 150 to 200% effective from 01 January 2019) are pushing up the rate on credits with a minor downpayment, and hence, the monthly payment amount. This gives rise to the risk of lower availability of mortgage crediting to the persons/families with a relatively low income that oftentimes are unable to save a large amount for a downpayment.

FOR REFERENCE

According to experts, the RMC growth rate will amount to 10% in 2020. In the meantime, mortgage crediting will be constrained by increase in immovable property prices, weak effective demand, and potential introduction of increased risk factors for borrowers with a high DBI²⁶².

The situation may be made even worse by potential introduction of variable risk factor mark-ups under RMCs depending on the DBI and credit/pledge ratio starting from 01 July 2020²⁶³. Thus, the availability of mortgage crediting to solvent persons/families with a high DBI may decline significantly.

The growth of mortgage crediting is largely dependent on the situation in the housing construction market that has been recently characterized both by positive novelties and adverse developments caused by bottlenecks in the new regulatory framework.

Thus, the Shared Construction Law²⁶⁴ adopted in 2004 did effectively protect the buyers of housing in new construction projects, but it failed to rule out illegal schemes used to attract funds from the public (in circumvention of the law), as it did not establish special legal liability.

In 2013, regulations on compulsory insurance by the developer of its risks were adopted. However, the mechanism failed

²⁵⁹ Payroll Cards and Mobile Banking Are Financial Products Most Popular with Russians, 11 September 2019 // NAFI nafi.ru/analytics/zarplatnye-karty-i-mobilnyy-bank-samyey-populyarnyye-finansovyye-produkty-u-rossiyan/.

²⁶⁰ Residential Mortgage Credits Granted to Individuals Enjoying the Status of Residents and Acquired Claims to Residential Mortgage Credits // Bank of Russia cbr.ru/vfs/statistics/BankSector/Mortgage/02_02_Mortgage.xlsx.

²⁶¹ Banking Sector Development in the Russian Federation in January 2020. Information Analysis // Bank of Russia cbr.ru/Collection/Collection/File/27385/razv_bs_20_01.pdf.

²⁶² Banking Sector Forecast for 2020: March Madness, 16 March 2020 // Expert RA raexpert.ru/researches/banks/bank_sector_forecast2020#part4.

²⁶³ Public Consultation Paper “Measures Taken by the Bank of Russia to Ensure Balanced Growth of Mortgage Crediting”, 17 December 2019 // Bank of Russia cbr.ru/Content/Document/File/94935/Consultation_Paper_191217.pdf.

²⁶⁴ Federal Law No. 214-FZ dated 30 December 2004 “On Participation in Shared Construction of Apartment Buildings and Other Items of Immovable Property and on Amendments to Certain Legal Acts of the Russian Federation”.

due to numerous insurance restrictions. For instance, insurance companies refused to include internal fraud during construction in the list of insured risks.

CONSUMER RISKS (Associated with Conclusion of a Shared Construction Participation Agreement (SCPA))

- *Protraction of construction*
- *Delivery of an apartment with defects*
- *Developer's bankruptcy*
- *Low price of the housing. May represent an indicator of fraud or insecure position of the developer*
- *Incorporation of clauses that are in conflict with the law or refusal to incorporate mandatory provisions into the SCPA*
- *Hard selling of additional compensated services (e.g. transaction legal support services) by the developer*
- *The person signing the SCPA on behalf of the developer is not authorized to sign it*
- *The developer has no construction permit, certificate of title (lease/sub-lease agreement) to the land plot for facility construction*
- *Unavailability of the project disclosure statement on the developer's website*

RECOMMENDATIONS TO CONSUMERS

Prior to concluding the SCPA, it is necessary to verify the developer and item of immovable property thoroughly, including by using:

- *Single Information System for Housing Development services (наш.дом.рф)*
- *Information provided by construction supervision bodies*
- *Information on judicial proceedings (kad.arbitr.ru/)*
- *Database of enforcement proceedings (fssprus.ru/iss/ip)*
- *Construction forums, groups of shared construction participants in social networks*
- *Media publications*
- *Experts' opinion*
- *Developer employees' feedback on the company*
- *Tax debts (if any) (egrul.nalog.ru)*
- *Accreditation of the developer with the banks (if any)*
- *Documentation on the developer's website*
- *Draft SCPA²⁶⁵*

In 2018, the Fund for Protecting Shared Construction Participants was launched. A developer transfers 1.2% of funds to the Fund per each transaction. As of October 2019, the Fund consolidated RUB 35 bln. However, more than 800 distressed facilities (apartment buildings) had emerged over the previous years. It will take 5 years to finance these construction projects.

In 2019, the Single Information System for Housing Development was launched. Among other things, it contains a catalogue of new construction projects (risk-free facilities); a tool to secure support for families with many children; a unified register of distressed facilities (with an option to report a distressed building); a consultation center (Q&A, step-by-step instructions, guidelines for housing purchase, execution of transactions, mortgage crediting).

With a view to minimizing potential exposure of the public to risks, the shared construction legislation was amended²⁶⁶ so as to ensure a replacement of the current model of attracting private funds, including those obtained under RMCs, directly to developers' accounts with the target model envisaging that the funds of the persons participating in shared construction will be deposited on escrow accounts²⁶⁷ with a bank until completion of construction and registration of title to the first shared construction facility.

FOR REFERENCE

Project financing is already used for one in 4 construction projects in Russia. The share has reached 27%, and it is distributed more or less evenly across the regions²⁶⁸.

Under the new model, construction is financed out of a bank credit or developer's own funds while the funds deposited on escrow accounts become available to the developer only upon completion of construction and registration of title to the

²⁶⁵ How Not to Become a Hoodwinked Investor: 12 Developer Verification Methods, 31 July 2018 // RBC realty.rbc.ru/news/5b5f6eb79a7947f5e54db77a.

²⁶⁶ Federal Law No. 175-FZ dated 01 July 2018 "On Amendments to the Federal Law "On Participation in Shared Construction of Apartment Buildings and Other Items of Immovable Property and on Amendments to Certain Legal Acts of the Russian Federation" and Individual Legal Acts of the Russian Federation".

²⁶⁷ According to the CC RF, under an escrow account agreement, the bank shall open an escrow account in order to record and block funds received thereby from the account holder with a view to transferring them to another person on the grounds stipulated by the escrow account agreement.

²⁶⁸ Bulk of Project Financing Concentrated in the Regions, 20 February 2020 // JSC DOM.RF дом.рф/media/news/osnovnoy-obem-proektnogo-finansirovaniya-sosredotochen-v-regionakh.

first shared construction facility.

Thus, effective from 01 July 2019, funds may be attracted from shared construction participants solely by means of escrow accounts under SCPAs submitted for state registration after the date indicated above. A crucial novelty concerns expansion of insurance coverage to the funds placed by the public on the escrow accounts intended for settlements under SCPAs in the amount of up to RUB 10 mln.

The idea is that transition to project financing will make it possible to protect the rights of individuals participating in shared construction projects, 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 project financing and they will no longer depend on the flow of funds from shared construction participants²⁶⁹.

In April 2019, in pursuance of the Instruction of the President of the Russian Federation,²⁷⁰ the eligibility criteria²⁷¹ for developers were approved. Subject to conformity to these criteria, a developer shall be entitled to attract funds from shared construction participants without using escrow accounts under SCPAs submitted for state registration after 01 July 2019. The purpose of the relevant decision is to ensure completion of apartment buildings in the instances when a shared construction project can be completed under old rules, i.e. without using escrow accounts. According to N. E. Stasishin, Deputy Minister of Construction, Housing and Public Utilities of the Russian Federation, it will take about 2-3 years to supersede the old financing mechanism with the new one completely²⁷².

An act²⁷³ stipulating that the money of the maternity fund intended to improve housing conditions may be allocated to the escrow account was signed on 14 February 2020.

CONSUMER RISKS (Associated with the Use of Escrow Accounts to Service SCPAs)

- *No interest is accrued on the funds frozen on escrow accounts*
- *Termination of a shared construction participation agreement (e.g. if the developer is on the brink of bankruptcy)*
- *Sharp increase in the price of housing following introduction of housing construction project financing, and therefore, lower affordability thereof even after taking the reduction of mortgage interest rates into account*
- *Lack of legal precedents in the area of housing construction project financing*

RECOMMENDATIONS TO CONSUMERS

- *It is advisable to remember that if the facility construction is not completed, considering the inflation rate, change in the market context and zero interest accrued on the escrow account, it will be hardly possible to purchase an apartment with the same parameters*
- *There is a risk of losing interest on credit if the SCPA is terminated (e.g. if the developer is on the brink of bankruptcy). The borrower will receive the downpayment and portion of the debt already repaid thereby refunded from the escrow account*

Changes in the housing construction financing scheme resulted in a higher quantity of claim assignment transactions under SCPAs (purchase of an apartment in an unfinished building that was earlier acquired from the developer). A list of essential and material risks associated with conclusion of these agreements is provided below.

CONSUMER RISKS (Associated with the Claim Assignment Transactions Under SCPAs)

- *Construction company's insecure position*
- *Cession of rights to the apartment that has not been paid for by the previous owner to the developer, whether in whole or in part*
- *Cession of rights to the apartment using a passport that is no longer valid*
- *Lack of the consent to the conclusion of the agreement on the cession of rights to the apartment from the seller's spouse*
- *Inclusion of minors in the list of owners under the SCPA*
- *Invalidation of the transaction*

RECOMMENDATIONS TO CONSUMERS

- *It is advisable to pay attention to the developer's financial position in case of a high quantity of apartments sold under cession of rights*
- *It is necessary to check whether the previous owner has paid for the apartment in full to the developer*

²⁶⁹ Shared Construction Financing // Bank of Russia cbr.ru/analytics/finansirovanie-dolevogo-stroitelstva.

²⁷⁰ Instruction of the President of Russia Issued After the Enlarged Meeting of the Presidium of the State Council Held on 12 February 2019 (No. Pr-555GS dated 29 March 2019, Sub-Clause "c" Clause 1).

²⁷¹ Resolution of the Government of the Russian Federation No. 480 dated 22 April 2019.

²⁷² Developers to Be Relieved from Bankers // Kommersant Newspaper No. 71 dated 20 April 2019, p. 1 kommersant.ru/doc/3951805.

²⁷³ Resolution of the Government of the Russian Federation No. 141 dated 14 February 2020 "On Amendment to the Rules of Allocating the Money of the Maternity (Family) Fund (or Part Thereof) to Improvement of Housing Conditions".

- *It is advisable to make a final settlement under the transaction after the agreement is registered*
- *It is necessary to check whether the seller's spouse has granted the consent to the conclusion of the agreement on the cession of rights to the apartment*
- *It is necessary to take the inclusion of minors in the list of owners under the SCPA into account. A different item of immovable property with an equal or bigger area is supposed to be purchased for them*
- *It is advisable to remember that the transaction may be invalidated if the first shared construction participant is declared bankrupt, and if the developer gives no claim assignment notice*

In pursuance of the Instruction on Implementation of Presidential Address to the Federal Assembly of the Russian Federation dated 20 February 2019, a law²⁷⁴ entitling a borrower in difficult circumstances to request the creditor to establish a "grace period" of up to 6 months when the borrower may suspend performance of his/her obligations or reduce the amount of periodic payments ("mortgage holidays")²⁷⁵ was adopted.

In 2019 and early 2020, the President of the Russian Federation proposed a number of initiatives to support families with children in the RMC market as part of the demographic policy. For instance, in July 2019, pursuant to the Instruction of the President of the Russian Federation dated 26 February 2019 and Instruction of the Prime Minister of the Russian Federation dated 28 February 2019, Russian citizens having the third or subsequent children (supposed to be Russian citizens as well) born in the period from 01 January 2019 through 31 December 2022 acquired the right²⁷⁶ to have their RMC liabilities repaid in the amount of the relevant debt, but not exceeding RUB 450 thous.

FOR REFERENCE

According to DOM.RF²⁷⁷, the amount of government support for families with 2 children exceeds RUB 2 mln – more than 40% of total expenses (price of housing and interest at 9% p.a.) – in case of an apartment purchased on mortgage on arm's length terms.

Should a family have their 3rd child, the total amount of support will be increased to over RUB 2.6 mln.

The funds mentioned above will be allocated to repay the principal debt, and if this amount is less than RUB 450 thous., the remaining funds will be allocated to repay the credit (loan) interest. Thereat, the agreement must be concluded prior to 01 July 2023. It is noteworthy that the said government support will be provided on a one-off basis, and the funds received thereunder will be exempt from the personal income tax²⁷⁸.

According to DOM.RF²⁷⁹, 43.6 thous. requests were received as of 07 February 2020, 31.6 thous. requests were approved, and RUB 11.7 bln was paid thereunder.

CONSUMER RISKS (Associated with the Payments to Service a Mortgage to the Benefit of Families with Many Children)

- *Not all mortgage credits are covered by government support*

RECOMMENDATIONS TO CONSUMERS

The mortgage credits that do not meet the government program eligibility requirements are as follows:

- *If the credit was issued by virtue of a preliminary purchase and sale agreement, i.e. the principal agreement was concluded after the actual issue of the credit*
- *Credits intended for "Purchase/Construction of an Item (Items) of Immovable Property and Overhaul Thereof/Payment for Other Inseparable Improvements"*
- *Credits for purchase of non-residential commercial properties, e.g. suites*
- *Credits for purchase of a land plot of any status, except for "private housing construction projects"*
- *Credits for purchase of a share in a residential property²⁸⁰*

In pursuance of individual Instructions on Implementation of Presidential Address to the Federal Assembly of the Russian Federation dated 15 January 2020, a draft law that provides for expanding the scope of the maternity fund program to families whose 1st child was born (or adopted) after 01 January 2020 was brought before the SD RF²⁸¹.

Thus, in 2020, the size of the maternity fund amounts to RUB 466,617. If the 2nd child is born or adopted, the size of the maternity fund will be increased by RUB 150 thous. and will total RUB 616,617. In addition, there is an opportunity to receive this money for the 3rd child and subsequent children, except as this right has been exercised before. The draft law establishes

²⁷⁴ Federal Law No. 76-FZ dated 01 May 2019 "On Amendments to Certain Legal Acts of the Russian Federation with Regard to Specific Features of Changing Terms of a Credit Agreement, Loan Agreement Concluded with a Borrower Being an Individual for Purposes Unrelated to His/Her Business Activities and Secured by Mortgage at the Borrower's Request".

²⁷⁵ Detailed information on the "mortgage holidays" is provided on the webpage fincult.info/article/kak-poluchit-ipotechnye-kanikuly/.

²⁷⁶ Federal Law No. 157-FZ dated 03 July 2019 "On Government Support Measures for Families with Children as They Regard Repayment of Liabilities Under Residential Mortgage Credits (Loans) and on Amendments to Article 13.2 of the Federal Law "On Civil Status Certificates".

²⁷⁷ Government Support Measures to Enable Families with Children to Save More Than RUB 2 mln on Purchase of Housing on Mortgage, 23 January 2020 // JSC DOM.RF dom.rf.dom/media/news/mer-y-gosudarstvennoy-podderzhki-pozvolyat-sekonomit-semyam-s-detmi-bolee-2-mln-rublej-pri-pokupke-zh.

²⁷⁸ Federal Law No. 158-FZ dated 03 July 2019 "On Amendments to Part 2 of the Tax Code of the Russian Federation".

²⁷⁹ Mortgage Market Performance in 2019, February 2020 // JSC DOM.RF dom.rf.dom/upload/iblock/4e7/4e7f4f2bdc1fb1eb1c02b69ae8d9b38d.pdf.

²⁸⁰ How to Receive RUB 450,000 to Repay Mortgage for Families with Many Children, 12 February 2020 // DomClick from Sberbank Portal blog.domclick.ru/post/kak-poluchit-450-000-rublei-na-pogasheniye-ipoteki-mnogodetnym-semyam.

²⁸¹ Draft Law No. 846971-7 "On Amendments to Certain Legal Acts of the Russian Federation Concerning Disposal of the Maternity (Family) Fund".

that this amount is supposed to be indexed every year, and the program will be extended until 31 December 2026.

Furthermore, it provides for an option to allocate the maternity fund to the construction (reconstruction) of a private housing construction facility on the garden plot.

It is worth mentioning that the maternity fund may be used to repay an RMC or to make a downpayment under the mortgage.

Use of the maternity fund to repay an RMC may entail the following problems:

- Failure to allocate a share of the apartment to a child. This may cause problems for future owners willing to resell the apartment;
- Certain persons' activities involving the illegal encashment of the maternity fund money by means of fraud schemes. As a result, the consumer usually ends up without a maternity fund or receives a minor amount that is much lower than the size of the maternity fund.

In March 2019, amendments²⁸² were introduced to the Rules of Granting Subsidies as Compensation for Lost Income Under Mortgage Credits Granted to Individuals with Children²⁸³ to extend the period of subsidizing family mortgage over the entire credit period. 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.

Alongside with the above, residents of the rural areas of the Far Eastern Federal District are now able to take a mortgage loan at 5% interest rate to buy residential property from both a legal entity and an individual (secondary housing) upon birth of the 2nd child and subsequent children within the period from 01 January 2019 through 31 December 2022. The persons who have refinanced credits will be able to refinance them once again.

FOR REFERENCE

The volume of the credits issued under the program rose: in the period from May through December 2019, about 39 thous. credits were issued worth of over RUB 100 bln; before the program was amended, 9.4 thous. credits had been issued worth of RUB 23.8 bln. In Q4 2019, the credits under the program "Family Mortgage" accounted for about 20% of the total quantity of credits for new construction projects. Certain banks are offering credits at around 5% interest rate (according to DOM.RF²⁸⁴).

Starting from 14 November 2019, this benefit has been available to Russian citizens with a disabled child born on or prior to 31 December 2022. It is noteworthy that the amount of the credit (loan), and in the event of concluding an additional refinancing agreement – of the outstanding debt – is set at RUB 6 mln, and in case of residential property located in Moscow, Moscow Region, St. Petersburg and Leningrad Region – up to RUB 12 mln. Thereat, the downpayment must be at least equal to 20% of the value of the residential property.

However, as banks were refinancing RMCs using the maternity fund in accordance with the terms depicted above, credit institutions and consumers encountered the following problems regarding registration of the pledge in the new creditor's name:

- Necessity to obtain custody and guardianship agencies' approval of the pledge of the residential property purchased at the expense of the maternity fund, which is impossible in practice due to contradictions in the terms and requirements;
- Necessity to register the item of immovable property as common property at the stage of changing the creditor.

To overcome these problems, a draft law has been brought before the SD RF that essentially transforms the relations between the borrower and the creditor into a lasting relationship to be deemed terminated only after the borrower pays for the item of immovable property in full²⁸⁵.

In December 2019, the terms of the program "Far Eastern Mortgage" were approved²⁸⁶. Thus, generally, a credit at a preferential 2% rate in accordance with the program may be taken by:

- A Russian citizen married to a Russian citizen. Thereat, the age of both spouses may not be above 35 years old;
- A single Russian citizen aged 35 or younger having a child under 18 years of age being a Russian citizen;
- A Russian citizen using a land plot in the Far Eastern Federal District on a gratuitous basis in accordance with the established procedure²⁸⁷.

FOR REFERENCE

As of 06 February 2020, 13.8 thous. requests were received, 8.4 thous. requests were approved, and credit agreements

²⁸² 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 Joint-Stock Company DOM.RF as Compensation for Lost Income on Issued (Acquired) Residential (Mortgage) Credits (Loans) Granted to Citizens of the Russian Federation with Children".

²⁸³ 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 Joint-Stock Company DOM.RF as Compensation for Lost Income on Issued (Acquired) Residential (Mortgage) Credits (Loans) Granted to Citizens of the Russian Federation with Children".

²⁸⁴ Mortgage Market Performance in 2019, February 2020 // JSC DOM.RF dom.rf.ru/upload/iblock/4e7/4e7f4f2bdc1fb1eb1c02b69ae8d9b38d.pdf.

²⁸⁵ Draft Law No. 880655-7 "On Amendments to Certain Legal Acts of the Russian Federation to Simplify Transition to a Mortgage with More Beneficial Terms for Families with Children".

²⁸⁶ Resolution of the Government of the Russian Federation No. 1609 dated 07 December 2019 "On Approval of the Terms of the Program "Far Eastern Mortgage" and on Amendments to Executive Order of the Government of the Russian Federation No. 1713-r dated 02 September 2015".

²⁸⁷ Federal Law No. 119-FZ dated 01 May 2016 "On Peculiarities of Granting Land Plots Owned by the Federal or Local Government and Located in the Constituent Entities of the Russian Federation That Form Part of the Far Eastern Federal District to Russian Citizens and on Amendments to Certain Legal Acts of the Russian Federation".

Thereat, the size of the credit shall not exceed RUB 6 mln or 80% of the value of the housing to be purchased (built), and the maturity of the credit shall not exceed 240 months. The credit is supposed to be issued in the period from 01 December 2019 through 31 December 2024.

With a view to instituting a mechanism to protect borrowers from unreasonable losses during the procedure of a voluntary or forced repudiation of an obligation and sale of the property pledged to secure performance of a debt obligation, Draft Law No. 907072-7²⁸⁹ was brought before the SD RF in February 2020 establishing the procedure for a pledgor being an individual to sell pledged property independently.

CONSUMER RISKS (Associated with the Repudiation of an Obligation and Sale of Pledge)

- *Charging of interest and increase in the borrower's debt even during the adjudication process or enforcement proceedings*
- *Protracted sale of the pledge entailing a further increase in the borrower's debt*
- *High expenses borne by the borrower (necessity to cover the auction costs (up to 3% of the property price) along with the enforcement fee (in certain instances) (7% of the property price and appraiser's fees)*
- *Lack of the option to find the buyer independently for a rapid sale of property and settlement*

RECOMMENDATIONS TO CONSUMERS

With a view to mitigating the risks listed above, pursuant to Draft Law No. 907072-7:

- *It is proposed to entitle a pledgor being an individual to sell the pledged property independently by virtue of a respective request with due regard for the interests of all parties involved*
- *The deadline for selling pledged property may not exceed 6 months from the date when the pledgor files a relevant request to authorize an independent sale of the pledge to the pledgee*
- *The funds received from the sale of the pledge shall be made available to the pledgee. The difference between the amount claimed under the credit (loan) secured by mortgage and the amount received from the sale of the property shall be refunded to the pledgor*
- *In case of failure to sell the pledge by the established deadline, execution shall be levied upon the property in accordance with the standard procedure established by the current mortgage legislation*

The debtor is most interested in selling the property as soon as possible and at the highest possible price. Therefore, the novelties to be introduced are supposed to accelerate the sale of the pledged property, slow down the growth of the debt amount and reduce the cost of sale, as there will be no need to engage an auction organizer, the FBS and appraiser to sell the pledged property.

Despite the improvements in the quality of the consumer credit portfolio (the share of overdue debt decreased from 5.1% to 4.3%) and improvements in the RMC indicators (the share of overdue debt decreased from 1.1% to less than 1% in 2019), the pressing problem of foreign currency RMCs persists.

For instance, in 2019, the share of overdue debt on RMCs issued in a foreign currency grew by 6.3 pp reaching 40.8%. However, the overall situation improved due to the measures adopted by the government (among other things).

The efforts to minimize the risks for the borrowers taking mortgage credits in a foreign currency other than the currency of their income practically froze foreign currency mortgage crediting. Thus, in 2019, only 22 credits of this type were issued (12 in 2018) worth of RUB 675 mln (RUB 413 mln in 2018).

In the meantime, debt on foreign currency RMCs contracted by 36.5% (by RUB 12.2 bln to RUB 21.3 bln), and overdue debt – by 24.7% (by RUB 2.9 bln to RUB 8.7 bln)²⁹⁰.

At the end of 2018, an additional amount of RUB 731.6 mln was allocated in aid of mortgage borrowers in financial trouble²⁹¹. In total, over 21.7 thous. families were provided with aid within the framework of the program²⁹².

Creditors were entitled to file a claim for losses from RMC restructuring with DOM.RF until 31 October 2019²⁹³. In the meantime, restructuring agreements were concluded until 31 December 2019. Thereat, the deadline for borrowers to file requests with banks expired as early as on 01 December 2018, while the program had been implemented since 2015.

It is noteworthy that banks offered their own credit restructuring programs in 2019. This was another driver of a major decline in foreign currency RMC debt.

²⁸⁸ Mortgage Market Performance in 2019, February 2020 // JSC DOM.RF дом.рф/upload/iblock/4e7/4e7f4f2bdc1fb1eb1c02b69ae8d9b38d.pdf.

²⁸⁹ Draft Law No. 907072-7 "On Amendments to the Federal Law "On Mortgage (Pledge of Immovable Property)" (to establish the procedure for a pledgor being an individual to sell pledged property independently).

²⁹⁰ Residential (Mortgage) Credit Market Indicators // Bank of Russia cbr.ru/statistics/pdko/Mortgage.

²⁹¹ Resolution of the Government of the Russian Federation No. 1175 dated 03 October 2018 "On Further Implementation of the Aid Program for Individual Categories of Borrowers in Financial Trouble on Residential Mortgage Credits (Loans)".

²⁹² Implementation of a Borrower Support Program Completed, 28 November 2019 // Rossiyskaya Gazeta Internet Portal rg.ru/2019/11/28/zakonchilas-odna-iz-programm-podderzhki-zaemshchikov.html.

²⁹³ Resolution of the Government of the Russian Federation No. 1360 dated 23 October 2019 "On Amendments to the Key Terms of Implementation of the Aid Program for Individual Categories of Borrowers in Financial Trouble on Residential Mortgage Credits (Loans)".

On 20 March 2020, the measures to support the public, economy, and financial sector during the COVID-19 pandemic²⁹⁴ were published. In particular, with a view to supporting the affordability of mortgage crediting in the context when banks halt the reduction of rates:

- Risk factor mark-ups under RMCs and financing credits under SCPAs in construction granted after 01 April 2020 have been reduced as depicted on Table 2.3.

Table 2.3. Risk Factor Mark-ups under RUB RMCs Issued After 01 April 2020

Mark-up, pp		Borrower's DBI, %							
		N/A	(0; 30]	(30; 40]	(40; 50]	(50; 60]	(60; 70]	(70; 80]	80+
Credit/ pledge ratio	(80; 85]	50	20	30	40	50	60	70	80
	(85; 90]	100	100	100	100	100	100	100	100

- The procedure for applying mark-ups under credits with a low downpayment has been modified. From now on, in case of RMCs with a low downpayment (up to 10%) repaid at the expense of the maternity fund, risk factor mark-ups will decrease as long as the credit is repaid, which will expand the potential to obtain mortgage credits for families with children;
- A decision has been made to include certain mortgage bonds that are eligible in terms of quality and meet certain other statutory requirements in the Pawnshop List.

The section below depicts the risks and recommendations to consumers associated with the peculiarities of mortgage crediting.

CONSUMER RISKS (in the Mortgage Credit Market)

- *Major foreign exchange fluctuations. They have virtually brought foreign currency mortgage to naught*
- *Underdevelopment of the insurance market. For instance, major losses are not covered by the insurance amount*
- *Unaffordability of RMCs to most consumers aged 55+, including due to expensive life and health insurance. In particular, its price rises 8-fold for people aged over 50*
- *Apartment held in pledge by the bank until the RMC is repaid*
- *Failure to complete construction in time, defects in housing. As a result, the borrower may incur additional expenses associated with rent of housing and repairs of the housing to be purchased*
- *The insurer and insurance product de facto hard sold by the bank. For instance, should borrowers have no life and health insurance, the rate may be 1-2% higher*
- *Use of the credit as a downpayment under the RMC by the borrower. It entails a major rise in the borrower's DBI*

RECOMMENDATIONS TO CONSUMERS

- *It is advisable to review the information on the potential developer and construction facility to be purchased at the expense of the RMC to be taken at nau.dom.ppf*
- *It is necessary to take an RMC in the currency of income. The bank must incorporate a warning concerning the risks arising from a situation when the currency of the credit is different from the currency of the borrower's income into the agreement at all times*
- *When evaluating the ability to service an RMC, it is necessary to consider additional expenses (e.g. expenses on life and health insurance, housing insurance, duties, execution of notarized powers of attorney, letter of credit fees)*
- *It is advisable to remember that the mortgage law places the borrower under the obligation to insure only the pledged property to the benefit of the bank (with a coverage at least equal to the RMC amount)*
- *If it is no longer possible to service the credit, it is necessary to check the possibility of requesting "mortgage holidays" (reduction or discontinuation of payments for up to 6 months)*
- *It is advisable to remember that damages for failure to meet the construction deadlines are equal to a double refinancing rate*
- *In case of major defects in the housing, the agreement may be terminated*
- *During the apartment warranty period amounting to 5 years at the least, it is not necessary to prove the causes of the defects in the newly built facility*

²⁹⁴ Bank of Russia Approves Measures to Support the Public, Economy, and Financial Sector During the Coronavirus Pandemic, 20 March 2020 // Bank of Russia cbr.ru/press/pr/?file=20032020_133645if2020-03-20T13_36_08.htm.

Car Crediting

In 2019, the car credit portfolio added 17.4% (as compared to 15.4% in 2018) and reached RUB 955 bln due to the preferential car crediting program among other factors²⁹⁵.

In 2020, the car crediting market will be supported by resumption of the program mentioned above starting from 01 January 2020 and traditional dealer campaigns for cars manufactured in 2019.

For instance, according to the Association of European Businesses Automobile Manufacturers Committee, January 2020 was marked by 1.8% growth in sales despite the pessimism of market expectations²⁹⁶.

FOR REFERENCE

According to NAFI²⁹⁷, 5% of citizens have a car credit.

According to the Ministry of Industry and Trade of the Russian Federation, preferential car crediting drove sales and made it possible to sell around 113 300 cars. RUB 9.4 bln was allocated to that end from the budget in 2019.

In 2020, the total budget of preferential car crediting programs amounts to RUB 5 bln. According to the estimates by the Ministry of Industry and Trade of the Russian Federation, these funds will make it possible to sell about 50 thous. cars.

It is noteworthy that the programs mentioned above cover the persons who hold a valid driver's license and meet a combination of the following requirements:

- Have 2 or more minor children or owned no car prior to the date of the credit agreement;
- Have not previously concluded any other car credit agreements and are not planning to conclude such agreements in the relevant year.

According to NBCH, 2019 recorded the largest quantity of cars sold on credit since 2013. 947.3 thous. car credits were issued, 11.9% more than in the previous year (2018 – 846.8 thous.).

Thereat, according to AUTOSTAT Analytic Agency, the size of the brand new car market contracted by 2.5% in 2019 as compared to the previous year and amounted to 1,593.1 thous. (as compared to 1,634.2 thous. in 2018).

CONSUMER RISKS (in the Car Crediting Market)

- *Car held in pledge by the bank until the car credit is repaid*
- *Confiscation of the car by the bank in case of overdue debt under the credit*
- *Sale of the car confiscated by the bank at a major discount*
- *Additional expenses on the part of the borrower, including conditionally mandatory insurance expenses. For instance, the bank may require that the car be insured against damage and theft to its benefit. In case of refusal to purchase insurance, the credit rate will normally be much higher*
- *Incorporation of concealed compensated services into the agreement, e.g. "for selecting the car", "transaction execution", etc.*
- *Inclusion of the car to be purchased in the movable property pledge database of the Federal Notarial Chamber*
- *Fraud involving the car*
- *Purchase of a defective car on credit*

RECOMMENDATIONS TO CONSUMERS

- *It is advisable to rate the value of the credit offers by the banks in the dealership and by other banks. The value of a credit in the dealership is oftentimes higher than in another bank. This is due to the fact that the dealership acts as the bank's intermediary and its financial benefit is factored in the actual credit value*
- *It is necessary to check for banks created by major car manufacturing groups to promote sales, as their credit rates are often below the market level*
- *It is necessary to check for the possibility of obtaining a car credit with government support*
- *When budgeting the credit amount, it is advisable to factor in the bank's and insurance company's requirements to the pledged car (including its configuration); full value of the car (including the additional equipment required and services provided)*
- *Most likely, it will be necessary to purchase FCCI for the pledged car (as requested by the bank). Certain banks issue car credits without insurance, but this entails a higher credit interest rate*
- *A credit for a stolen car will have to be repaid*

²⁹⁵ Resolution of the Government of the Russian Federation No. 364 dated 16 April 2015 "On Granting Subsidies from the Federal Budget to Russian Credit Institutions as Compensation for Shortfall in Income on Car Credits Issued to Individuals in 2015-2017 and as Partial Reimbursement for Costs Under Car Credits Issued to Individuals in 2018-2020.

²⁹⁶ Car Market Grew by 1.8% in January 2020, 06 February 2020 // Association of European Businesses aebus.ru/upload/iblock/781/rus-car-sales-in-january-2020.pdf.

²⁹⁷ Payroll Cards and Mobile Banking Are Financial Products Most Popular with Russians, 11 September 2019 // NAFI nafi.ru/analytics/zarplatnye-karty-i-mobilnyy-bank-samye-populyarnye-finansovye-produkty-u-rossiyan.

Unsecured Crediting

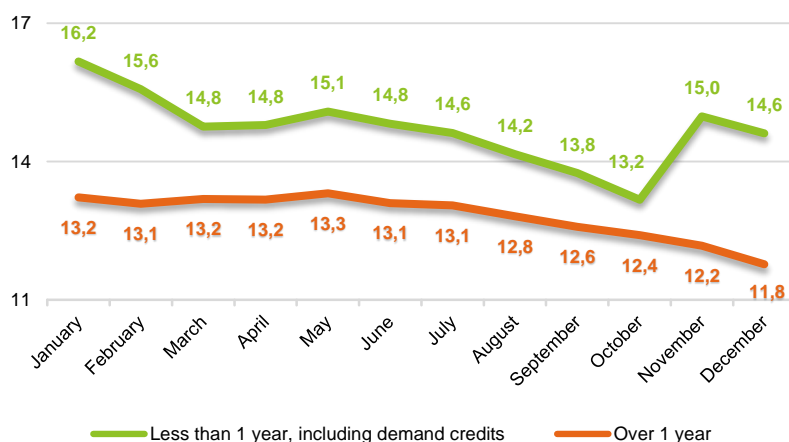
In 2019, the unsecured consumer crediting market experienced a correction following dynamic growth in 2018 (+20.9% compared to +22.8%)²⁹⁸. Thereat, the individuals' demand for credits was due to reduction of the interest rates among other reasons (Figure 2.14).

A slump was recorded in Q4 2019 (+11.6% year-on-year, +23.3% over 9M 2019) following introduction of extra risk factor mark-ups under credits issued to borrowers with a high debt burden (a DBI over 50%).

For instance, over a half of unsecured consumer loans (hereinafter referred to as UCLs) issued in December 2019 fell within this DBI range (including over 20% with a DBI over 80%) and qualified as high risk-weighted loans.

This is the reason why the UCL portfolio growth rate in 2020 may prove much lower than in 2019, and yet higher than the nominal household income growth rate (according to the estimates, +4.6% in Q4 2019 as compared to the relevant period of the previous year), which may push debt burden further up.

Figure 2.14. Monthly Dynamics of Credit Institutions' Weighted Average Rates on Retail RUB Credits in 2019 Net of PJSC Sberbank by Credit Maturities, % p.a.



Source: Bank of Russia

In turn, experts expect the UCL portfolio to grow at a rate of around 10% (as compared to 21% in the previous year) due to increased risk factors for borrowers with a high DBI and growth of overdue debt in the context of eroding household income²⁹⁹.

The share of UCLs with a debt overdue by more than 90 days decreased since the beginning of the year from 9.1% to 7.5% due to the credit portfolio growth and sale of bad credits, and possibly, write-off thereof.

Thus, the volume of banks' overdue debt purchased by professional debt collectors in 2019 added 3.5% and reached RUB 303 bln.

As part of the downward trend for the credit interest rates, the fastest decrease in the rates was recorded in case of unsecured general-purpose and targeted credits (excluding POS credits), debt refinancing credits for up to RUB 30 thous. with a maturity of up to 1 year (-3 pp) (Figure 2.15).

The decrease in the credit rates is due to the decrease in the inflation rate, key interest rate, and policy to restrict high interest rates.

Minimization of credit interest rates reduces the exposure of consumers to risks due to a decrease in the monthly payment amount, and therefore, in the debt burden.

CONSUMER RISKS (in the Unsecured Crediting Market)

- Higher interest rates as compared to secured credits (car credits, RMCs)
- Longer maturities of consumer credits. A typical maturity of an unsecured credit is 5 years at the most. However, there are banks offering this type of credits with a longer maturity. In this case, the consumer burden will be much higher along with the risk of default
- Low motivation to service an unsecured credit, as it is not secured by pledge

RECOMMENDATIONS TO CONSUMERS

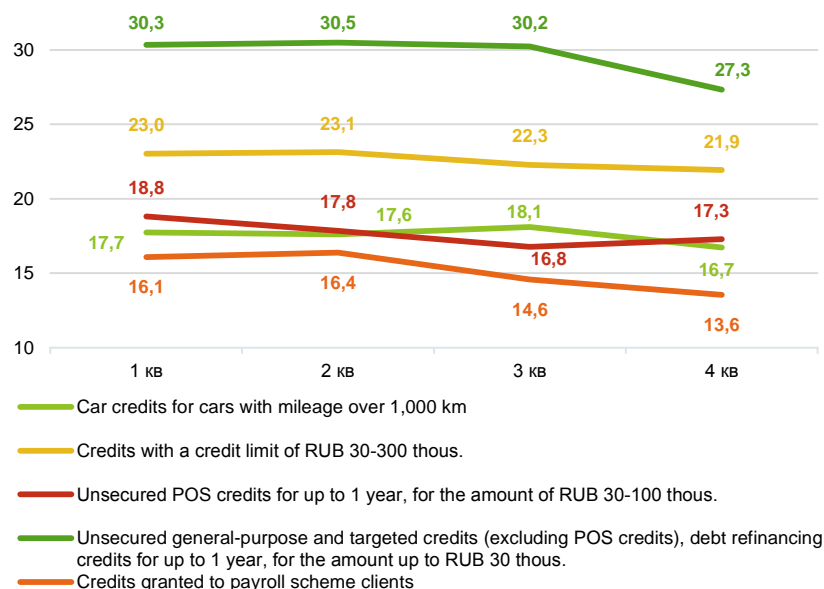
- It is necessary to check the statutory restriction stipulating that total payments under a credit with a maturity of up to 1 year issued after 01 January 2020 may not exceed the credit amount by more than 1.5 times

²⁹⁸ Banking Sector Development in the Russian Federation in January 2020. Information Analysis // Bank of Russia cbr.ru/Collection/Collection/File/27385/razv_bs_20_01.pdf.

²⁹⁹ Banking Sector Forecast for 2020: March Madness, 16 March 2020 // Expert RA raexpert.ru/researches/banks/bank_sector_forecast2020#part4.

- It is preferable to take a credit in a bank rather than in a store. This is due to the fact that the terms of the credit and quality of consulting may be better in a bank. Normally, stores do not provide an option to select the bank and compare the terms
- It is advisable to give attention to the offers in the store to pay for the goods by installments and “credit at 0%”: this may be both an actual promotional campaign (compensation of the bank for the interest at the expense of discounts for the client) and a bad credit agreement with a bank
- It is necessary to claim a refund for the amount paid under a credit (principal debt, interest, etc.) from the seller in case of return of a substandard product purchased at the expense of a credit

Figure 2.15. Quarterly Dynamics of Monthly Averages for the Full Value of Individual Types of Credits in 2019, %



Source: Bank of Russia

Additional Services and Fees

In 2019, operating credit institutions' net fee income grew by 18% reaching RUB 1.3 trn, while their net interest income declined by 3.3% amounting to a little under RUB 3 trn. Thereat, the net fee income to net interest income ratio rose by more than 8 pp reaching 44.6% over the reporting year³⁰⁰. This type of income is among the banks' primary sources of profit along with credit interest payments. Credit institutions take efforts to increase their fee proceeds, since as opposed to credits during service provision that banks are compensated for with a fee, there is no extra load on equity.

2019 was marked by such important development as abolition of “banking roaming”, i.e. fees for transfer of funds between the same bank's clients located in different regions. Effective from 14 June 2020, the fee payable for transfers of funds between persons' accounts with a credit institution may not be made dependent on the fact that the relevant accounts are opened in the different offices of the bank³⁰¹.

FOR REFERENCE

Sberbank executed 94% of transfers made by individuals (according to the credit institutions' statements for H1 2018)³⁰².

Thus, a discriminatory billing practice infringing upon consumer interests was eliminated.

In early 2019, the representatives of the FAS of Russia claimed that it was necessary to abolish the fees for money withdrawals from the ATMs of other banks to do away with the so-called “payroll slavery”. A broad ATM network is among the criteria considered by employers when choosing the servicing bank. To make this choice easier, it has been proposed to set ATM withdrawal fees to nil. In addition, the proposals to reduce the fee concerned acceptance of bank cards (acquiring)³⁰³.

In September 2019, an initiative was brought before the SD RF³⁰⁴ providing for banning fees for transfers of funds using payment cards between the bank issuing the payment card and another bank, as well as for withdrawals of funds using any

³⁰⁰ Review of the Banking Sector in the Russian Federation (Online Version), No. 208 February 2020 // Bank of Russia cbr.ru/Collection/Collection/File/25856/obs_208.xls.

³⁰¹ Federal Law No. 434-FZ dated 16 December 2019 “On Amendments to Article 29 of the Federal Law “On Banks and Banking Activities”.

³⁰² Not-So-Distant Accounts. Sberbank to Lose Monopoly in the Market of Bank Transfers Made by Individuals // Kommersant Newspaper No. 5 dated 15 January 2019, p. 1 kommersant.ru/doc/3854170.

³⁰³ FAS Proposes to Abolish ATM Cash Withdrawal Fees, 02 April 2019 // Kommersant Newspaper kommersant.ru/doc/3931555.

³⁰⁴ Draft Law No. 798527-7 “On Amendments to the Federal Law “On Banks and Banking Activities” with regard to regulation of the fee charged by credit institutions for certain transactions.

bank's office or ATMs.

In the experts' opinion, this initiative may entail colossal losses for banks that they can attempt to make up for, among other things, by hard selling compensated services, insurance, or ban on withdrawal of cash in other banks.

In 2019, the representatives of the FAS of Russia took note of the information indicative of a persistent trend characterized by a situation when banks establish progressive tariffs for transfers of funds from legal entities and individual entrepreneurs to accounts of individuals and increased fees for withdrawals of funds after a client closes his/her account under the pretext of the necessity to comply with the AML/FT requirements³⁰⁵.

The banks' practices mentioned above push the prices of the relevant banking services up for all market participants, including the bona fide ones, and give rise both to consumer discontent and to serious concern on the part of the FAS of Russia in terms of the economic rationale, legitimacy and efficiency of the relevant tariffs. For this reason, the practicality of using antimonopoly response measures and amending the legislation are being contemplated.

According to the FAS of Russia, certain utility providers would factor expenses on the transfer of utility payments by citizens at non-transparent and inflated prices in the tariff (up to 7% of the payment) without justifying the fee amount by making deals with a limited range of banks.

For instance, if a utility provider has no valid agreement with a bank, citizens are charged a payment transfer fee. Thus, the fee is charged twice: The 1st time – as part of the amount indicated in the payment document, and the 2nd time – for the transfer of funds. In order to save money, citizens have to use the services of a limited range of entities, which restricts competition. If payments are deposited to a cash desk, the person ends up paying for a service that he/she has not been provided with. The utility provider factors a transfer fee in the tariff, even though the payer does not use these services³⁰⁶.

For this reason, a relevant act³⁰⁷ was adopted in September 2019 prohibiting to incorporate the expenses on payment services provided when making utility payments into the economically justified expenses of the entities engaged in a regulated type of activities in the area of water supply and disposal, gas supply, solid household waste management, heat and electric power supply. Thus, effective from September 2020, the payment services provided when making utility payments shall be payable in the very payment organizations.

In February 2020, Russian President Vladimir Putin supported the proposal to abolish fees on H&U payments to protect the citizens and reduce their financial burden.

FOR REFERENCE

A fee on citizens' H&U payments amounts to 0.5-3% of the cost of these services. In 2018, H&U service providers issued bills worth of RUB 2.63 trn.

For this reason, a draft law³⁰⁸ was brought before the SD RF to outlaw the charging of a fee on citizens' H&U payments. However, the representatives of credit institutions were quite opposed to this initiative, as it would entail a major decrease in the respective income.

A list of essential and material consumer risks associated with the provision of additional services and fees charged by banks is provided below.

CONSUMER RISKS (Associated with the Charging of Fees)

- *Illegal charging of fees on transactions with credits and deposits (account replenishment and servicing, cash withdrawal, early credit repayment, amendment of agreement terms, selection of the channel to receive or deposit funds)*
- *Illegal charging of fees on payment of taxes, duties, insurance premiums*
- *Illegal charging of fees on acceptance of currency denominations undesirable for the bank*
- *Illegal charging of fees on bank account release operations*
- *Imposition by the bank of unjustified fees (e.g. for misrepresentation) by virtue of the clause in the agreement entitling the bank to approve tariffs unilaterally, post them on the website or in other available sources (any damages may be introduced solely by agreement of the parties)*

RECOMMENDATIONS TO CONSUMERS

Indicators of a legitimate additional fee:

- *The service or additional activities are not included in the subject matter of the principal service (e.g. transfer of funds or exchange of documents qualify as components of a credit transaction)*

³⁰⁵ Media About FAS: FAS Planning to Punish Banks for "Anti-Laundering" Tariffs for Transfers, 18 December 2019 // FAS of Russia fas.gov.ru/publications/19988.

³⁰⁶ Media About FAS: Housing and Utility Service Providers Disallowed to Incorporate Bank Fees into Housing and Utility Tariffs, 16 September 2019 // FAS of Russia fas.gov.ru/publications/19289.

³⁰⁷ Resolution of the Government of the Russian Federation No. 1164 "On Amendments to Certain Acts of the Government of the Russian Federation".

³⁰⁸ Draft Law No. 905546-7 "On Amendments to Article 155 of the Housing Code of the Russian Federation and Individual Legal Acts of the Russian Federation to Outlaw the Charging of a Fee on Housing and Utility Payments by Individuals".

- The additional service is not hard sold (it has useful properties, and the consumer needs the deliverables of the service)
- The consumer is notified on the service provider and service cost in a timely manner
- The service is not mentioned in the law, advertising, or agreement as a free service
- The service does not hinder the exercise of established rights (e.g. right to free movement and residence registration fee)



2019 and early 2020 witnessed the implementation of several initiatives intended to strengthen banking consumer protection against the occurrence of certain risks. These include the measures to reduce the value of credits, limit the debt burden, minimize cyber threats, strengthen liability for “off-balance sheet” accounting for deposits, prevent unfair competition in the deposit market, protect the mortgage borrowers’ funds, introduce “mortgage holidays”, support families with children in the RMC market, support preferential car crediting, eliminate cross-regional discrimination during transfer of funds, eliminate expenses on fees from utility payments. Besides, consumer risks will be further mitigated due to the scheduled measures to standardize bank products, increase the insurance compensation for deposits, entitle the public to sell the pledge independently, set the fees for transfers of funds between banks and withdrawals of cash using a card in any bank to nil, and eliminate the expenses on the payment of fees from H&U tariffs.

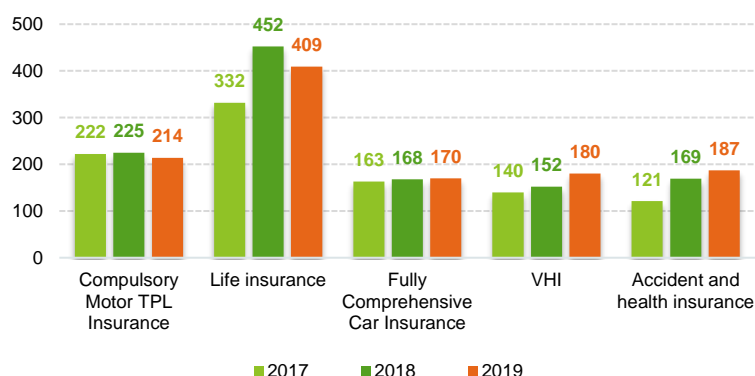
2.3. Assessment of Consumer Risks Associated with the Development of the Insurance Services Market

Trends in the Insurance Services Market in 2019

In 2019, the insurance services market stagnated. It was the first time since 2009 when this market did not grow, while in the previous year, the premiums growth rate exceeded 15%. Thereat, the quantity of concluded insurance agreements increased by 2.6% reaching 207.8 mln agreements, but the volume of insurance premiums for 2019 remained practically unchanged as compared to 2018 and amounted to RUB 1.48 trn. In a similar vein, the quantity of insurance companies was virtually the same – 239 (as compared to 242 in 2018)³⁰⁹.

This stagnation was due to changes in the market structure – growth in demand for insurance types with relatively low average insurance premiums (credit life insurance, VHI) and decrease in the quantity of insurance agreements with high average premiums (ILI) (Figure 2.16).

Figure 2.16. Dynamics of the Volumes of Insurance Premiums by Insurance Market Segments in 2017-2019, RUB Bln



Source: Bank of Russia

The market totals for the volume of premiums stopped growing – predominantly, due to contraction of the life insurance market that used to be the key market driver since 2015. Over the previous four years, this type of insurance was one of the primary (even though unbalanced) sources of growth for the industry. Enactment of additional regulatory measures for ILI sales and the relatively low yield of this financial instrument (as compared to some others) resulted in the reduction of misselling and decrease in the quantity of agreements concluded in this segment.

In addition, a surge in the amount of compensations paid under life insurance agreements had an essential effect on the total volume of compensations that added 16.7% in 2019 and reached RUB 609.6 bln. At year-end 2019, compensations under all principal types of insurance, except for the other corporate property insurance, also increased.

The key factors that had a material effect on the insurance market dynamics in 2019 were as follows:

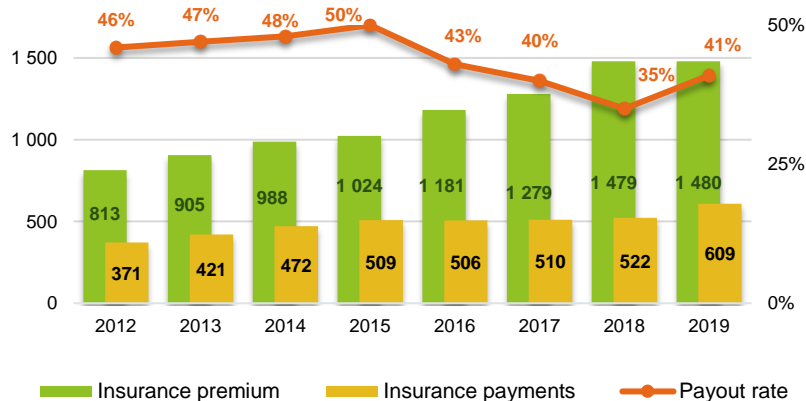
- New requirements to disclosure of information during conclusion of life insurance agreements;
- Expiry of ILI policies purchased 3-5 years ago at the beginning of the boom in this segment;
- High demand for credits on the part of individuals;

³⁰⁹ Unified State Register of Insurance Entities // Bank of Russia cbr.ru/vfs/finmarkets/files/supervision/list_ssd.xlsx.

- Dynamic development of VHI programs;
- Expansion of the tariff corridor and adjustment of ratios under the Compulsory Motor TPL Insurance;
- Slowdown in the sales of brand new cars³¹⁰.

The dynamics of the key performance indicators in the insurance market is provided in Figure 2.17.

Figure 2.17. Dynamics of the Volumes of Insurance Premiums, Compensations and Payout Rates in 2012-2019, RUB Bln



Source: Bank of Russia

However, despite the rising loss ratio under the principal activity, insurers were able to increase their profit by improving their performance indicators under investment activities facilitated by a favorable situation in the bond market³¹¹.

Thus, despite the overall stagnation of the insurance market, insurers' profit at year-end 2019 amounted to RUB 247.4 bln, which is 21.2% higher than in 2018 (RUB 204.1 bln).

Besides, growth in insurers' expenses due to the increase in banks' fees was among the peculiarities of the insurance market in 2019. Thus, in the context of a persistently high dependence of insurers on bank-facilitated sales, the credit institutions' earnings grew due to a higher fee charged on the growing sales of credit-related insurance products.

In the meantime, the sales structure of insurance products was stable: insurers received three-quarters of the premiums from intermediaries, 20% – from direct sales and 5% – from online sales (with 87% accounted for by Compulsory Motor TPL Insurance). Banks and agents being individuals served as the primary intermediaries: they accounted for 49% and 24% of the premiums received through involvement of intermediaries accordingly.

The increase in agreement conclusion costs drove up the ratio of costs of doing business, and hence, the combined loss ratio of insurers: as a result, it added 3.0 pp in 2019 and reached 87.9%.

The loss and expense ratios at year-end 2019 reached 48.9% and 39.0% respectively (as compared to 49.1% and 35.8% in 2018). In the meantime, the loss ratio proved to be at 6-year lows³¹².

The stagnation gave rise to the risk that insurance companies may infringe upon consumer rights in attempts to increase their profit, including through misselling and unjustified growth of tariffs. However, this risk was largely minimized by adoption of timely regulatory measures and introduction of new consumer protection mechanisms.

Thus, the management of insurance companies engaged in compulsory and voluntary insurance of civil liability of vehicle owners and insurance of land vehicles by the Financial Ombudsman institution launched on 01 June 2019 proved its worth³¹³.

Despite the fact that the outcomes of complaint consideration by the Financial Ombudsman in 2019 proved quite unfavorable to consumers (48% of their claims were rejected), the risk of a RUB 45 thous. fee³¹⁴ payable by insurers in case the Financial Ombudsman makes the decision to satisfy consumer claims encouraged them to settle multiple disputes on a voluntary basis³¹⁵.

Besides, in 2019, the Bank of Russia adopted the basic standards establishing the code of conduct for insurance market participants: Basic Standard on Protection of Rights and Interests of Individuals and Legal Entities Receiving Financial Services from Members of Self-Regulating Organizations of Insurance Companies, Basic Standard on Insurance Companies' Transactions in the Financial Market, and Basic Standard on Insurance Brokers' Transactions in the Financial Market.

Furthermore, the regulator issued Ordinance No. 5055-U dated 11 January 2019 "On Minimum (Standard) Requirements for the Conditions and Procedure to Provide Voluntary Life Insurance with Periodic Insurance Payments (Rents, Annuities) and/or Participation of an Insurant in the Investment Income of an Insurer"³¹⁶.

³¹⁰ Review of Insurers' Key Performance Indicators No. 4, 2019 // Bank of Russia cbr.ru/collection/collection/file/27614/review_insure_19q4.pdf.

³¹¹ In addition, the list of growth drivers for insurers' profit in 2018 included their investment activities (see the Report 2018).

³¹² Review of Insurers' Key Performance Indicators No. 4, 2019 // Bank of Russia cbr.ru/collection/collection/file/27614/review_insure_19q4.pdf.

³¹³ See Section 1.2. of the Report to learn more about the activities conducted by the Financial Ombudsman in 2019.

³¹⁴ On the Differentiated Fee Rate (for Insurance Companies Required to Ensure the Interaction with the Financial Ombudsman) (approved by the Resolution of the Financial Ombudsman Service Board dated 23 May 2019, Minutes No. 5).

³¹⁵ Head of the Financial Ombudsman Service: We Hope to Reduce the Number of Aggrieved Clients Consistently, 29 August 2019 // Portal of FSUE Information Telegraph Agency of Russia (ITAR-TASS) tass.ru/interviews/6811371.

³¹⁶ For more details, see Subsection 1.1. of the Report.

Moreover, the Bank of Russia has virtually brought a protracted debate on the issues concerning proper application of the mechanism for refunding the insurance premium paid by consumers thereto to a close³¹⁷ by clarifying that the insurer must refund the insurance premium to the insured in full, except when the insurer is entitled to withhold a portion thereof prorated to the period of the insurance agreement from the insurance effective date through the termination date of the voluntary insurance agreement.

In case of a comprehensive insurance where one item of insurance qualifies as voluntary insurance, should the insured repudiate the insurance agreement, the insurance premium paid thereby shall be refunded in full by virtue of the insurer's right to withhold a portion thereof prorated to the period when the insurance agreement was actually in force.

Yet another important contribution to the regulation of the insurance market was made by the publication of the Judicial Review of Disputes Arising from Relations Under Voluntary Personal Insurance Related to Granting Consumer Credits³¹⁸. The review consolidates the legal precedents on the legal provisions governing voluntary personal insurance associated with the granting of consumer credits in order to ensure efficient protection of infringed rights and legitimate interests of insureds, beneficiaries and insurers.³¹⁹

In 2019, implementation of the Instruction of D. A. Medvedev, Prime Minister of the Russian Federation³²⁰, established the right to include the information on voluntary motor insurance in the Compulsory Motor TPL Insurance policy³²¹. Thus, there are signs indicating that the issue concerning the possibility of combining FCCI and Compulsory Motor TPL Insurance in a single policy may be resolved in consumers' favor.

Thereat, the insurance periods under a compulsory and voluntary insurance agreements are supposed to match, and the amount covered by a voluntary insurance agreement shall be set equal to the actual value of the vehicle to be insured at its location as of the voluntary insurance agreement date. The parties may agree to set a franchise not exceeding 20% of the amount of the coverage in a voluntary insurance agreement. If the compulsory insurance agreement is terminated early, the voluntary insurance agreement shall terminate on the same date as the compulsory insurance agreement.

Yet another development of high significance in terms of raising the level of insurance consumer protection was completion of the Draft Federal Law "On Amendments to the Law of the Russian Federation "On Organization of Insurance Business in the Russian Federation" and to Articles 15 and 26 of the Federal Law "On Compulsory Insurance of Civil Liability of Vehicle Owners" intended to create a legal framework for insurance intermediaries' online activities³²².

Besides, it is worth mentioning the establishment of general requirements to personal insurance consumer protection effective from 01 March 2019³²³.

However, multiple issues in the insurance market, including mis-selling and hard selling of insurance services in the form of services additional to a credit were not resolved in 2019. Concurrently, the level of confidence in insurance companies was persistently low – in H1 2019, it amounted to as little as 26%³²⁴.

Besides, at the beginning of 2020, the COVID-19 gave rise to new challenges for the insurance market and new consumer risks.

For instance, in the context of the COVID-19 pandemic, insurers are expected to encounter the problem of the eroding purchasing power due to the declining household income and lower demand for investment products on the part of households. However, demand for insurance against sickness on the part of households will increase. In addition, promotion of remote interaction between consumers and insurers may have a positive effect on the sector³²⁵. Without any doubt, broad implementation of such mechanisms in insurers' activities will equally benefit consumers.

Furthermore, over the validity period of the measures intended to prevent the spread of the COVID-19, the public may encounter problems when interacting with insurance companies.

To that end, guidelines for insurers' activities for the duration of quarantine measures were developed. In particular, insurers have been advised to:

Post the information on their working hours and remote interaction options on their websites;

Conclude Compulsory Motor TPL Insurance in the absence of certificates of periodic technical inspection on condition that they will be presented to the insurer within a month upon termination of restrictions.

Thereat, insurers are equally advised to take all possible efforts to protect the interests of consumers as much as possible³²⁶.

Besides, insurance companies have been advised to satisfy the insureds' requests to extend the resolution period for insured events, authorize deferral of payment under voluntary insurance agreements and abstain from charging damages (fines, penalties) and imposing other sanctions for improper performance of a voluntary insurance agreement during the

³¹⁷ Bank of Russia Letter No. IN-015-45/30 dated 02 April 2019 "Information Letter on Application of Individual Provisions of Bank of Russia Ordinance No. 3854-U dated 20 November 2015 "On Minimum (Standard) Requirements for Conditions and Procedure to Provide Certain Types of Voluntary Insurance".

³¹⁸ Approved by the Presidium of the SC RF on 05 June 2019.

³¹⁹ For more details, see Subsection 1.3 of the Report.

³²⁰ Clause 10 of the List of Instructions issued after the deliberations on the Government Progress Report for 2018 in the State Duma.

³²¹ Bank of Russia Ordinance No. 5385-U dated 10 January 2020 "On the Minimum (Standard) Requirements for the Terms and Procedure to Provide Voluntary Insurance of Overland Transport Vehicles (Except for Railway Transport Vehicles)".

³²² See more details in Subsection 1.1. of the Report.

³²³ GOST R 58183-2018. National Standard of the Russian Federation. Guidelines for Voluntary Personal Insurance Consumer Protection. General Requirements. Approved and enacted by Order of the Federal Agency on Technical Regulation and Metrology No. 425-st dated 24 July 2018.

³²⁴ According to NP Insurance Security Center.

³²⁵ Experts Predict Demand for Insurance to Rise in the Russian Federation, and Companies to Review the Insurance Terms After the Pandemic, 08 April 2020 // Finmarket Online News Agency finmarket.ru/insurance/?nt=1&id=5211379.

³²⁶ Bank of Russia Approves Additional Measures to Support Creditting of the Economy and Protect Interests of the Public, 03 April 2020 // Bank of Russia cbr.ru/press/pr/?file=03042020_161415if2020-04-03T16_13_26.htm.

period of insureds' temporary disability subject to official proof of their positive test for the COVID-19³²⁷.

At this point, it is hard to evaluate the total impact of the COVID-19 pandemic on the insurance market. However, Rosпотребнадзор is continuously monitoring the situation and developing solutions to mitigate the resulting consumer risks.

The section below reviews the most significant insurance market segments in terms of consumer risks: Compulsory Motor TPL Insurance, investment life insurance, banking insurance, housing insurance and shared construction participant insurance at year-end 2019.

Compulsory Motor TPL Insurance

In 2019, there was a certain decline in the Compulsory Motor TPL Insurance market: the volume of Compulsory Motor TPL Insurance premiums contracted by 5.3% as compared to 2018 and amounted to RUB 213.9 bln. Among other reasons, this was due to a lower quantity of concluded agreements. Thereat, an average insurance premium declined by 4.8% down to RUB 5.4 thous., while compensations rose by 2.4% – the Compulsory Motor TPL Insurance loss ratio started growing again.

The increase in the loss ratio was predominantly due to a rise in the compensations paid combined with a decline in the premiums received. In turn, the decline in the premiums was primarily due to the decline in the average insurance premium (down to RUB 5.4 thous.) following the implementation of Stage 1 of the Compulsory Motor TPL Insurance reform providing for a 20% expansion of the tariff corridor under the Compulsory Motor TPL Insurance for individuals effective from 09 January 2019³²⁸ and adjustment of certain coefficients³²⁹, as well as due to competition between insurers.

The increase in compensations was due to the increase in compensations paid for infliction of harm to the injured persons' life and health (+2.3 pp over the year reaching 6.4%). However, the average value of compensations paid under Compulsory Motor TPL Insurance agreements made with individuals went down from RUB 60.3 thous. in 2018 to RUB 57.8 thous. in 2019.

The indicator might have undergone a correction due to the launch of the Financial Ombudsman institution on 01 June 2019 and the practice of compensation in kind³³⁰.

ANO FOSS analyzed the complaints filed with the Financial Ombudsman in 2019 and ranked the constituent entities of the Russian Federation for the amounts claimed by vehicle owners from insurers.

This ranking was topped by the Republic of North Ossetia – an average amount claimed from insurers under Compulsory Motor TPL Insurance cases was equal to RUB 419 thous. in the region. However, the quantity of complaints filed from this region over the year is not particularly high – a little over 1.1 thous. The Chechen Republic was ranked second – RUB 390 thous. and 492 complaints. Another region making it to TOP-3 is the Republic of Ingushetia – its residents filed 350 complaints concerning Compulsory Motor TPL Insurance with the Financial Ombudsman over the course of the year with an average claim amounting to RUB 363.2 thous.

In addition to the above, TOP-10 regions of this ranking are as follows: Republic of Adygea, Karachay-Cherkess Republic, Kabardino-Balkarian Republic, Ulyanovsk Region, Stavropol Territory, Sakhalin Region and Krasnodar Territory (the "champion" for the quantity of complaints concerning the Compulsory Motor TPL Insurance filed by car owners with the Financial Ombudsman: in 2019, they filed over 11.2 thous. complaints)^{331,332}.

As for the compensation in kind, the new rules³³³ both contributed to a decline in compensations paid to unscrupulous intermediaries and might have entailed an increase in the average compensation amount due to a better quality of interaction between insurers and clients during loss adjustment. Thereat, compensations paid by virtue of court decisions as a share of total compensations paid under the Compulsory Motor TPL Insurance over the year contracted two-fold and went down to 3.3%, while the quantity of complaints concerning Compulsory Motor TPL Insurance dropped by 36.7%. The dynamics of the key performance indicators in the Compulsory Motor TPL Insurance market is provided in Figure 2.18 below.

³²⁷ Bank of Russia Approves Measures to Support the Public, Economy, and Financial Sector During the Coronavirus Pandemic, 20 March 2020 // Bank of Russia cbr.ru/press/pr/?file=20032020_133645if2020-03-20T13_36_08.htm.

³²⁸ Bank of Russia Ordinance No. 5000-U dated 04 December 2018 "On Limiting Basic Insurance Tariffs (Their Minimum and Maximum Values in Rubles) and Insurance Tariff Ratios, on the Requirements for Insurance Tariff Structure and on the Procedure for Insurers to Use Them for Calculating Insurance Premium Under the Contract of Compulsory Third Party Liability Insurance of Vehicle Owners".

³²⁹ The age and length of service coefficient has 58 categories now (instead of four). On 01 April 2019, the relevant amendments that concern the no-claim coefficient (bonus-malus) assigned to drivers on an annual basis starting from the date written above and kept unchanged for a year came into force.

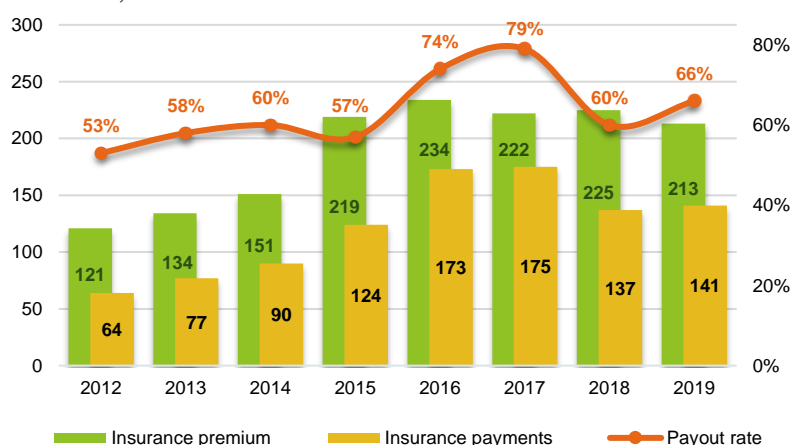
³³⁰ Bank of Russia Ordinance No. 5011-U dated 14 December 2018 "On the Procedure for the Bank of Russia to Decide on Reducing the Amount of Insurance Compensation by the Insurer Through Organizing and/or Paying for a Disabled Vehicle Overhaul".

³³¹ Report on Average Amount Claimed in 2019 // cdnimg.rg.ru/pril/article/182/82/81/Regiony_po_trebovaniyam_za_2019.xlsx.

³³² Regions Ranked for Amounts Claimed in Disputes Under Compulsory Motor TPL Insurance, 18 February 2020 // Rossiyskaya Gazeta Internet Portal rg.ru/2020/02/18/reg-cfo/sostavlen-rejting-regionov-po-summam-trebovanij-v-sporah-po-osago.html.

³³³ Bank of Russia Ordinance No. 5011-U dated 14 December 2018 "On the Procedure for the Bank of Russia to Decide on Reducing the Amount of Insurance Compensation by the Insurer Through Organizing and/or Paying for a Disabled Vehicle Overhaul".

Figure 2.18. Dynamics of the Volumes of Compulsory Motor TPL Insurance Premiums, Compensations and Payout Rates in 2012-2019, RUB Bln



Source: Bank of Russia, estimates by FBK Grant Thornton

In a similar vein, the situation with the Compulsory Motor TPL Insurance loss ratio in the regional markets deteriorated: at year-end 2019, the payout rate for Compulsory Motor TPL Insurance rose in 80% of the constituent entities of the Russian Federation.

Thereat, according to the findings of the survey conducted by the Bank of Russia to analyze the Compulsory Motor TPL Insurance loss ratio broken down by regions, the quantity of the regions generating losses under the Compulsory Motor TPL Insurance is growing: at year-end 2019, the CLR³³⁴ exceeded 100% in 34 regions (as compared to 23 regions in 2018). In the meantime, average territorial ratios in these regions proved below the national average. The CLR of the companies with a high share of Compulsory Motor TPL Insurance premiums in these regions³³⁵ grew and exceeded 105% – their insurance activities were generating losses³³⁶.

Based on the regional risk monitoring of unfair practices in the Compulsory Motor TPL Insurance market based on the data for the last twelve months, as of 01 October 2019, 9 regions were included in the high-risk zone (Republic of Adygea, Republic of Dagestan, Karachay-Cherkess Republic, Republic of North Ossetia – Alania, Republic of Ingushetia, Chechen Republic, Kabardino-Balkarian Republic, Krasnodar Territory and Stavropol Territory)³³⁷.

Despite the rise in the Compulsory Motor TPL Insurance loss ratio, especially in certain regions, 2019 stood out for a major improvement in the situation with affordability of Compulsory Motor TPL Insurance policies for the public and overall positive changes in consumer attitude to insurers' activities and rating of their services.

FOR REFERENCE

A similar ranking has been made by RAMI since 2016. TOP-20 are the constituent entities with the worst possible indicators, the "red zone". These are the regions where an average compensation, frequency of insured events and other indicators are much higher than the Russian national averages. The middle of the ranking is the "yellow zone" classified as regions with a borderline situation that may be relegated to the "red zone" at any time. The bottom of the ranking is designated for the "green zone" regions that hardly have any problems or manage them successfully and have an acceptable or zero loss ratio³³⁸.

According to RAMI, such regions (among others) as the Republic of North Ossetia – Alania, Karachay-Cherkess Republic, Republic of Adygea, Chechen Republic, Kabardino-Balkarian Republic, Republic of Ingushetia, Republic of Dagestan, Republic of Bashkortostan, Mari El Republic, Primorye Territory, Krasnodar Territory, Volgograd Region, Arkhangelsk Region, etc. were in the red zone in 2019.

Such regions (among others) as Moscow, Republic of Tatarstan, Zabaikalye Territory, Amur Region, Nenets Autonomous Area, Chukotka Autonomous Area, Kemerovo Region, Irkutsk Region, Kaluga Region, Pskov Region, Magadan Region and Orel Region were in the green zone³³⁹.

Thus, in December 2019, the Financial University Under the Government of the Russian Federation conducted a public opinion poll of the attitude to the current situation in the Compulsory Motor TPL Insurance market and potential reform directions for this market in 18 Russian cities with a population above 750 thous.: Volgograd, Voronezh, Yekaterinburg, Kazan, Krasnodar, Krasnoyarsk, Moscow, Nizhny Novgorod, Novosibirsk, Omsk, Perm, Rostov-on-Don, Samara,

³³⁴ Reflects the business operating performance; a value above 100% is indicative of a loss.

³³⁵ Companies with a share of Compulsory Motor TPL Insurance above 30%, with a share of loss-making regions in the Compulsory Motor TPL Insurance portfolio above 30%.

³³⁶ The regional values of the premium earned were evaluated by prorating them to the region's share of the premiums under the Compulsory Motor TPL Insurance, and the regional values of actual loss – by prorating them to the region's share of the compensations paid under the Compulsory Motor TPL Insurance. The values of expenses on insurance operations, deductions from insurance premiums, other income and expenses were evaluated by prorating them to the region's share in the premiums under the Compulsory Motor TPL Insurance.

³³⁷ Regional Risk Monitoring of Unfair Practices in Compulsory Motor TPL Insurance Market No. 1 (1) as of 01 October 2019 // Bank of Russia cbr.ru/Collection/Collection/File/25849/monitoring_OSAGO_1-1.pdf.

³³⁸ Fines and Damages Imposed by Courts on Insurers, 27 January 2020 // RAMI autoins.ru/novosti/tekushchie/?ELEMENT_ID=447911.

³³⁹ 9-Month Ranking of Regions for Mass Media // RAMI autoins.ru/upload/file/news/%D0%A0%D0%B5%D0%B9%D1%82%D0.2

St. Petersburg, Saratov, Tyumen, Ufa and Chelyabinsk.

According to the polls, a mere 1% of car owners mentioned some problems with purchasing a Compulsory Motor TPL Insurance policy in their city, other 7% referred to occasional problems with purchasing a policy, and 92% of those polled stated that there were no problems with purchasing a Compulsory Motor TPL Insurance policy in their city.

This attests to consistently high availability of Compulsory Motor TPL Insurance policies to the public, and the share of car owners stating that there were no problems with purchasing Compulsory Motor TPL Insurance policies proved similar to the relevant share in November 2019 and significantly higher than the minimum value recorded in September (89%). In the meantime, as demonstrated by similar polls conducted in June-December 2019, it was most difficult to purchase Compulsory Motor TPL Insurance policies in Voronezh, Novosibirsk, Volgograd, Saratov and Nizhny Novgorod. Purchasing a Compulsory Motor TPL Insurance policy proved most problematic for males, middle-aged persons (30-40 years old) and lowest-income car owners. However, problems with purchasing a Compulsory Motor TPL Insurance policy were equally mentioned by high-income car owners and persons with a high educational attainment.

As for the consumer rating of insurers' performance during the sale of insurance products, it proved persistently high – 87% of car owners proved fully or generally satisfied with it.

Insurers' performance during the sale of policies secured the highest ratings in Moscow, St. Petersburg, Chelyabinsk, Kazan and Krasnodar. In the meantime, the quality of car owner servicing during the sale of policies was best rated by females and older persons (aged 50-65) and by middle-income car owners, i.e. by the persons who could afford household appliances, but not a new car.

The primary reasons for car owners' grievances about the insurers' performance during the sale of Compulsory Motor TPL Insurance policies were as follows: cumbersome policy issue procedure, insurers' unwillingness to grant the discounts prescribed by the legislation to insureds by factoring the reduction coefficients in the calculation of the cost of a Compulsory Motor TPL Insurance policy and a long time of waiting for a policy.

Besides, the problems encountered by consumers were caused by the instances of simultaneous increase by major insurers of the price for Compulsory Motor TPL Insurance, potentially, as a result of price fixing arrangements made thereby, that were reported in 2019³⁴⁰.

According to the data for December 2019, 61% of car owners qualified the cost of Compulsory Motor TPL Insurance as affordable, moderate and rather acceptable. 72% of car owners were unaware of any instances of using a car without a Compulsory Motor TPL Insurance policy: the share of those unaware of any instances of driving without a policy was decreasing. In the meantime, according to the findings of the public opinion poll conducted by the Financial University Under the Government of the Russian Federation, the highest share of cars used without a Compulsory Motor TPL Insurance policy was recorded in Voronezh, Krasnoyarsk, Volgograd, Saratov and Novosibirsk.

In a similar vein, the polls conducted in June-December 2019 by the Financial University Under the Government of the Russian Federation indicate that 23% of car owners had an experience with purchasing electronic Compulsory Motor TPL Insurance policies. Thereat, such experience was most widespread among the car owners in Voronezh, Volgograd, St. Petersburg, Rostov-on-Don and Krasnodar. Most frequently, Compulsory Motor TPL Insurance policies were purchased online by the most affluent car owners, young and middle-aged persons (aged under 40) and persons with a university and further education degree.

In the meantime, it was revealed that the popularity of electronic policies did not grow, which attested to the obstacles to a wider use of this channel of access to insurance products by insureds³⁴¹.

FOR REFERENCE

In 2018, about 60% of car owners encountered technical problems when trying to conclude a compulsory insurance agreement online, especially in the Karachay-Cherkess Republic, North Ossetia, Adygea and Buryatia.

In certain regions, motorbike owners claimed that it was absolutely impossible to purchase a policy. For example, motorbike owners in Kabardino-Balkarian Republic had to purchase Compulsory Motor TPL Insurance policies in the neighboring regions.

This was most frequently the case in the regions referred to as "toxic" by insurers. In these regions, a large volume of compensations made insurance activities unprofitable. For this reason, insurers tried to issue as few policies in these regions as possible. At the same time, a policy for a motorbike, taxi, or share taxi was difficult to buy virtually anywhere nationwide³⁴².

The list of reasons for deterioration of the situation with the sale of Compulsory Motor TPL Insurance policies includes changes in the operation of "e-Garant" and "Ediny Agent" systems effective from 02 April 2019. In the past, during the purchase of a policy, the electronic system used to select the insurance company on its own based on the insured's vehicle certificate number; starting from the date written above, this principle was modified so as to enable the insured to select the insurance company from the list of companies participating in the distribution as of the time of purchasing a Compulsory Motor TPL Insurance policy on his/her own.

³⁴⁰ FAS to Check Potential Price Fixing by Motor Insurers due to Increase in Cost of Compulsory Motor TPL Insurance, 04 June 2019 // Kommersant Newspaper kommersant.ru/doc/3991314.

³⁴¹ Analytical Report on the Monthly Public Poll

"Motorists' Attitude to Current Situation in Compulsory Motor TPL Insurance Market" // Financial University Under the Government of the Russian Federation fa.ru/science/index/SiteAssets/Pages/Zubets_Pubs/2019_12_MTPL.pdf.

³⁴² Compulsory Motor TPL Insurance Problems: Past, Present... and Future?, 05 April 2018 // Za Rulem Online Publishing zr.ru/content/articles/911503-makhnut-na-polis.

Besides, the amendments to Federal Law No. 88-FZ dated 01 May 2019 “On Amendments to Certain Legal Acts of the Russian Federation” came into force to establish a uniform approach to conclusion of a Compulsory Motor TPL Insurance agreement in hard copy and in electronic form. The law further stipulates that an insurance policy may be presented to a police officer for inspection in hard copy, and in case of concluding an electronic agreement – in the form of an electronic document or printout thereof. In addition, it provides for discontinuing double accounting for insurance policies in hard copy and in electronic form by RAMI AIS³⁴³ and insurance companies.

Along with the above, the instrument provides drivers with an option to fill in an electronic RTA notice without involving a police officer (the so-called “europrotocol”).

FOR REFERENCE

Starting from 01 June 2018, the Compulsory Motor TPL Insurance Law³⁴⁴ provides insurers with an option to use the RTA data recorded using the software complying with certain requirements during loss adjustment. De facto, this currently refers to mobile applications “Pomoshchnik OSAGO” and “DTP.Evroprotokol”.

“Pomoshchnik OSAGO” is a mobile application created by the Bank of Russia and RAMI to execute an RTA notice in electronic form. It may be downloaded from App Store and Google Play free of charge. Besides, this application may be used to take photos of damaged vehicles and their damages at the RTA scene and transfer these images in a non-edited form to the Compulsory Motor TPL Insurance AIS to be forwarded to the insurance company. The application may be used solely by the users with a confirmed UPSMS account³⁴⁵.

“DTP.Evroprotokol” has been developed by RAMI. It has a similar set of functions and is equally available for download from Google Play and App Store³⁴⁶. After installing this application on a smartphone or tablet with a camera, it is necessary to sign in the UPSMS. The mobile application makes it possible to check the Compulsory Motor TPL Insurance policy by scanning the QR code and by entering the policy number manually without signing in³⁴⁷.

Moreover, the ban on Compulsory Motor TPL reinsurance was cancelled, the compensation procedure was adjusted, and a ban on filing recourse claims³⁴⁸ under Compulsory Motor TPL Insurance against pedestrians injured in an RTA and against perished pedestrians’ successors and relatives was introduced.

The launch of tariff liberalization and customization in the Compulsory Motor TPL Insurance market was yet another important factor: the new maximum base rates for Compulsory Motor TPL Insurance tariffs and insurance premium calculation procedure were introduced along with a new system for calculating the age/length of service coefficient taking additional classifications into account³⁴⁹, which allowed to make insurance policies more customized and attractive for consumers.

As for the proposed amendments to the regulation of Compulsory Motor TPL Insurance, it is worth mentioning Draft Law No. 840167-7 “On Amendments to the Federal Law “On Compulsory Insurance of Civil Liability of Vehicle Owners”³⁵⁰. In this context, it is noteworthy that the SD RF previously considered a similar draft law brought in by the Government of the Russian Federation, but it was ultimately withdrawn³⁵¹.

The draft law referred to above does not contain certain provisions that were incorporated into the version proposed by the Government. For instance, the legislators chose not to implement telemetry devices, cancel the regional coefficient and engine power coefficient, raise the amount of compensation payable for infliction of harm to life and health, expand the tariff corridor, but proposed an alternative, specifically, in the form of setting a tariff for each person individually rather than for entities. In addition, the draft introduces the concept of “repeated traffic violations” potentially subject to a higher coefficient. It has been proposed to disregard the violations detected by photo and video cameras for those purposes.

In the meantime, the draft law proposed by the Government provided for both harsher traffic risk assessment measures applicable to car owners and bonuses. For instance, a car owner could install a telemetry device on his/her vehicle to analyze his/her driving quality. In case of careful driving, the insurer could grant a discount for the Compulsory Motor TPL Insurance policy. Besides, this draft law provided for a 4-fold increase in the amount of compensations payable for infliction of harm to life and health (up to RUB 2 mln)³⁵².

Overall, despite the actual and proposed changes in the regulation of the Compulsory Motor TPL Insurance market positive for consumers, there are multiple issues that were not resolved in 2019.

For instance, the problem of forged Compulsory Motor TPL Insurance policies. Thereat, there were instances when such policies were sold both online and offline by unscrupulous insurance intermediaries.

In this context, the first outcomes of the pilot project by RAMI that provides for checking the availability of Compulsory Motor TPL Insurance policies by road photo cameras are quite representative. A review of the types of queries submitted by the motorists who received the relevant notices (10.6 thous. notices in total) and called RAMI hotline demonstrated that

³⁴³ RAMI automated information system.

³⁴⁴ Federal Law No. 40-FZ dated 25 April 2002 “On Compulsory Insurance of Civil Liability of Vehicle Owners”.

³⁴⁵ “Pomoshchnik OSAGO” – Executing RTA Notice in Electronic Form // RAMI autoins.ru/evropeyskiy-protokol/uproshchennoe-oformlenie-dtp/mob_app.

³⁴⁶ Mobile Application “DTP. Evroprotokol” // RAMI autoins.ru/faq/mp_ep/.

³⁴⁷ DTP Evroprotokol // Apple Store website <https://goo-gl.su/rsbwCPKK>.

³⁴⁸ A recourse claim stands for a claim for damages filed by the person compensating the damage against the party at fault.

³⁴⁹ Learn more about the liberalization of Compulsory Motor TPL Insurance tariffs in the Report 2018.

³⁵⁰ Draft Law No. 840167-7 “On Amendments to the Federal Law “On Compulsory Insurance of Civil Liability of Vehicle Owners” and Suspension of Individual Provisions of the Federal Law “On Compulsory Insurance of Civil Liability of Vehicle Owners” (with regard to the change of pricing methods used during conclusion of agreements for compulsory insurance of civil liability of vehicle owners).

³⁵¹ Draft Law No. 754963-7 “On Amendments to the Federal Law “On Compulsory Insurance of Civil Liability of Vehicle Owners”.

³⁵² Reckless Drivers Charged Extra, 03 March 2020 // Rossiyskaya Gazeta Internet Portal rg.ru/2020/03/03/popravki-v-zakon-ob-osago-vvodi-at-individualnyj-tarif.html.

about a half of them were driving with forged Compulsory Motor TPL Insurance policies. In the meantime, many consumers duly purchased Compulsory Motor TPL Insurance policies and were genuinely surprised to receive a notice claiming that they had no insurance³⁵³.

CONSUMER RISKS (Associated with the Sale of Policies)

- *Purchase of forged Compulsory Motor TPL Insurance policies*

RECOMMENDATIONS TO CONSUMERS

- *It is advisable to check the insurer's license on the Bank of Russia website (cbr.ru/vfs/finmarkets/files/supervision/list_ssd.xlsx). An insurer is not entitled to sell policies if its license has been revoked, suspended or limited*
- *It is necessary to purchase a policy in a safe place – in the insurer's sales office or on its official website*
- *It is advisable to use the links to insurance companies' websites from RAMI website (autoins.ru) and check the address bar in the browser. Yandex search engine has labels for insurance companies' websites. These labels look like a blue circle with a tick signed "CB RF". The label may be found on the search engine results page opposite the company name. The label confirms that this is the official website of the company*
- *It is preferable to pay for a policy purchased online via a bank, as this is the form of payment usually used by real insurance companies rather than by an e-wallet or in cash (an indicator of potential fraud). In addition, it is necessary to request a payment receipt*
- *It is advisable to request the insurance agent to present a copy of the agreement with the insurer and power of attorney to conclude agreements on behalf of the company, as well as the passport*
- *It is necessary to suspend the purchase of a policy until presentation of proof that there is no fraud if the policy is executed without using RAMI database and a certificate of periodic technical inspection, if the documents are filled in by hand, the policy is extraordinarily cheap, and the agent is requesting payment without delay*
- *It is advisable to read the QR code in the top-right corner of the policy made on paper (for instance, by using a special application on the smartphone) and check the insurance company's name, policy number, date and validity period, as well as the make, model, VIN number and license plate number of the vehicle. In addition, Compulsory Motor TPL Insurance policies may be checked on RAMI website*
- *It is necessary to check the purchased insurance policy. Thus, a forged policy may have no translucent watermark in the form of RAMI logo; the document number is supposed to be embossed; the certificate is supposed to have a metal security thread piercing the certificate though. In addition, a forged policy may have typos in the insurance company's stamp or seal and a wrong color*

The list of unresolved issues includes those concerning the ways to counter insurance fraud. Aggravation of this problem has an adverse effect on the economic standing of consumers, as insurers take steps to make up for the bulk of their losses at the expense of good faith consumers by raising the insurance tariffs and denying compensations illegally.

For instance, the motor insurance segment stands out for the highest frequency of insurance fraud: Compulsory Motor TPL Insurance and FCCI account for 94% of all insurance fraud reports filed. The second most popular segment with insurance fraudsters is voluntary insurance of civil liability.

As early as in Q1 2019, the quantity of insurance fraud reports filed with the law enforcement bodies was 12% higher than in late 2018 amounting to 3.5 thous. reports. Thereat, in Q1 2019, law enforcement bodies initiated 703 criminal cases involving insurance fraud (+3 pp as compared to Q4 2018). Similar to late 2018, the highest quantity of insurance fraud reports/cases was filed/initiated in the Southern Federal District. Besides, the Central and Volga Federal Districts made it to TOP-3 by a substantial margin.

TOP-5 regions for the frequency of insurance fraud instances are as follows: Krasnodar Territory (over 600), Moscow (over 270), Volgograd Region (over 230), Republic of Tatarstan (over 130) and Chelyabinsk Region (over 100).

Besides, instances of wide-scale fraud with the sale of "green cards" to motorists were revealed in 2019. Insurance fraudsters would sell "insurance certificates" under the guise of foreign "green cards"³⁵⁴.

FOR REFERENCE

The international system of motor TPL insurance "Green Card" has operated since 1951. Its primary purpose is to resolve the complaints filed by the persons injured in RTAs involving foreign motorists in accordance with the national legislation of the country where the incident took place.

The "Green Card" system covers 48 countries. RAMI is vested with the responsibilities of the "Green Card" system office in Russia³⁵⁵.

³⁵³ Ghost Policy, 19 September 2019 // Rossiyskaya Gazeta Internet Portal rg.ru/2019/09/19/proverka-nalichia-osago-kamerami-vyavila-mnogo-poddelnyh-polisov.html.

³⁵⁴ Fraudsters Selling Forged "Green Cards", 25 June 2019 // Pravda.Ru Online Publishing pravda.ru/news/auto/1422791-green_card.

³⁵⁵ What Is a Green Card? // RAMI autoins.ru/zelenaya-karta/chto-takoe-zelenaya-karta.

If they purchase “insurance certificates” instead of “green cards”, the drivers fail to perform their obligations to insure civil liability: in case of an RTA, they will have to pay damages at their own expense. Furthermore, in case of a border inspection, they may be forbidden to enter the country, and in certain countries, use of forged insurance documents is subject to criminal liability or a large fine.

CONSUMER RISKS (Associated with the Sale of “Green Cards”)

- *Purchase of forged “green cards”*

RECOMMENDATIONS TO CONSUMERS

- *It is advisable to make sure that the insurer (insurance agent) is authorized to sell a “green card” before purchasing it*
- *It is better to abstain from purchasing the so-called equivalent “green card” – there are none*
- *It is advisable to remember that no discounts normally apply to “green cards”. Any offer of this insurance at a discounted price is highly likely to be a fraud*
- *It is necessary to check the information in the policy form thoroughly. For instance, the validity period of the policy may not be less than 15 days. In addition, it is necessary to check all pages of the policy thoroughly – they are supposed to contain identical information*
- *It is possible to check the “green card” number on the official website of the insurance company selling the policy*
- *There is an option to check the policy certificate with a UV lamp. The “green card” number has a green glow³⁵⁶*

Yet another issue continuously discussed in 2019 was the problem concerning the activities of the so-called “traffic lawyers”, i.e. persons assisting consumers with collection of insurance compensations or buying out the claims to insurance compensations under an assignment agreement and taking action to settle the dispute and collect the compensation on their own.

This is the method previously used by traffic lawyers to manage from 50% to 70% of litigations involving motor insurance. However, in July 2019, the procedure for resolving disputes between insurers and car owners was changed: a car owner must first file a complaint with the insurance company, and if it is not satisfied – with the Financial Ombudsman, before taking legal action.

Even though traffic lawyers still have an option to buy out claims and file complaints with the Financial Ombudsman, this has become less beneficial, as the fee for the consideration of such complaints amounts to RUB 15 thous.

In this context, the scope of traffic lawyers’ activities contracted in 2019: over three months of work, the Financial Ombudsman received just 252 payments for handling a complaint from intermediaries who were assigned claims to the insurance compensation by consumers³⁵⁷.

However, it turned out that the traffic lawyers continuously “demonized” by insurers as the cause of their largest losses were not the primary reason.

Thus, a research by the Research Institute of the University Under the Prosecutor’s Office of the Russian Federation demonstrated that a vast majority of unfair practices in 2019 were accounted for by common fraud – in 70% of cases, it was committed by married persons with no previous convictions who overstated the damage from RTAs by RUB 30-50 thous. on the average rather than by organized criminal gangs³⁵⁸.

Investment Life Insurance

2019 was marked by a change in the ILI uptrend that lasted for many years and served as the key driver of the insurance market since 2015. Thus, for the first time in a decade, insurance premiums contracted and amounted to RUB 197.6 bln. By contrast, insurance compensations rose and amounted to RUB 57.1 bln.³⁵⁹ In a similar vein, ILI premiums as a share of total premiums in the life insurance segment declined significantly and amounted to 48.3% (Figure 2.19).

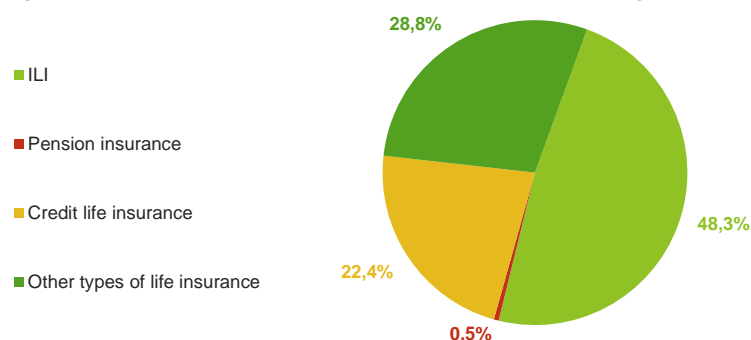
³⁵⁶ Insurance Fraudsters Invent New Method to Deceive the Public: Take Caution When Purchasing “Green Cards”, 25 June 2019 // Journalists Club korins.ru/posts/5331-strahovye-moshenniki-izobreli-novyy-sposob-obmana-grazhdan-budte-vnimatelny-pri-pokupke-zelenyh-kart.

³⁵⁷ Compulsory Motor TPL Insurance Less Traffic Lawyers. Who Wins from Institutionalization of Financial Ombudsman? 26 September 2019 // “Banki.ru” Portal banki.ru/news/daytheme/?id=10906933.

³⁵⁸ There Cannot Be Too Much Damage, 04 December 2019 // Kommersant Newspaper No. 223 dated 04 December 2019, p. 1 kommersant.ru/doc/4180440.

³⁵⁹ Review of Insurers’ Key Performance Indicators No. 4, 2019 // Bank of Russia cbr.ru/collection/collection/file/27614/review_insure_19q4.pdf.

Figure 2.19. Structure of Premiums in the Life Insurance Segment in 2019



Source: Bank of Russia, estimates by FBK Grant Thornton

For the sake of comparison, at year-end 2018, insurance premiums in the ILI segment amounted to RUB 452.4 bln, and compensations – to RUB 35.4 bln³⁶⁰, while ILI premiums as a share of total premiums in the life insurance segment – to 67.7%³⁶¹.

The decline in the quantity of concluded ILI agreements was primarily due to the enhancement of information disclosure standards for the sale of the relevant type of insurance leading to a decrease in the frequency of misselling.

For instance, in April 2019, Bank of Russia Ordinance No. 5055-U dated 11 January 2019 “On Minimum (Standard) Requirements for the Conditions and Procedure to Provide Voluntary Life Insurance with Periodic Insurance Payments (Rents, Annuities) and/or Participation of an Insurant in the Investment Income of an Insurer” came into force³⁶².

Yet another instrument that came into force in January 2019 is the Internal Standard for interaction with the recipients of financial services provided by insurance companies under life insurance and accident and health insurance agreements developed by ARUI³⁶³ that had a major impact on the ILI market.

In addition, the list of factors that had a decisive impact on the turnaround in the ILI market dynamics includes the growing level of dissatisfaction on the part of clients with the income earned under the agreements concluded earlier that already expired.

Thus, according to the Bank of Russia, a larger part of the ILI agreements concluded in H1 2019 returned a yield that did not exceed the yield of retail deposits: 51% of policies returned a yield below 1% (including 31% policies with a zero yield), 42% of policies – a yield of 1-5% and 7% of policies – a yield above 5%. Such low yield did not contribute to the willingness to renew these agreements on the part of consumers – the quantity of concluded life insurance agreements (except for credit life insurance) in 2019 contracted by more than 2 times.

FOR REFERENCE

The comprehensive efforts taken in 2018 and 2019 by the regulator, market participants and ARUI to implement the measures aimed at reducing the frequency of unfair selling practices and raising the level of consumer satisfaction with the service quality resulted in a decline in the quantity of complaints about misselling of financial products, including ILI³⁶⁴.

In addition, high base effect could be mentioned: in general, investment life insurance products are not intended for the mass segment, and an average insurance premium thereunder exceeds RUB 530 thous. Dynamic growth in the target audience coverage over the previous years might have resulted in the saturation of this insurance segment.

In the meantime, the regulator expects peak compensations payable under three-year life insurance agreements in 2020 – in 2017, the growth rate of life insurance premiums (except for credit life insurance premiums) was at historical highs on record (61%).

In the context of declining ILI premiums, insurers embarked upon modification of their products by increasing the supply of policies providing for coupon payments on a quarterly, biannual or annual basis. Moreover, insurers started adding diverse options to the policies in many cases³⁶⁵.

According to the largest insurance companies, the money of the persons disappointed in the ILI are flowing to other insurance products. The primary alternative is provided by coupon products enabling quarterly or biannual income and CVLI with extra options – tax deduction and access to telemedical services.

Thus, consumer demand tends towards fixed-yield and lower-risk insurance products: the traditional ILI that is increasingly less in demand is giving place to CVLI and coupon strategies securing a guaranteed income on a quarterly or biannual basis³⁶⁶.

³⁶⁰ Review of Insurers' Key Performance Indicators No. 4, 2018 // Bank of Russia cbr.ru/Collection/Collection/File/24024/review_insure_18Q4.pdf.

³⁶¹ See the Report “On State of Consumer Protection in the Financial Sector in 2018”.

³⁶² See more details in Section 1.1 hereof.

³⁶³ Approved by Resolution the Presidium of ARUI, Minutes No. 33 dated 13 July 2018 (revised Minutes No. 55 dated 04 September 2019).

³⁶⁴ Money Effectively Protected, 17 October 2019 // Rossiyskaya Gazeta Internet Portal rg.ru/2019/10/17/nekorrektnyh-prodazh-na-strahovom-rynke-stalomenzhe.html.

³⁶⁵ Review of Insurers' Key Performance Indicators No. 4, 2019 // Bank of Russia cbr.ru/collection/collection/file/27614/review_insure_19q4.pdf.

³⁶⁶ Quarterly Loss: Russians Find Alternative to ILI, 17 September 2019 // MIC izvestia iz.ru/921926/tatiana-bochkareva/kvartalnaia-ubyl-rossiane-nashli-alternativu-iszh.

FOR REFERENCE

The primary risk insured by the CVLI is the risk that the insured person will live up to a certain age. The agreement is usually made for at least 10 years. The insured person undertakes to pay regular premiums over the entire validity period of the agreement. The insurance company warrants that it will refund the money invested by the insured person with a certain interest agreed in advance. Moreover, should anything happen to the payer during the validity period of the policy (death, incapacitation), a guaranteed coverage shall be paid out³⁶⁷.

One of the strengths inherent in the CVLI is simultaneously among its primary weaknesses, especially, in an unstable economic context: in case of a high inflation rate, the premiums paid by consumers are subject to rapid depreciation, and it is impossible to withdraw from such agreements without major losses – a consumer is not entitled to withdraw his/her money without punitive sanctions during the validity period of the agreement.

In addition, despite the fact that the risk is designated as “death for any reason”, a CVLI agreement will always contain a number of restrictions; the most common of them are the instances resulting from commitment of a crime or acting in a state of intoxication. Besides, the government does not guarantee a refund of the money invested³⁶⁸.

On 30 October 2019, ConfOP presented the findings of yet another wave of the independent monitoring “Situation with the Protection of Consumer Rights and Interests in the Russian Savings Services Market”. The study was conducted under the Project.

ConfOP specialists analyzed banks’ offers for deposits and investment products, investments in MFOs and financial pyramid schemes along with accessibility of bank offices for groups of consumers with limited mobility and people with disabilities. In March 2019, “secret buyers” visited banks in 20 regions of Russia, and in April 2019, websites of banks and MFOs were examined.

The monitoring revealed a number of unfair practices used by financial organizations. For instances, when “secret buyers” requested savings services, bank employees would offer hybrid investment products instead of deposits. 8 out of 27 banks offered deposits on better terms on condition of purchasing investment products. 13 out of 27 banks represented investment products as a full alternative to a deposit. The most popular product offered as an alternative to a deposit was ILI (offered by 9 out of 13 banks).

In the meantime, the offices of most banks would not make consumers aware of the risks associated with hybrid investment products, including the fact that no yield is guaranteed thereunder; they are not covered by state insurance and it is impossible to terminate an agreement early without losing some part of funds.

Examination of banks’ websites demonstrated that credit institutions fail to notify consumers on the minimum guaranteed deposit rate³⁶⁹, maximum amount of savings covered by the DIS and peculiarities of the “hybrid” deposits mentioned above³⁷⁰.

The use of such unfair practices by financial organizations increases the risks of misselling exponentially. This is particularly relevant for brand new and increasingly popular insurance products, including CVLI.

CONSUMER RISKS (Associated with Misselling During Sale of Insurance Products)

- *Provision of a complex investment product instead of a reliable deposit*
- *Loss of invested funds*

RECOMMENDATIONS TO CONSUMERS

- *It is advisable to read the agreement thoroughly before signing it: a copy of the agreement may be examined at home. It is necessary to give special attention to the following aspects:*
 - *What is the specific type of the agreement to be concluded: bank deposit, insurance, or any other agreement?*
 - *What is the specific entity that the agreement will be concluded with – a bank or any other entity?*
 - *Is the investment covered by the state DIS?*
 - *Does the agreement guarantee a return on investment?*
 - *What is the validity period of the agreement to be concluded?*
 - *What are the early termination procedure and terms?*
- *It is necessary to study the statistical data on the yield of the offered product for the previous quarters and years and ask about the applicable fees (if any). For example, there are instances when the bank does not guarantee a certain yield or sets it very low (at 1-2%), and yet promises that the actual yield may be high*

³⁶⁷ Textbook on Financial Literacy // Federal Network Methodological Center for Advanced Training of University Instructors and Development of Programs for Raising Financial Literacy of Students finuch.ru/lectures/9002.

³⁶⁸ Cash-Value Life Insurance: Strengths and Weaknesses, 17 January 2019 // Program for Raising the Level of Financial Literacy of Kaliningrad Region Residents ingram39.ru/publications/strakhovanie/8064-.html.

³⁶⁹ In disregard of Bank of Russia Letter No. IN-06-59/3 dated 23 January 2019 “On Notification of Clients on the Minimum Guaranteed Interest Rate on a Deposit (Account) by Credit Institutions”.

³⁷⁰ Misselling in Information Vacuum: Consumers Cannot Obtain Information on Deposits and Investment Products Either from Websites or from Financial Organizations’ Employees, 31 October 2019 // ConfOP <https://goo-gl.su/wFsWE>.

- *In case of doubts, there is an option to terminate the agreement within 14 calendar days ("cooling-off period")*
- *If consumer rights are infringed during the sale of an insurance product, there is an option to file a complaint with Rospotrebnadzor and the Bank of Russia³⁷¹*

Thus, 2019 was marked by a decline in the ILI segment that used to be the key driver of the insurance market since 2015, which was predominantly due to a downswing in the consumer appeal of this type of insurance services and enactment of new regulatory measures.

The decline in the ILI market is expected to continue. Thereat, the factors that may cause these developments in 2020 include both substitution of the ILI with other insurance products, and the COVID-19 pandemic. In the context of eroding household income, health and economic uncertainty concerns of the public, insurance companies started offering brand new insurance products, including such services as life and health insurance against the COVID-19. In particular, in case of a confirmed diagnosis and unfavorable course of the disease, insurers offer a compensation payable either in a lump sum or on a daily basis³⁷².

Brand new insurance products may help to smooth out the looming economic trouble for the households. However, similar to the case with the ILI, sales of these products may give rise to brand new risks of misselling and other infringements of consumer rights.

Banking Insurance

In 2019, insurers' high dependence on bank-facilitated sales persisted. Over the course of the year, credit institutions' fees added 9.1 pp and reached 36.6% of the premiums. 66.4% were accounted for by credit life insurance and accident and health insurance (+16.5 pp over the year), 14.5% – by life insurance, except for credit life insurance (-17.4 pp over the year), 4.4% – by the VHI (+2.7 pp over the year)³⁷³.

Thereat, the credit types of insurance proved to be the primary source of such income for banks in 2019: accident and health insurance and credit life insurance fees accounted for 67.7% (42.1% in 2018). ConfOP experts noted that those facts attested both to the growth in the consumer credit market and in the related sales of insurance policies, and to the promotion with the borrowers of the services related to the principal financial product that oftentimes do not serve any practical ends for the consumer.

In the meantime, certain banks would raise the credit interest rate if the consumer refused to purchase an insurance policy. Furthermore, in case of consumer crediting, banks would factor the insurance amount in the credit principal forcing the borrower to pay interest on this amount³⁷⁴.

Hard selling of the so-called "group insurance" by the banks represented a very serious problem persistently encountered by consumers when obtaining credits. Currently, banks offer diverse group insurance programs subject to varying terms based on the insurance agreements concluded between banks and insurance companies. As they are not a party thereto, consumers are unable to change their terms, and therefore, they are forced to "join" in on the terms that do not always benefit them.

The cost of group insurance is most typically higher than the cost of a personal agreement with a consumer. Yet another (illegal) arrangement disadvantaging the borrower consists in the incorporation of the insurance cost into the credit amount followed by accrual of interest thereon.

In this context, it is noteworthy that in such cases, infringement of consumer rights consists specifically in the hard selling of additional crediting by the bank – if the insurance service was received and paid for at the expense of the credit at the consumer's will, these practices do not infringe upon his/her rights.

However, in certain instances, group insurance may be more beneficial for the consumer both from the standpoint of financial costs (the cost of group insurance may be lower than the cost of personal insurance) and from the standpoint of time inputs (for instance, the consumer does not need to contact the insurance company on his/her own).

CONSUMER RISKS (When Obtaining a Credit)

- *Hard selling of group insurance*

RECOMMENDATIONS TO CONSUMERS

- *It is advisable to reject the bank's services if obtaining a credit or any other financial product is made dependent on the purchase of group insurance*
- *There is an option to reject an offer to participate in group insurance without giving any reasons³⁷⁵. All insurance types are subject to a 14-day period ("cooling-off period") when a consumer is entitled to refuse to conclude a group*

³⁷¹ Based on: Misselling or How Not to Buy a Pig in a Poke // Bank of Russia Information and Educational Resource "Fincult.info" fincult.info/article/misselling-ili-kak-ne-kupit-kota-v-meshke/.

³⁷² Russian Insurance Companies Offer Coronavirus Insurance, 16 March 2019 // RBC rbc.ru/rbcfreenews/5e6f5eef9a79477789cc7ba3.

³⁷³ Review of Insurers' Key Performance Indicators No. 4, 2019 // Bank of Russia cbr.ru/collection/collection/file/27614/review_insure_19q4.pdf.

³⁷⁴ Thirteenth Interim Report on Wave 12 of Independent Monitoring Under Contract No. FEFLP/QCBS-4.11 "Independent Monitoring (Public Inspection) of Financial Consumer Protection" // Official website of the Project <https://goo-gl.su/zMU5>.

³⁷⁵ Clause 1 Article 450.1 of the CC RF, Clause 1 of Bank of Russia Ordinance No. 3854-U dated 20 November 2015 "On Minimum (Standard) Requirements for Conditions and Procedure to Provide Certain Types of Voluntary Insurance".

*insurance agreement*³⁷⁶

- *When making the decision to participate in the group insurance program offered by the bank, it is advisable to examine it thoroughly giving special attention to the following terms:*
 - *Which insurance company will act as the insurer?*
 - *Who is the insurant under the insurance agreement (the borrower or the bank)?*
 - *Who is the beneficiary under the insurance agreement (the bank, the borrower (and his/her successors in case of a life insurance agreement), or both the bank and the borrower (and his/her successors in case of a life insurance agreement))?*
 - *What kind of events qualify as insured events?*
 - *What are the grounds for the insurance company to deny an insurance compensation?*
 - *What is the size of the coverage and calculation procedure?*
 - *What is the size of the insurance premium and calculation procedure, is it supposed to be included in the total debt amount under the credit?*
 - *What is the scope of the bank's insurance management services and procedure for identifying them?*
 - *What is the procedure for amending and terminating the insurance agreement, in particular, in case of repudiation?*
 - *What are the terms of the insurance agreement concluded between the bank and the insurance company (if available to the consumer)*³⁷⁷

It should further be noted that in late 2019, the consumer credit legislation was amended so as to provide a consumer with an unconditional right to get a refund for a portion of funds spent on insurance, including group insurance, effective from 01 September 2020³⁷⁸.

As for the hard selling of additional services, the regulator further advised the banks in 2019 to remember of the need to obtain consent from consumers to the provision of additional services at an extra charge as the latter request a consumer credit (loan)³⁷⁹.

The Bank of Russia Ordinances are binding upon financial organizations. In the meantime, it is necessary to ensure more straightforward legal regulation in order to eradicate the practice of hard selling additional services to consumers completely.

To a certain extent, this problem is supposed to be resolved by the draft law on amendments to the Consumer Credit (Loan) Law being developed by the Ministry of Finance of the Russian Federation that proposes to outlaw the practice of making the issue of obtaining a consumer credit or loan dependent on the purchase of additional services at an extra charge, except as implied so by the pledged property insurance requirements. In this case, a credit institution is supposed to compensate the borrower for the loss suffered thereby due to the infringement of his/her right to free choice of services at twice the amount of their value.

Furthermore, the draft law stipulates that consumer credit agreements made for more than one year may not place the borrower under an obligation to pay for the insurance during the entire credit period in a lump sum or ban annual payment of insurance premiums³⁸⁰.

In addition, new measures to counter hard selling of insurance policies have been proposed in the Draft Law "On Amendments to the Federal Law "On Consumer Credit (Loan)" (to adjust the procedure for concluding a consumer credit (loan) agreement)³⁸¹. The draft law prohibits incorporation of provisions entitling the borrower to review the individual credit (loan) terms on the creditor's website without disclosing them in the consumer credit (loan) agreement to be concluded; it also bans the approval by the creditor of the credit (loan) terms (in the form of ticks or any other typographic symbols) in a pre-printed form in this agreement on behalf of the borrower not endorsed by the handwritten signature of the latter.

In addition, the draft federal law places creditors under an obligation to specify the cost of, procedure and deadline for rejecting the additional service provided by the creditor and/or third parties at an extra charge in the terms of the consumer credit (loan) agreement and notify the borrowers on such terms when concluding a credit (loan) transaction.

The provisions referred to above will make it possible to eradicate the instances of improper notification of the borrower by the creditor on the substance of the additional services to be purchased, which oftentimes results in a forced purchase by the borrower of additional services from the creditor and/or third parties when concluding consumer credit (loan) agreements. Furthermore, notification of the borrower on the cost of the insurance service and option to reject an insurance policy during the "cooling-off period" by the creditor during conclusion of a consumer credit (loan) agreement will make it

³⁷⁶ Clause 5 of the Judicial Review of Disputes Arising from Relations Under Voluntary Personal Insurance Related to Granting Consumer Credits (approved by the Presidium of the SC RF on 05 June 2019).

³⁷⁷ See also the Information Concerning Conclusion and Termination of Insurance Agreements Executed During Conclusion of a Consumer Credit (Loan) Agreement // Ministry of Finance of the Russian Federation minfin.ru/ru/appeal/faq/?id_4=21.

³⁷⁸ Federal Law No. 483-FZ dated 27 December 2019 "On Amendments to Articles 7 and 11 of the Federal Law "On Consumer Credit (Loan)" and Article 9.1 of the Federal Law "On Mortgage (Pledge of Immovable Property)" taking effect on 01 September 2020 and Federal Law No. 489-FZ dated 27 December 2019 "On Amendment to Article 958 Part 2 of the Civil Code of the Russian Federation" taking effect on 26 June 2020. To learn more about this issue, see Section 1.3 of the Report.

³⁷⁹ Bank of Russia Information Letter No. IN-06-59/65 dated 26 July 2019 "On Specification of Additional Compensated Services in the Consumer Credit (Loan) Request".

³⁸⁰ Banks to Be Forbidden to Hard Sell Insurance When Issuing Credits, 11 October 2019 // Rossiyskaya Gazeta Internet Portal rg.ru/2019/10/11/bankam-zapretiat-naviazivat-strahovku-pri-kreditovanii.html.

³⁸¹ Draft Law No. 843962-7 "On Amendments to the Federal Law "On Consumer Credit (Loan)" (to adjust the procedure for concluding a consumer credit (loan) agreement).

possible for the borrowers to exercise their right to reject a hard sold and/or unnecessary insurance service during the “cooling-off period” in a timely manner.

The adoption and development of regulatory and supervisory measures and the borrowers’ better awareness of their rights in the area of insurance when obtaining credits and available remedies gave rise to a new trend in the banking insurance segment in 2019 – a transition from group insurance of clients to individual insurance.

Thus, a number of large banks have already abandoned group insurance agreements³⁸². This trend is expected to continue in 2020 as well.

Emergency housing insurance

On 04 August 2019, the provisions of Law No. 320-FZ³⁸³ instituting a voluntary emergency housing insurance system came into force.

The law stipulates that the government bodies of the constituent entities of the Russian Federation are entitled to develop, approve and implement compensation programs for the damage inflicted to private residential properties located in the relevant constituent entities using the voluntary insurance mechanism³⁸⁴.

In addition, the law establishes that if a residential property insured under the program is lost (destroyed), the damage shall be compensated either in cash or in the form of another residential property to be transferred into ownership of the relevant insurant by the constituent entity of the Russian Federation subject to assignment of claims for the insurance compensation payable for the lost residential property against the insurer to such constituent entity³⁸⁵.

In case of any damage to the residential property insured, the insurant shall be compensated for the damage in the amount of the coverage provided under the residential property insurance agreement by the insurer and constituent entity of the Russian Federation depending on its participation share in the damage compensation.

Assistance with the payment of compensation for a lost (destroyed) or damaged residential property on the part of the constituent entity of the Russian Federation shall not provide grounds for the insurer to deny an insurance compensation under the residential property insurance agreement or reduce the insurance compensation amount. Pursuant to Law No. 320-FZ, a more comprehensive damage compensation shall be ensured by concurrent mobilization of three sources: federal and regional budgets, and insurers’ funds.

In addition, Law No. 320-FZ provides for creating a single automated information system for residential property insurance required to ensure information support for insurance of residential buildings, apartments and other types of residential property and decision-making by the constituent entities of the Russian Federation on the compensation for the damage inflicted to residential properties.

FOR REFERENCE

The Single Automated Information System for residential property insurance was created in 2019 and named “Housing” AIS. The system is operated by ARUI.

The rules of data exchange between the system and information resources of the government bodies and the Bank of Russia, and the scope of data to be transmitted to the system, procedure and deadlines for transmitting such data are set out in Resolution of the Government of the Russian Federation No. 984 dated 30 July 2019³⁸⁶.

According to ARUI, an average emergency housing insurance premium will amount to RUB 430 per year, and its amount will be dependent on the emergency risk exposure.

When calculating this amount, ARUI experts assumed that if a residential property is lost as a result of an emergency situation (without any domestic risk), the amount of the coverage will be up to RUB 500 thous. depending on the region. Besides, they relied on the average price of housing equal to RUB 2.050 mln.

The insurance premiums are supposed to be incorporated into the HUS bills, and the citizens will be able to choose how to pay at their option. According to ARUI, this approach combined with insurance subsidies from the federal budget will contribute to a major reduction in the insurance cost: while an ordinary voluntary housing insurance policy for a standard apartment costs around RUB 5-7 thous. per year, an emergency housing insurance policy under the regional program will cost around RUB 150-200 per month or RUB 1.8-2.4 thous. per year. Minimum range of risks – an insurance policy that includes nothing but an emergency coverage is expected to cost RUB 350-450 per year on the average. In the meantime, the amount of the insurance tariff will be non-binding, and a specific tariff will be set under the proposal of insurers under the regional program³⁸⁷.

In addition, ARUI named 16 pilot regions to implement voluntary emergency housing insurance programs in 2020: St. Petersburg, Moscow Region, Leningrad Region, Tver Region, Sverdlovsk Region, Tyumen Region, Novosibirsk Region,

³⁸² Customized Approach to Borrowers, 13 May 2019 // Kommersant Newspaper No. 79 dated 13 May 2019, p. 8 kommersant.ru/doc/3966876.

³⁸³ Federal Law No. 320-FZ dated 03 August 2018 “On Amendments to Certain Legal Acts of the Russian Federation”.

³⁸⁴ Methodology to Develop Compensation Programs for the Damage Inflicted to Private Residential Properties Located in the Constituent Entities of the Russian Federation Using the Voluntary Insurance Mechanism, approved by Order of the Ministry of Finance of the Russian Federation No. 105n dated 04 July 2019 (registered with the Ministry of Justice of the Russian Federation under No. 55885 on 11 September 2019).

³⁸⁵ Rules of Calculating the Maximum Damage Inflicted to Private Residential Properties Located in the Constituent Entities of the Russian Federation to Be Compensated Using the Voluntary Insurance Mechanism, approved by Resolution of the Government of the Russian Federation No. 433 dated 12 April 2019.

³⁸⁶ Resolution of the Government of the Russian Federation No. 984 dated 30 July 2019 “On Approval of the Rules of Data Exchange Between the Single Automated Information System for Residential Property Insurance and Information Resources of the Federal Executive Bodies, Government Bodies of the Constituent Entities of the Russian Federation and the Central Bank of the Russian Federation”.

³⁸⁷ National Average Premium Under Emergency Housing Insurance to Amount to RUB 430 per Year – ARUI, 17 December 2019 // Finmarket Online News Agency finmarket.ru/insurance/?nt=0&id=5138252.

Belgorod Region, Omsk Region, Pskov Region, Saratov Region along with Zabaikalye, Perm, Krasnoyarsk, Krasnodar and Khabarovsk Territories³⁸⁸. The entity to act as the reinsurer under the programs is Russian National Reinsurance Company JSC that reinsures 95% of facilities against the risk of housing loss and 65% of items against the risk of damage thereto on a mandatory basis³⁸⁹.

Thereat, experts expect that this type of insurance will enjoy demand, and property insurance premiums will grow and reach 14-16% at year-end 2020. This type may prove most appealing to consumers living in the high-risk regions often hit by floods, fires and other natural disasters³⁹⁰.

However, in the context of the COVID-19 pandemic rampant in 2020, these expectations may fail to come true – in the absence of free funds to purchase a policy, the emergency housing insurance program may fail to appeal to the public to the extent required for successful implementation.

FOR REFERENCE

Currently, Moscow is the only territory that has an active voluntary housing insurance program. It has been implemented for over 20 years and covers about 60% of the Muscovites.

The Moscow program is not rigidly tied to emergencies: households may insure their immovable property against fire, explosion, accidents involving heating and water supply systems, strong winds, hurricane and related atmospheric precipitation. The insurance is calculated based on the floor area of the housing multiplied by the insurance premium per one square meter set by the municipality (in 2019, it amounted to RUB 1.87 per square meter).

If certain housing is completely destroyed, some different housing shall be provided at all times in accordance with the standards effective in Moscow. In the meantime, the insurance coverage of RUB 300-500 thous. provided for by the program is enough solely to compensate for the destruction of the property: there is no compensation for the repair costs. Besides, during calculations, the average value per square meter proves lower than the real value.

Insurance compensations are covered from the capital city budget and at the expense of corporate insurers. In 2019, they were paid to more than 5 thous. persons in the total amount of RUB 182 mln.

In the past, there were attempts to implement a similar program in Krasnodar Territory, but it was deemed a failure, as the share of insured housing did not exceed 2%³⁹¹.

Currently, ARUI is engaged in preparations for the implementation of pilot projects in the regions of the Russian Federation. In particular, it sent letters on the expediency of creating working groups to implement the new emergency housing insurance mechanism and develop regional programs to manage damage compensation payouts. Concurrently, ARUI expressed its readiness to provide the necessary methodological, legal and information support to regional authorities³⁹². Besides, to ensure a uniform approach to the program development, ARUI is developing uniform housing insurance rules³⁹³.

The list of parties involved in the development of the new housing insurance mechanism and promotion thereof among the citizens includes the Ministry of Finance of the Russian Federation and Ministry of Economic Development of the Russian Federation that developed measures to implement property and tax exemptions for insureds and gave a lot of attention to communication with the regions³⁹⁴.

Insurance of Shared Construction Participants

2019 gave rise to a new protection mechanism for consumers involved in shared construction projects.

Previously, Federal Law No. 478-FZ dated 25 December 2018 “On Amendments to the Federal Law “On Participation in Shared Construction of Apartment Buildings and Other Items of Immovable Property and on Amendments to Certain Legal Acts of the Russian Federation” and Individual Legal Acts of the Russian Federation”³⁹⁵ provided for creation of Public-Law Company Foundation for the Protection of the Rights of Persons Participating in Shared Construction (hereinafter referred to as the Foundation) to finance and implement measures to ensure completion of facilities under construction that were supposed to be built by attracting funds from shared construction participants.

The Foundation was created through transformation of Non-Profit Organization Foundation for the Protection of the Rights of Persons Participating in Shared Construction³⁹⁶ and as its legal successor.

³⁸⁸ Policy Covered, 04 February 2020 // Rossiyskaya Gazeta Internet Portal rg.ru/2020/02/04/reg-cfo/vss-opredelil-16-regionov-dlia-zapuska-strahovaniia-zhilia-ot-chs.html.

³⁸⁹ Ministry of Finance of the Russian Federation Developed a Roadmap to Promote Emergency Housing Insurance Among Regions and Households, 05 February 2020 // Finmarket Online News Agency finmarket.ru/news/5165895.

³⁹⁰ Covered by Policy, 20 January 2020 // Rossiyskaya Gazeta Internet Portal rg.ru/2020/01/20/eksperty-v-2020-godu-ozhidaiut-rosta-strahovaniia-zhilia-ot-stihii.html.

³⁹¹ New Housing Insurance Law: What Will It Change for Owners?, 10 September 2019 // “Banki.ru” Portal banki.ru/news/daytheme/?id=10905633.

³⁹² ARUI Reminds Regions of the Need to Develop Emergency Housing Insurance Programs, 04 February 2020 // Media-Information Group “Insurance Today” insur-info.ru/press/72309.

³⁹³ When the Weather Is Bad. Monthly Fee for Voluntary Housing Insurance to Be Set at Around RUB 150, 24 January 2019 // Rossiyskaya Gazeta Internet Portal rg.ru/2019/01/24/plata-za-dobrovolnoe-strahovanie-zhilia-sostavit-okolo-150-rublej-v-mesiac.html.

³⁹⁴ E.g. New Housing Insurance Law: What Will It Change for Owners?, 10 September 2019 // “Banki.ru” Portal banki.ru/news/daytheme/?id=10905633; Emergency Housing Insurance: New Law Came into Force, 04 August 2019 // Gazeta.Ru gazeta.ru/business/2019/07/31/12544795.shtml.

³⁹⁵ Federal Law No. 478-FZ dated 25 December 2018 “On Amendments to the Federal Law “On Participation in Shared Construction of Apartment Buildings and Other Items of Immovable Property and on Amendments to Certain Legal Acts of the Russian Federation” and Individual Legal Acts of the Russian Federation”.

³⁹⁶ Resolution of the Government of the Russian Federation No. 1310 dated 07 December 2016 “On Protection of the Rights of Persons Participating in Shared Construction”.

The primary purpose of the Foundation is to implement the government housing policy aimed at raising the level of guaranteed protection of the rights and legitimate interests of the persons participating in shared construction.

The list of functions and powers exercised by the Foundation is as follows (without limitation):

Creating a compensation fund at the expense of mandatory deductions (fees) payable by developers attracting funds from shared construction participants;

Paying compensations to the persons participating in shared construction projects providing for the transfer of residential properties from the compensation fund in case of developer insolvency (bankruptcy)³⁹⁷.

In accordance with the legislative amendments dated 27 June 2019^{398,399}, the Foundation is entrusted with a duty to pay compensations to shared construction participants under agreements placing the developer under an obligation to transfer a residential property in an apartment building in relation where to the first SCPA was concluded prior to 20 October 2017 (on condition that performance of obligations thereunder was secured by an insurance agreement or suretyship agreement).

Thereat, the relevant agreements establish that the insurance agreements or suretyship agreements concluded earlier to secure performance of the developer's obligations shall be deemed no longer in force from 27 June 2019, except as of this date:

An insured event had occurred and a claim for an insurance compensation had been filed (regarding performance of obligations under a suretyship agreement) or a court had issued a relevant final decision;

The construction facility had been commissioned.

In the meantime, the insurer (the bank) shall keep a portion of the insurance premium earned thereby under the insurance agreement (portion of the fee earned under the suretyship agreement) prorated to the actual validity period of the insurance (suretyship). The remaining portion of the insurance premium under the insurance agreement (fee under the suretyship agreement) shall be transferred to the Foundation.

FOR REFERENCE

Pursuant to the Bank of Russia clarifications:

Insurers shall pay an insurance compensation to the persons participating in shared construction under an insurance agreement in case of an insured event occurring under such insurance agreement and claim for an insurance compensation filed under this agreement and/or in case of a final court decision to perform obligations under the insurance agreement as of 27 June 2019;

The Foundation shall pay a compensation to the persons participating in shared construction under the SCPAs, under which residential properties were supposed to be transferred and performance of the developer's obligations was secured by insurance agreements, in all instances provided for by Federal Law No. 153-FZ, including if the insurer denies the insurance compensation on the ground that the insured event resulted from the insurer's intent⁴⁰⁰.

Due to the discontinuation of security transactions, developers incurred a set of new responsibilities with the following deadlines:

By 04 July 2019 – to notify the shared construction participants on changes in the method of securing performance of obligations;

By 11 July 2019 – to send reconciliation reports under all insurance and suretyship agreements to counterparties;

By 22 August 2019 – to transfer a portion of the fee under the suretyship agreement refunded by the insurer or surety to the Foundation.

The amendments further establish that the right to complete a construction facility without using escrow accounts is limited in time. A developer authorized to complete a construction facility without using escrow accounts must pay fees to the compensation fund. A developer may conclude an SCPA only after doing so. In addition, a developer may switch to escrow accounts – prior to doing so, it is necessary to amend the project disclosure statement and post the amended statements in the Single Information System for Housing Development. It is not allowed to use both mechanisms (concluding SCPAs for certain properties subject to payment of fees to the fund, and using escrow accounts for others) for the same construction facility.

Besides, the Shared Construction Law⁴⁰¹ applies to any properties in any buildings rather than only to residential properties in apartment buildings as was previously the case.

³⁹⁷ Charter of Public-Law Company Foundation for the Protection of the Rights of Persons Participating in Shared Construction (approved by Resolution of the Government of the Russian Federation No. 1231 dated 07 October 2017).

³⁹⁸ Federal Law No. 151-FZ dated 27 June 2019 "On Amendments to the Federal Law "On Participation in Shared Construction of Apartment Buildings and Other Items of Immovable Property and on Amendments to Certain Legal Acts of the Russian Federation" and Individual Legal Acts of the Russian Federation".

³⁹⁹ Federal Law No. 153-FZ dated 27 June 2019 "On Invalidation of Individual Provisions of Article 25 of the Federal Law "On Public-Law Company Foundation for the Protection of the Rights of Persons Participating in Shared Construction in Case of Developer Insolvency (Bankruptcy) and on Amendments to Certain Legal Acts of the Russian Federation" and Amendment to Article 62 of the Federal Law "On State Registration of Immovable Property".

⁴⁰⁰ Bank of Russia Letter No. IN-015-53/90 dated 10 December 2019 "On Certain Issues Associated with Performance of a Developer Civil Liability Insurance Agreement".

⁴⁰¹ Federal Law No. 214-FZ dated 30 December 2004 "On Participation in Shared Construction of Apartment Buildings and Other Items of Immovable Property and on Amendments to Certain Legal Acts of the Russian Federation".

FOR REFERENCE

Insurance against risks during conclusion of an SCPA was introduced back in 2014; however, as early as in 2016, the mechanism was declared inefficient, in particular, due to the fact that if the developer encountered problems, the insurance compensation paid to the shared construction participants oftentimes proved insufficient.

Peak premiums paid under the developer civil liability insurance were recorded in 2016 when the Bank of Russia limited the range of companies authorized to engage in this type of activities to 16 entities. As a result, these companies increased their tariffs and the total amount of premiums was estimated at RUB 20 bln. At year-end 2018, the premiums amounted to RUB 15.3 bln.⁴⁰²

Over four years of its existence, the market of developer civil liability insurance earned a total income of RUB 36.6 bln for insurers. However, the amount of compensations did not exceed RUB 2.6 bln, and certain parties involved in the insurance market segment faced criminal charges. The decision to address the problems in this market was made only in 2018 after a number of large developers had gone bankrupt⁴⁰³.

Thus, according to the Unified Register of Distressed Facilities of the Russian Federation, 567 developers that were constructing 2.1 thous. apartment buildings across the country were undergoing bankruptcy procedures as of September 2019

Pursuant to Article 10 of the Law on Public-Law Company Foundation for the Protection of the Rights of Persons Participating in Shared Construction in Case of Developer Bankruptcy⁴⁰⁴, the fee payable by developers to the compensation fund amounts to 1.2% of the price of each SCPA providing for the transfer of a residential property, car space or non-residential property. Compliance with this duty is inspected by the Federal Service for State Registration, Cadastre and Cartography after the SCPA is registered.

The amount of the fee may be changed by a federal law once a year at the most taking the actuarial performance evaluation of the Foundation into account. Should the fee amount be changed, the amount of mandatory deductions (fees) will be changed no sooner than upon expiry of three calendar months after the relevant federal law providing for such change comes into force. A change of the fee amount does not entail recalculation and adjustment of mandatory deductions (fees) payable by developers to the compensation fund.

However, out of RUB 8.3 bln under the insurance agreements made earlier that was supposed to be transferred as of late October 2019, the Foundation received only RUB 2.2 bln, while outstanding RUB 6.1 bln was accounted for by the debts, including the amount owed by Insurance Company RESPECT LLC – a criminal case has been initiated against its potential beneficial owner.

This gave rise to the risk that the Foundation's activities would be underfunded. However, this situation does not expose consumers to any risks, since the funds managed by the Foundation may be increased as necessary by the Government of the Russian Federation. Besides, the compensation fund is continuously replenished by new fees payable by developers under concluded SCPAs. As of 31 December 2019, the size of the fund amounted to RUB 44.3 bln, which is RUB 34.6 bln, or 357% more than at the beginning of the year.

Thereat, the Foundation's total liability under shared construction participation agreements for residential buildings amounted to RUB 2,855 bln (936 thous. shared construction participation agreements) adding RUB 2,103 bln, or 280% since the beginning of the year. Among other factors, this growth is due to the assignment of liability under developer civil liability insurance agreements concluded under shared construction participation agreements to the Foundation in accordance with the requirements of Federal Law No. 153-FZ dated 27 June 2019. As of 31 December 2019, total liability under the insurance portfolio assigned to the Foundation amounted to RUB 369 bln (202 thous. shared construction participation agreements).

The new mechanism to protect the rights of shared housing construction participants proved its worth. In 2019, the Foundation Supervisory Board made decisions to restore the rights of over 16 thous. shared construction participants nationwide, which covers 223 residential buildings in 21 regions. Out of this total, the rights of 8 thous. shared construction participants will be restored by means of the compensation payment mechanism. As of 27 March 2020, compensations were paid to over 6.9 thous. shared construction participants in 17 regions across the country. The rights of the rest of shared construction participants (over 8 thous.) will be restored after the construction projects implemented by bankrupt developers are completed⁴⁰⁵.

Besides, with a view to protecting the citizens' rights, the Foundation undertook in 2019 to finance the completion of several construction projects implemented by bankrupt developers in Moscow and Nizhny Novgorod Regions, and a portion of these undertakings were performed as of 31 December 2019 by means of transferring apartments to shared construction participants in 14 commissioned apartment buildings.

⁴⁰² Insurers Stripped off of Developers' Premiums, 08 April 2019 // Kommersant Newspaper No. 61 dated 08 April 2019, p. 2 kommersant.ru/doc/3937426.

⁴⁰³ There's No Money, But Keep Looking for It, 22 November 2019 // Kommersant Newspaper No. 215 dated 22 November 2019, p. 1 kommersant.ru/doc/4165651.

⁴⁰⁴ Federal Law No. 218-FZ dated 29 July 2017 "Public-Law Company Foundation for the Protection of the Rights of Persons Participating in Shared Construction in Case of Developer Insolvency (Bankruptcy) and on Amendments to Certain Legal Acts of the Russian Federation".

⁴⁰⁵ There's No Money, But Keep Looking for It, 22 November 2019 // Kommersant Newspaper No. 215 dated 22 November 2019, p. 1 kommersant.ru/doc/4165651.



2019 was characterized by stagnation in the insurance market following a long-run uptrend in the previous period and adoption of additional regulatory measures.

The list of most important amendments includes the option to combine FCCI and Compulsory Motor TPL Insurance in a single policy, improvement of the situation in the ILI market, introduction of brand new insurance products and launch of the new mechanism to protect the rights of shared housing construction participants (the compensation fund).

However, multiple issues in the insurance market, including misselling and hard selling of additional insurance services when obtaining a credit, were not resolved.

In 2020, the COVID-19 pandemic gave rise to additional challenges and consumer risks – its consequences for the insurance market are to be evaluated in the future.

2.4. Assessment of Consumer Risks Associated with the Growth in the Market of Microfinance Organizations' Services

In 2019, there was a certain slowdown in the market of MFO services. The volume of microloans issued in 2018 added 26% as compared to 2018 and reached RUB 415 bln (as compared to RUB 330 bln in 2018). However, by the end of the year, the quarterly growth rates of the microfinancing market were at 2-year lows.

FOR REFERENCE

According to Expert RA, the volume of microloans issued in 2019 amounted to RUB 412 bln (25% growth). Legislative restrictions (primarily, introduction of the limit on the daily interest rate, requirement to factor the DBI in the calculation of capital adequacy ratios, reduction of the maximum limit for interests, fines and penalties as a ratio of the principal debt under the microloan) forced MFOs from the payday loan segment to restructure their business models by diversifying services and focusing on additional services. In 2020, public demand for microloans is expected to rise due to a higher frequency of credit denials and effects from the restrictions associated with the spread of the COVID-19⁴⁰⁶.

The total microloan portfolio rose by 29% and reached RUB 212 bln (+45% in 2018), including RUB 171 bln granted to individuals. For the sake of comparison: the banks' retail credit portfolio (less RMCs) rose by 20% and reached RUB 9.9 trn over the same period⁴⁰⁷.

FOR REFERENCE

According to Expert RA, at year-end 2019, the total MFO portfolio⁴⁰⁸ rose by 30% and amounted to the same RUB 212 bln (+45% in 2018). The structure of the total MFO portfolio was generally the same as in 2018 (Figures 2.20, 2.21).

On the one hand, this market growth was due to high demand for borrowings, higher convenience and simplicity of obtaining microloans due to promotion of online channels and enactment of legislative restrictions (introduction of the limits on the daily interest rate and maximum debt, requirement to factor the DBI in the calculation of capital adequacy ratios) only in H2 2019.

Therefore, these innovations are expected to affect the MFO market in 2020.

On the other hand, the slowdown in the market is due to the activities of the MFOs dealing with individuals that took energetic efforts to restructure their business models to adapt to a major decline in the margin. The portfolio growth rate in the segment of payday loans amounted to 35% (+50% in 2018), and in the segment of retail consumer loans – to 25% (+50% in 2018).

In 2020, the MFO portfolio is expected to maintain the 2019 growth rate, but the microlending dynamics is expected to slow down⁴⁰⁹.

It is noteworthy that the portfolio quality of online MFOs operating in the segment of payday microloans is worse than the portfolio quality of the companies using offices, and their return on equity is lower.

At year-end 2019, in case of online companies operating in the segment of payday loans, the share of loans overdue by more than 90 days amounted to 50.4%, while in case of traditional companies, it amounted to 45.5%. This is the reason why the regulator deems it necessary to subject clients to an even more thorough examination and strike a good balance between the volume and quality of the loans issued⁴¹⁰.

Gradual growth in the MFO market was due to the regulatory measures that decreased the appeal of issuing loans with shortest maturities. For instance, the maximum allowable debt under a consumer loan agreement with a maturity of up to 1 year in 2019 was equal to 2.5 amounts of such loan, starting from 01 July 2019 – to 2 amounts of the loan, and starting from 01 January 2020 – to 1.5 amounts thereof⁴¹¹.

⁴⁰⁶ MFO Market Performance in 2019 and Forecast for 2020: Transformation Period // Expert RA
raexpert.ru/docbank/8a6/9cd/912/2da4cfadde8db78fb47137f.pdf.

⁴⁰⁷ Review of Microfinance Institutions' Key Performance Indicators for 2019 // Bank of Russia cbr.ru/Collection/Collection/File/27764/review_mfi_19Q4.pdf.

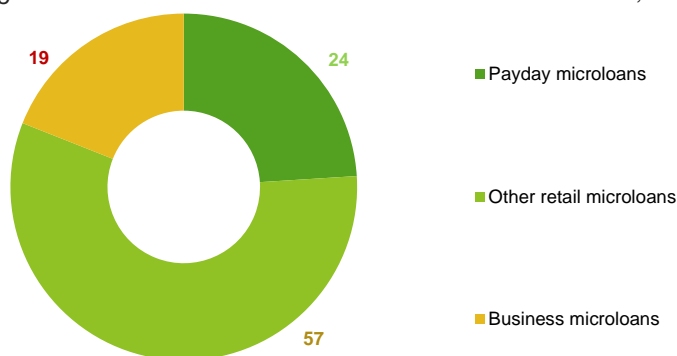
⁴⁰⁸ Portfolio size means the total volume of microloans on the books of MFOs as of a certain date (including reserves and overdue microloans).

⁴⁰⁹ MFO Market Performance in 2019 and Forecast for 2020: Transformation Period // Expert RA
raexpert.ru/docbank/8a6/9cd/912/2da4cfadde8db78fb47137f.pdf.

⁴¹⁰ Microfinance Market Trends in 2019 // Bank of Russia cbr.ru/Collection/Collection/File/27725/mmt_2019.pdf.

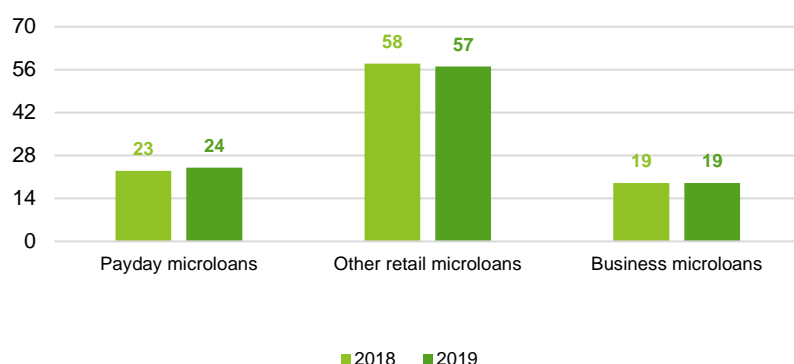
⁴¹¹ For more details, see Subsection 1.3.

Figure 2.20. Structure of the Total MFO Loan Portfolio in 2019, %



Source: Compiled by Expert RA using the data of the Bank of Russia and MFO survey⁴¹²

Figure 2.21. Dynamics of the Structure of the Total MFO Loan Portfolio in 2018-2019, %



Source: Compiled by Expert RA using the data of the Bank of Russia and MFO survey⁴¹³

The maximum daily interest rate in H1 2019 was set at 1.5%, and in H2 2019 – at 1%. In Q4 2019, the market average for the full payday loan value was equal to 365%. For the sake of comparison: in Q1 2018, this indicator was equal to 819.42%⁴¹⁴.

CONSUMER RISKS (Unavailability of FCLV Data)

- Unavailability of the FCLV indicated in a square box in the top-right corner of the agreement (or anywhere else in the agreement)
- Incorporation of payments not provided for by the legislation into the FCLV

RECOMMENDATIONS TO CONSUMERS

It is advisable to bear in mind that the FCLV is supposed to include no charges other than the following payments:

- Principal debt amount
- Interest
- Other charges payable to the lender (e.g. fees) provided for by the agreement
- Charges payable to third parties if provided for by the agreement
- Insurance premiums if they affect the interest rate or any other loan charges, or if the beneficiary is not the borrower or borrower's relative

Furthermore, the data on an average payday loan amount were used to introduce a special loan type (without an option to extend it or increase the amount) for up to RUB 10 thous. with a maturity of up to 15 days, with a maximum total interest charged on such loan equal to RUB 3 thous. at the most (or 30% of the loan amount, where a loan of less than RUB 10 thous. is issued for 15 days). A monthly payment under such loan may not exceed RUB 200 (the restrictions listed above do not apply to this type of microloan).

According to Expert RA, MFOs embarked upon diversification of the services offered thereby in 2019 due to expectation of exponential margin decline in the segment of payday loans. Issuing loans for up to RUB 30 thous. with a maturity of up to 30 days at 1% per day instead of 2% would often prove cost-inefficient, which is the reason why this segment gave rise to services characterized by shorter terms and larger amounts, i.e. loans for more than 30 days or for more than RUB 30

⁴¹² Ibid.

⁴¹³ Ibid.

⁴¹⁴ Review of Microfinance Institutions' Key Performance Indicators for 2019 // Bank of Russia cbr.ru/Collection/Collection/File/27764/review_mfi_19Q4.pdf.

thous. Therefore, the shorter terms of the microloans affected the total volume of such microloans issued in the market⁴¹⁵.

Over the year, the average amount of a payday microloan increased from RUB 7.4 thous. to RUB 8.2 thous., and the average amount of a medium-term consumer microloan decreased from RUB 17.9 thous. to RUB 17.4 thous.

Starting from 01 October 2019, similar to banks, MFOs are mandated to calculate the borrower's DBI when making the decision to grant a credit of RUB 10 thous. or more, and create an additional capital cushion when crediting borrowers with a DBI above 50%. According to the regulator's estimates, this did not entail a slowdown in the quarterly crediting rates.

These indicators will be factored in the calculation of the companies' equity adequacy ratios. When issuing a microloan to a client whose DBI is above 50%, an MFO will bear an additional capital load equal to 50% of the loan amount (65% starting from 01 January 2020). In addition, the procedure for calculating the indicators to be factored in the calculation of MFC economic ratios has been adjusted⁴¹⁶.

In the future, DBI calculation will contribute to a more thorough selection of borrowers, enhancement of scoring models and improvement of MFO portfolio quality. Besides, the current structure of MFO portfolios will continuously be transforming following the reduction of maximum payments that MFCs may claim from the borrower to a 1.5-loan amount effective from 01 January 2020.

The study of the DBI covering 18 major MFOs (66.1% of the market) by the Bank of Russia⁴¹⁷ demonstrated that 53.7% of the borrowers had a DBI above 50%, and moreover, 36.9% of the borrowers had a DBI above 80%. As a rule, borrowers with a DBI above 80% were concentrated in the segment of long microloans. The study emphasizes that in case of 53.9% of microloans issued by microfinanciers, they evaluate the borrower's income using Rosstat data on the regional average per capita income. This is partly due to the requirement of making fast decisions on the issue of loans.

In the segment of payday loans, the share of microloans issued to borrowers with an income above RUB 40 thous. amounted to 41.7% as compared to 17.8% in the segment of loans with longer maturities. Thereat, these were the borrowers earning more than RUB 40 thous. that accounted for 34.1% of the total volumes of loans issued to the borrowers with a DBI above 80% in the segment of short loans and 11.3% in the segment of long loans.

According to the regulator, this is due to the fact that the MFOs specializing in payday loans relied on the right to factor the borrowers' income specified in their requests in the calculation of the DBI more frequently. The regulator is planning to evaluate the impact of increased risk factor mark-ups under the microloans issued to borrowers with a DBI above 50% on MFO capital adequacy following the market supervisory reporting in Q1 2020.

According to the experts, it is hard to evaluate the DBI now due to unavailability of complete data. In the meantime, they note that major risks consist in the potential growth of an illegal microloan market if MFOs refuse to deal with such borrowers⁴¹⁸.

Market concentration increased in the new regulatory context. A lower FCLV forced MFOs to cut costs and increase the efficiency of their business models resulting in stronger competition in the market and a lower total quantity of MFOs.

This trend was most manifest in the online segment: hi-tech companies were taking efforts to strengthen their positions. At year-end 2019, TOP-100 MFOs accounted for 83.7% of the portfolio (as compared to 79.7% at the beginning of 2018)⁴¹⁹.

According to the regulator, the quantity of MFOs included in the register went down to 1,774 companies (-228 MFOs, or -11.4%) in 2019 (Figure 2.22). Thereat, the majority of MFOs were removed from the register at their own request (60-70% in H2 2019).

Over the course of the year, the quantity of MFCs declined from 53 to 38 companies, and their share in the total microloan portfolio contracted from 57% to 53%, which did not entail a lower concentration in the sector. This decline in the quantity of MFCs was predominantly due to removal of individual companies with low-volume portfolios from the register.

According to the survey by zaim.com information portal, 13% of MFOs removed from the Bank of Russia register in 1H 2019 continued to issue loans. Thereat, 4% were doing so legally in the name of a different legal entity included in the register, and 9% were doing so illegally. In H1 2018, only 5% of the companies removed from the register continued their activities illegally.

According to experts, 60% of companies removed from the register on a voluntary basis in H1 chose to be removed due to the lack of capacity to restructure their business model⁴²⁰.

⁴¹⁵ MFO Market Performance in 2019 and Forecast for 2020: Transformation Period // Expert RA raexpert.ru/docbank/8a6/9cd/912/2da4cfadde8db78fb47137f.pdf.

⁴¹⁶ Borrower DBI Calculation Ratios Set for MFOs, 04 July 2019 // Bank of Russia cbr.ru.

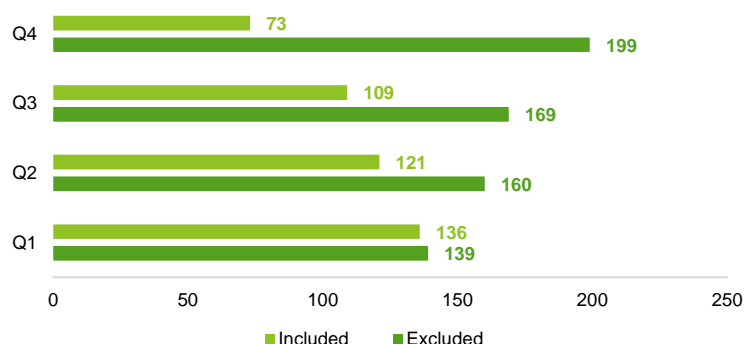
⁴¹⁷ The survey covered the microloans issued to the public in Q4 2019.

⁴¹⁸ MFO Borrowers Show Marks of Debt Overburden, 11 February 2020 // Kommersant Newspaper No. 24 dated 11 February 2020, p. 8 kommersant.ru/doc/4250879.

⁴¹⁹ Ibid.

⁴²⁰ Loans as an Exception, 26 August 2019 // SRO MiR npmir.ru/news/mir-news/smi/detail.php?ID=4108&sphrase_id=18287.

Figure 2.22. Quarterly Dynamics of MFOs Included in and Removed from the State Register in 2019, Units



Source: Bank of Russia⁴²¹

A less dynamic inflow of new MFOs in the register and removal of operating MFOs therefrom have been caused by a gradual growth of the threshold opening the way to the legal microfinance business, which is also due to the toughening of regulatory requirements. Besides, regulatory costs and market competition contributed to a higher frequency of the instances when companies chose to re-register as MCCs instead of MFCs⁴²².

Experts predict that the total quantity of MFOs in the state register will decrease by 500-600 ones over the next 2 years (as compared to March 2020). Leaders are consistently raising their market share at the expense of the client base of MFOs departing from the market, with the quality of their lending transactions improved. As a result, the market will become increasingly consolidated around the largest MFOs, and microloan portfolio concentration on TOP-20 and TOP-100 companies will add at least 3-5 pp from the current 57 and 84% accordingly.⁴²³

CONSUMER RISKS (Agreement with an MFO)

- *Obtaining a microloan within a short timeframe, without delay (extremely fast conclusion of the agreement)*
- *Signing an agreement without reviewing the terms and tariffs*

RECOMMENDATIONS TO CONSUMERS

- *It is advisable to review the terms of the loan agreement thoroughly*
- *It is necessary to evaluate the income and monthly payment amount including interest (it may prove necessary to postpone the intended purchase)*
- *It is advisable to check for any additional services (insurance, legal, consulting, healthcare, or other services) in the agreement with the MFO. They are most likely to be unnecessary*
- *It is essential to sign an agreement, only provided that it includes the terms and tariffs as an integral part*

Gradual digitalization of the MFO market continued. In general, the segment of online microloans ensured the bulk of the growth in the market in 2019. The percentage of online loans as a share of total lending increased to 37% (as compared to 32% in 2018), and certain companies issued online loans in more than 80 constituent entities of the Russian Federation.

The MFOs registered in 2017-2018 and issuing payday microloans proved most active in the market. This is the reason why the average growth rates of the online payday microloan portfolio are higher as compared to those of MFOs using offices.

The quarterly growth rate of the payday microloan portfolio in the online segment amounted to 16.6% as compared to a mere 6.2% growth rate for the segment of office lending. The total share of digital channels in the segment of payday microloans increased to 68% (65% in 2018)⁴²⁴.

A survey of microfinance market participants conducted jointly by SRO MiR and ECOMMPAY⁴²⁵ demonstrated that about 50% of MFOs performed online transactions to a greater or lesser extent. Thereat, 36% of surveyed companies used online technologies in their work, and one company in ten performed all of its transactions online. 47% of companies had no problems when dealing with payment providers. Thereat, only 13% of the MFOs themselves had most efficient fraud protection facilities at their disposal: 8% had their own protection programs, 5% used provider's technologies, 17% would like to implement protection programs and 67% did not have such programs.

Consequently, it is important for consumers to ensure security of the process of money transfer through payment providers to keep to a minimum the actions of fraudsters. Financial consumers' demand for convenience and transparency of settlements, in turn, leads to expansion of the number of MFO payment services and implementation of protection

⁴²¹ Microfinance Market Trends in 2019 // Bank of Russia cbr.ru/Collection/Collection/File/27725/mmt_2019.pdf.

⁴²² MFO Market Performance in 2019 and Forecast for 2020: Transformation Period // Expert RA raexpert.ru/docbank/8a6/9cd/912/2da4cfadde8db78fb47137f.pdf.

⁴²³ Ibid.

⁴²⁴ Microfinance Market Trends in 2019 // Bank of Russia cbr.ru/Collection/Collection/File/27725/mmt_2019.pdf.

⁴²⁵ ECOMMPAY is an international payment provider and direct acquirer. The company has a license issued by the UK Financial Conduct Authority as an authorized payment institution. ecommpay.com/ru/about-us.

technologies⁴²⁶.

In April 2019, the Ministry of Internal Affairs of Russia issued an initiative on consumer data protection suggesting a prohibition on online issue of microloans without a passport (at present, it is sufficient to enter passport data without a Xerox copy of an identity document)⁴²⁷.

On 27 April 2020, Ordinance of the Bank of Russia No. 5348-U dated 09 December 2019 "On Rules of Cash Settlements"⁴²⁸ came into force. It had been under development since August 2019. The document allows MFOs to issue new loans out of cash deposited in the cash desk. The Ordinance applies to individuals participating in the cash settlements, legal entities and individual entrepreneurs.

According to the document, MFOs can issue loans, repay attracted loans, pay interest, penalties (fines, penalties) on attracted MFO loans. The amount under a single microloan agreement is limited to RUB 50 thous. At the same time, the amount of the above transactions of the MFO within 1 day may not exceed RUB 1 mln.

This measure is expected to facilitate turnover of funds within the MFO and make microfinance services more affordable for the consumers. Experts believe that a novelty can ensure smooth operation through using cash on hand⁴²⁹.

According to the estimates of Expert RA, in 2020, growth rates of the microloan portfolio will not exceed the level of 2019. At the same time, volumes of issue will continue to increase at a lower pace (20%) due to shortening of maturity periods and decrease in turnover of the microloans.

It is expected that quality of MFO borrowers in 2020 will deteriorate due to decline in the real household income and increase in the share of the temporarily unemployed. This will force MFOs to make the risk assessment system more stringent, and this could affect borrowers adversely.

Together with this, the possibility for borrowers to apply for repayment holiday may compensate for the bad debt growth in the MFO portfolios. The microloan portfolio growth in 2020 may be also supported by the practice of bad debt keeping in the MFO portfolios associated with development of debt collection structures inside the MFOs.

According to SRO NAPCA, the average amount of collectable debt under a microloan has fallen by 44% over the last 2 years. In 2017, this amount was RUB 19.8 thous., in 2018 – RUB 14.5 thous., in 2019 – RUB 11 thous. At the same time, analysis of the MFC loans in 2018-2019 showed that transfer of indebtedness to the 1-30 days past due category starting from H2 2019 was 26-27% compared to 35% at the beginning of 2018.

This trend may be explained by strengthening the microfinance market regulation, developing MFO scoring algorithms, restoring payment discipline of consumers and developing the credit histories institution⁴³⁰.

In general, in 2019, expansion of the practices of the court debt recovery by MFOs can be mentioned. About 50% of all MFOs apply to court. In the first half of 2019, 933 MFOs applied to court compared to 905 MFOs in 2018. The said practice is quite efficient, since in 2018, the rate of repayment was approximately 70% of the claim amount⁴³¹. In the context of growing activities on non-performing loan management, quality of the MFO portfolio was also improved because unrecoverable microloans were assigned and written off.

FOR REFERENCE

Starting from 01 January 2020, MFOs shall interact with the Financial Ombudsman on a compulsory basis. According to the complaint statistics of the Financial Ombudsman Service, in Q1 2019, 158 complaints were received with regard to 46 MFOs. The average claim amount was RUB 20,380. Main grounds of complaints were non-refund of fees for additional services, disagreement with the interest calculation as well as with the damages calculation (penalties, fines)⁴³².

Profit of the MFOs for 2019 grew by 52% and amounted to RUB 16.5 bln (RUB 10.87 bln in 2018). This is the highest value for the entire observation period for the MFO market. Sales of ancillary services and products, i.e. revenues from non-core areas of activities contributed a lot to its growth. This was driven by regulatory restrictions (FCLV and debt thresholds, required DBI calculations) which forced MFOs to rearrange their business models. On average, in 2019, the share of indirect income of MFOs grew twice and reached 8% of the total volume of earnings, however, some companies including the largest ones had this share amounting to 25%.

The level of public trust in MFOs was still low. According to NAFI Research Centre, as little as 6% of Russian citizens trusted MFOs in 2019 (5% in 2017, 8% in 2016). At the same time, only 62% of clients knew daily interest rate on their loan and 20% found this question difficult to answer⁴³³. Such low level of trust was associated with the activities of illegal creditors and financial pyramids.

Accordingly, to limit such risks for consumers, in 2019, a number of measures were initiated, such as tightening of liability for illegal creditors,⁴³⁴ including criminal sanctions.

Furthermore, the draft law is adopted in the first reading which vests the Bank of Russia with the powers to initiate

⁴²⁶ Microfinance Sector May Give Up Cash, 19 December 2019 // SRO MiR npmir.ru/news/otr-news/researches/detail.php?ID=4388.

⁴²⁷ MIA Suggests Prohibition of Microloan Issue via the Internet Without Passport, 30 April 2019 // TASS tass.ru/ekonomika/6390911.

⁴²⁸ Bank of Russia Ordinance No. 3073-U dated 07 October 2013 "On Cash Settlements" ceased to be in force.

⁴²⁹ CB Suggests Allowing MFOs to Issue Loans out of Cash on Hand // JSC AEI PRIME 1prime.ru/finance/20190812/830231821.html.

⁴³⁰ Average Amount of Overdue Debt of an Individual to MFOs Reduced to RUB 11 Thous., 03 October 2019 // SRO MiR npmir.ru/news/otr-news/researches/detail.php?ID=4186.

⁴³¹ 2019 Results for MFO Market and 2020 Forecast: Transformation Period // Expert RA raexpert.ru/docbank/8a6/9cd/912/2da4cfadde8db78fb47137f.pdf.

⁴³² The Financial Ombudsman Service. Information on the complaints received. Q1 2020 // Financial Ombudsman finombudsman.ru/wp-content/uploads/2020/04/Statistika-za-I-kvartal-2020-po-sostoyaniyu-na-07.04.2020.pdf.

⁴³³ Russians' Trust in Banks Growing, 17 February 2019 // NAFI nafi.ru/analytics/doverie-rossiyan-k-bankam-rastet.

⁴³⁴ For more details, see Subsection 1.5 of the Report.

blocking of websites of financial pyramids and fraudulent credit institutions and apply to court to protect rights, freedoms, and legitimate interests of citizens with regard to publication on the Internet of information which may be used to gain access to information systems of financial organizations, electronic payment systems, and clients' devices⁴³⁵.

CONSUMER RISKS (When Interacting with Illegal MFOs)

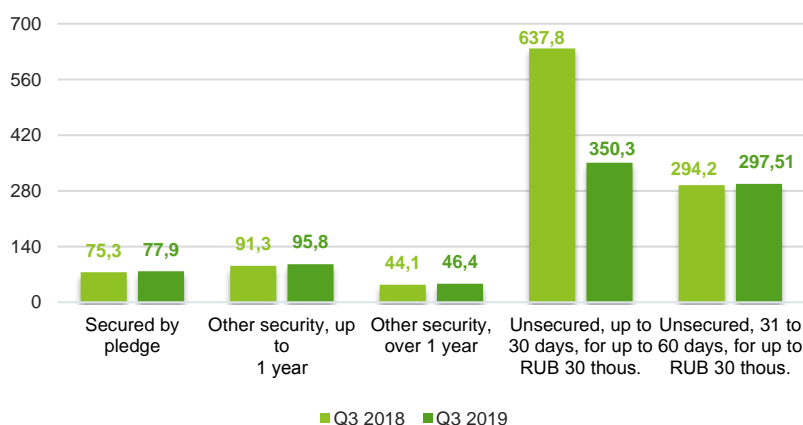
- Use of personal data for fraudulent purposes and transfer of information to third parties without the client's consent
- Interest rates on loans granted by illegal creditors may exceed the upper limit set by the regulator
- Use of illegal debt collection practices by illegal creditors
- Determination of illegal commissions, fine sanctions, etc. in the contract
- Establishment of additional terms in the contract
- Requirement to pay for additional services, for example, application processing, transfer of the loan amount to a card, etc.

RECOMMENDATIONS TO CONSUMERS

- To verify whether the MFO is included in the state register on the website of the Bank of Russia or special electronic directory⁴³⁶
- To check whether the MFO is a member of a SRO (to find the SRO list on the website of the Bank of Russia and check on the SRO website)
- To review feedback from other consumers concerning the MFO

It should be noted that during 2019, there was growth of average market values of FCLV on consumer microloans secured by a pledge (Figure 2.23) and with regard to certain unsecured microloans (for example, up to RUB 30 thous. for up to 30 days). At the same time, due to regulatory restrictions, FCLV for microloans up to RUB 30 thous. for the term up to 30 days went down almost twofold.

Figure 2.23. Dynamics of Average Market FCLV on Separate Categories of Microloans Applied in Q3 2018 and Q3 2019, % per Annum



Source: Bank of Russia

In spite of legislative developments aimed at reducing risks and improving consumer protection, in 2019, the Bank of Russia received 28 thous. complaints relating to MFOs (11.4% of the total number of complaints of financial consumers), which is 25.2% more than in 2018. The regulator's representatives associate it with wide media coverage of the activities of the Bank of Russia on refund to consumers of amounts overpaid under consumer loan agreements. However, upon the results of inspections, most of complaints were not confirmed, only 18.6% were considered reasonable. Starting from Q2 2019, the number of complaints began to decrease: in Q1 2019, 7.1 thous. ones were received, while in Q4 2019 – 5.6 thous.⁴³⁷

FOR REFERENCE

In mid-June 2019, the idea of the internal Financial Ombudsman was implemented by MFO MoneyMan, one of the biggest market participants. This measure is intended to reduce the number of complaints forwarded to the regulator and simultaneously to accelerate the resolution of emerging problems at the service provision location.

⁴³⁵ 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". For more details, see Subsection 1.5 of the Report.

⁴³⁶ Directory of Financial Market Participants // Information and Educational Resource of the Bank of Russia fincult.info/services/spravochnik.

⁴³⁷ Microfinance Market Trends in 2019 // Bank of Russia cbr.ru/Collection/Collection/File/27725/mmt_2019.pdf.

The Ombudsman controls the observance of interests of the company services' consumers who are unsatisfied with the services, clarifies their rights and possibilities for legal protection, advises on applying to the Bank of Russia, if necessary. The decisions of the Ombudsman are binding for all MFO employees. The dispute is considered within 1-2 days. During the first 3 weeks of work, the Financial Ombudsman received more than 70 complaints (over 90% of decisions were taken in favor of borrowers). The market participants find this initiative interesting and are ready to scale it up. However, experts do not consider this a universal tool for reducing consumer claims⁴³⁸.

Almost a half of the complaints (49.6%) were associated with actions on debt recovery (57.8% in 2018). Complaints on exceeding the upper limit of interest accrued under a loan agreement accounted for 13.7% (6.4% in 2018) of the total number, issues of microloan agreement restructuring/refinancing – 7.1% (9.8% in 2018), disputes concerning agreement conclusion (fraud) 6.9% (6.7% in 2018), credit histories 4.2% (2.9% in 2018), other matters – 18.4% (16.3% in 2018)⁴³⁹.

Thus, main problems of dealing with MFOs specified in the consumers' complaints are still the following:

- Activities on debt recovery under a microloan agreement;
- Exceeding the upper limit of interest accrued under a microloan agreement;
- Microloan agreement restructuring/refinancing.

According to SRO MiR, in Q1-Q3 2019, about 59% of incoming complaints somehow related to the procedure of overdue debt collection. Furthermore, the share of complaints of borrowers who disagreed with calculation of interest, fines and penalties under the microloan agreement also grew. The number of reasonable complaints remains high, however, one can note a decrease in the share of complaints related to threats to debtors⁴⁴⁰.

In view of the above, in 2019, SRO MiR developed the Internal Standard on Overdue Debt Management which has been applied from 01 October 2019 to agreements between MFOs and collection agents concluded from 01 October 2019 or earlier, if the debt portfolio is to be transferred after 01 October.

Main goal of the standard is the protection of bona fide organizations and removal of unfair debt collection models from the market. According to the standard provisions, the MFO employees shall communicate politely and observe business ethics while collecting debts. Any insults, disparagement of the borrower's honour or dignity, use of offensive language are not allowed. The standard obliges MFOs to provide the borrower with correct information about the debt amount, timing and procedure of the debt repayment. The MFO employees are not allowed to present themselves as employees of the state bodies. The MFO employees having access to confidential information about the borrower shall sign the respective agreement.

MFOs may interact only with the guarantors indicated by the borrower. If a third party disagrees with such activities, MFOs must cease them. Furthermore, any interaction with the debtor and third parties shall be terminated if it is carried out in a healthcare or education organization, if there is a risk of disruption to the operation of these organizations, harm to health or material damage.

If the debts are assigned to credit institutions or collectors, MFOs shall conclude an agreement with them stipulating that further debt recovery will be performed according to the standard. Any further debt assignment agreements shall also include clauses stipulating the obligation to comply with this standard. In case of violation of the standard, the borrower shall pay a fine in the amount of at least 0.05% of the overdue debt portfolio stated in the agreement. When choosing the organization to which the MFO is going to assign debts, the MFO shall consider the agent's reputation, in particular, review information on court decisions taken and adverse events published in mass media⁴⁴¹.

The standard draft was supported by the regulator. It was highlighted that usage of this standard could protect the rights of borrowers of certain financial organizations and raise the level of consumers' trust in the financial market in general⁴⁴².

Some experts think that the application of the standard is a soft approach to debt collection, and financial organizations will act according to one of the following options: circumventing the standard, toughening the scoring, transferring risks to bona fide borrowers, embedding risk into the rate and increasing the latter⁴⁴³.

Online loan service "Robot Zaimer" presented a "chronic borrower" profile – this is a working man of middle age with a stable income. This is the profile of a typical MFO borrower who is unable to receive a regular loan due to restrictions which became effective (not more than 9 loans per year).

Most often, men (64.8%) apply for loans exceeding the established limit. On average, they are 26-35 years old. 69.1% of them are experienced borrowers having been serviced by a single MFO for more than 1 year. As a rule, they disburse only 48.4% of funds within the maximum credit limit available. It should be noted that the total disbursements within the limits stay at the level of 88-90% of the approved amounts.

This category of borrowers has a reasonable level of the current debt load: 57.2% of borrowers make monthly mandatory payments not exceeding RUB 5 thous., and 15.4% of borrowers make payments within the range of RUB 5-10 thous.

Service analysts conclude that the main reason for applying for a loan by this category of clients may be lack of money

⁴³⁸ Micro Ombudsman. MFOs Hire Ombudsmen // Kommersant Newspaper No. 123 dated 16 July 2019, page 8 kommersant.ru/doc/4032524.

⁴³⁹ Complaint Handling Report, January-December 2019 // Bank of Russia cbr.ru/Collection/Collection/File/27316/2019_4.pdf.

⁴⁴⁰ Statistics of Financial Consumers' Complaints Filed with SRO MiR for Q1-Q3 2019 // SRO MiR nmpir.ru/news/mir-news/org-news/detail.php?ID=4358&sphrase_id=18169.

⁴⁴¹ Microfinance Organizations Start to Recover Debts According to Standard, 01 October 2019 // TASS tass.ru/ekonomika/6947199.

⁴⁴² Microfinance Market to Have Standard for Overdue Debt Collection, 21 June 2019 // Bank of Russia cbr.ru/Press/event/?id=2703.

⁴⁴³ Debt Collection Standard: New Headache for MFOs? 16 July 2019 // IA zaim.com zaim.com/articles/regulirovanie-rynka/standart-po-vzyskaniyu-zadolzhennosti-novaya-bol-mfo.

at some particular time, for example, when a purchase is needed or due to a specific payroll schedule. They also suppose that improvement of terms of the payday loan issue for an ultimate consumer (decrease in the interest cap to 1% per day) allows to predict the increase in the share of such borrowers⁴⁴⁴.

According to the estimates of Expert RA, in 2020, the MFO market growth may be driven by the COVID-19 pandemic and associated increase in the temporarily unemployed population which will urgently need borrowed funds to cover current expenses. Principally, the growth will concentrate in the segment of consumer microloans. Consumers facing credit denial will, in turn, become new clients of MFOs. Their number will grow.

Hence, measures for support of the public, economy, and financial sector amidst the COVID-19⁴⁴⁵ published by the regulator on 20 March 2020 could be considered very well-timed.

For example, MFOs are recommended to restructure debts, not to charge penalties and fines on loans according to the borrower's application if the individual provides an official confirmation that he/she has the said infection. The regulator entitled MFOs not to recognize loans as restructured and not to apply adjustment ratios to them with regard to borrowers with DBI over 50% when calculating capital adequacy ratio until the end of 2020. Furthermore, it is recommended, prior to 30 September 2020, in case of violation by the borrower of contract obligations, to avoid levying execution upon the pledged immovable property if the borrower provides an official confirmation that he/she has the said infection.

According to the estimates of SRO MiR, no growth of the number of applications for microloans is observed at the moment. However, the situation associated with the COVID-19 may lead to some unplanned shopping. This can be food, essentials, household appliances, foreign exchange transactions, etc. Unscrupulous MFOs may take advantage of anxious mood of the population, including issue of microloans using personal data of another person. Therefore, it is important to follow standard rules when obtaining microloans, especially when such transactions are performed remotely.

There are simple rules of conduct on the Internet:

- To avoid sending passport data, copies of documents through messengers and social networks;
- To avoid shopping in dubious online stores, following suspicious links when paying with a bank card.

Rospotrebnadzor usually supports initiatives aimed at protection of rights of microfinance services consumers, since the MFO market still requires permanent involvement of supervisory bodies. As it is mentioned in previous reports, Rospotrebnadzor believes that to increase trust in microfinance services, some urgent measures are needed aimed at decrease in interest rates on consumer loans, restriction of maximum liability of the borrower, introduction of prohibition of loans secured by property pledge, toughening of requirements to evaluation of the borrower's financial position, strengthening of control over companies engaged in granting microloans online, inclusion of indications to the microloan interest rate value in percent per annum in requirements to advertisements.

Many of these measures were implemented and became effective in 2019-2020. However, in the view of Rospotrebnadzor, the following key risks for consumers of microfinance services require close attention:

A decrease in approval rate for microloans issued by MFOs included in the state register followed by an increased amount of applications filed to shadow MFOs as a result;

Practice of legal MFOs that ignore responsible lending principles and issue costly microloans to overly indebted persons and unemployed consumers;

Consumers' neglecting terms and conditions of agreements with MFOs or refusing to examine such agreements in detail, including such clauses as FCLV, amount, size, frequency of loan payments, types and amounts of supplementary agreements or loan payments, as well as damages, fines and penalties;

Use of microloans to cover everyday household expenses;

A substantial share of MFO service consumers have an average or below-average level of financial literacy, thus, insufficient knowledge about MFOs and their services as well as risks related to microloans;

Insufficient consumers' knowledge on financial planning rules;

Consumers may have no additional sources of microloan repayment, except for wages;

Unjustified growth of the borrowers' debt burden due to high interest charged on microloans;

Misuse of borrowers' personal data on the Internet.



In 2019, some regulatory changes have occurred which are important for protection of rights of microfinance services consumers (restriction of the daily interest rate, consideration of the DBI when calculating capital adequacy ratios, decrease in the upper limit for accrual of interest, fines and penalties) and may exert positive impact on all market participants and increase the level of public trust in MFOs.

At the same time, it is necessary to continue activities aimed at raising the level of financial literacy of consumers in terms of the microfinance services market, drawing their attention to simple and understandable rules of conduct when obtaining microloans.

⁴⁴⁴ MFOs Draw up "Chronic" Borrower Profile, 01 August 2019 // [IA zaim.com](http://IA.zaim.com) zaim.com/news/novosti-mfo/v-mfo-sostavili-portret-khronicheskogo-zaemshchika.

⁴⁴⁵ Bank of Russia Approves Measures to Support the Public, Economy, and Financial Sector During the Coronavirus Pandemic, 20 March 2020 // Bank of Russia cbr.ru/press/PR/?file=20032020_133645if2020-03-20T13_36_08.htm.

2.5. Evaluation of Consumer Risks Associated with Development of E-Commerce Payment Instruments

Program “Digital Economy of the Russian Federation”

Accelerated implementation of digital technologies in the economy and social sphere was one of the tasks set by the President of the Russian Federation in 2018⁴⁴⁶. Thus, on 04 June 2019, the Presidium of the Council Under the President of the Russian Federation for Strategic Development and National Projects approved a passport for the national project “National Program “Digital Economy of the Russian Federation” (hereinafter referred to as the Program)⁴⁴⁷. Validity period of the Program: 01 October 2018 – 31 December 2024.

The Program consists of 6 federal projects: Regulatory Control of Digital Environment; IT Infrastructure; Human Resources for Digital Economy; Information Security; Digital Technologies; Digital Government Control.

The following goals are set: increase of internal costs for development of the digital economy (in terms of its share in the national GDP) by at least 3 times compared to 2017; establishment of stable and secure information and telecommunication infrastructure for high-speed transmission, processing and storage of big data accessible to all organizations and households; use of primarily domestic software by government bodies, local authorities and organizations.

To implement the Program and constituent federal projects, the resolution on the management system for implementation of the national program “Digital Economy of the Russian Federation”⁴⁴⁸ was approved, which, inter alia, established specific features of the functional structure of the management system for the Program implementation, the procedure for monitoring and control of implementation of the Program and federal projects thereof as well as the procedure for completion of the Program and federal projects thereof.

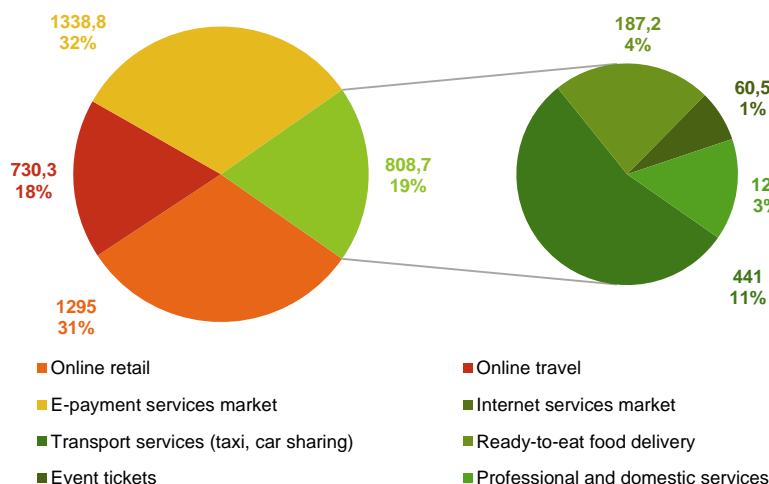
The respective regulatory framework is being initiated under the Program. According to Clause 01.01.005.004 of the Action Plan in the line “Regulatory Control of Digital Environment” of the Program approved at the meeting of the Government Commission on Usage of Information Technologies for Improvement of Quality of Life and Environment for Doing Business on 18 December 2017 (Minutes No. 2), Draft Law No. 861571-7 was developed⁴⁴⁹.

The draft law suggests expanding the range of business entities obliged to provide consumers with the possibility of making cashless settlements using national payment instruments in the framework of NSPK, or settlements in cash at the consumer's choice by extending these requirements to the aggregator owner and sellers (contractors) carrying out remote sale of goods and provision of services. At the same time, a gradual (from 01 September 2020 – RUB 30 mln, from 01 January 2021 – RUB 20 mln) reduction of the revenue threshold is proposed, in case of exceeding whereof the seller (contractor, aggregator owner) will be obliged to ensure the possibility of payment using national payment instruments in the framework of NSPK.

Development of E-Commerce and Electronic Payments Market

According to the RAEC survey⁴⁵⁰, in 2019, the volume of the e-commerce segment in the Russian Federation amounted to RUB 4,172.8 bln. (Figure 2.24).

Figure 2.24. Structure of the E-Commerce Market in 2019, RUB bln



Source: RAEC

At the same time, the online retail sector grew by 26% compared to 2018, electronic payment services market – by 19%, online travel sector – by 9%, the Internet services market – by 19%, including growth of the transport services sector (taxi,

⁴⁴⁶ 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 Until 2024”.

⁴⁴⁷ Minutes No. 7 dated 04 June 2019.

⁴⁴⁸ Resolution of the Government of the Russian Federation No. 234 dated 02 March 2019 “On Management System for Implementation of the National Program “Digital Economy of the Russian Federation”.

⁴⁴⁹ Draft Law No. 861571-7 “On Amendments to Article 16-1 of the Law of the Russian Federation “On Consumer Protection” (on expanding the range of business entities required to provide a consumer with an opportunity to pay for goods (works, services) by means of national payment instruments under the national payment card system).

⁴⁵⁰ Survey “Runet Economy/Ecosystem of the Digital Economy of Russia”, 15 April 2020 // Russian Association for Electronic Communications ekonomikaruneta.rf.

car sharing) – by 18%, ready-to-eat food delivery – by 40%, event ticket market – by 19%, professional and domestic services sector – by 23%.

In general, the contribution of the Runet economy to the national economy amounted to RUB 6.4 trn, including RUB 1.7 trn of direct contribution of the mobile economy, RUB 314 bln for marketing and advertising, RUB 126.8 bln for infrastructure and communications, RUB 85.7 bln for media and entertainment.

Main trends of the e-commerce market growth in 2019 comprised: Growth of purchases made via mobile devices; Marketplaces; Omnichannel⁴⁵¹ retail; Fast/free delivery; Cross-border⁴⁵²; Delivery of foodstuffs and ready-to-eat food; D2C (direct to customer) model⁴⁵³; BigData⁴⁵⁴, AR/VR⁴⁵⁵, neural networks, 3D printing, IT infrastructure.

According to the analysts' estimates, the e-commerce industry in 2020 may grow by 18% (to RUB 4.9 trn). However, after the events of March 2020 associated with dissemination of the COVID-19, the forecast was adjusted. Experts expect the e-commerce market growth by 6% (to RUB 4.4 trn) in 2020.

FOR REFERENCE

According to the Data Insight analysts, in 2019, online payments were introduced on 143 thous. websites of the Runet, 85% of them accept payments via bank cards⁴⁵⁶.

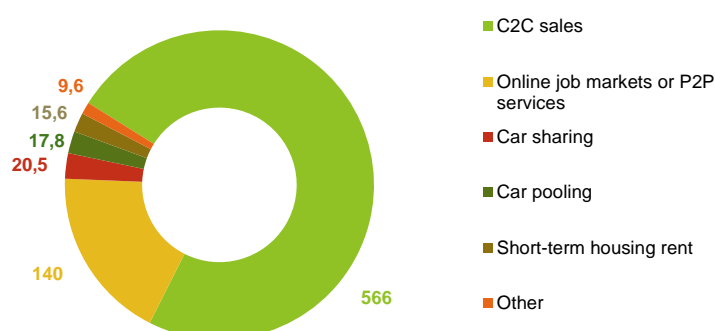
At the same time, analysts identified the following negative trends: a drop in the number of orders and the average bill; interruptions in the supply of goods from abroad and substantial increase of their cost; negative dynamics of online travel market and transport services.

The market will be supported by the following factors: maintaining demand for certain groups of goods; lifting of restrictions on remote sale of medicines; forming online shopping habits; C2C- transactions⁴⁵⁷; online education and distance learning; growth of the share of cashless payments.

It should be noted that in 2019, the volume of online sales through new media channels (blogs, social networks, messengers, YouTube) reached RUB 8.3 bln. At the same time, 84% of millennials⁴⁵⁸ and representatives of Generation Z⁴⁵⁹ buy goods through mobile applications. This is the main category of buyers using this tool. However, mobile applications gain popularity among buyers of other generations.

Experts have found out that online services of collaborative consumption (sharing) are widely used, especially in large cities. For instance, following the results of 2019, the volume of transactions of online services operating in Russia amounted to RUB 769.5 bln, which is 50% higher if compared to the previous year (Figure 2.25.)

Figure 2.25. Market Structure of Online Services of Collaborative Consumption in 2019, RUB Bln



Source: RAEC

In the analysts' opinion, the following factors supported the growth and will support it in future: audience growing-up; expansion of geographical presence; decrease of an average bill; development of trust in the platform: verification and insurance; embedding of sharing services into the ecosystems of major players (Sberbank, Yandex, etc.).

In April 2019, VCIOM presented data on research of the frequency of e-commerce services usage by those Russians who use the Internet⁴⁶⁰. Hence, among the Russians using the Internet, the most popular online service is bank transactions (61%), and people aged 18-24 account for the largest share of users (77%). Check and payment of taxes and penalties rank the second (45%), this share is higher for those aged 25-34 (57%). Top-3 also includes transmission of counter readings and payment for utilities (40%), and this share for those aged 45-59 is 45%.

It should be noted that use of the Internet for the purpose of purchasing food and household chemicals is becoming more and more popular (from 14% in 2018 to 24% in 2020). At the same time, online purchase of durable goods and services (for

⁴⁵¹ Omnichannel is a single system linking together various client communication channels.

⁴⁵² Cross-border trade.

⁴⁵³ Direct supplies from a manufacturer (brand) to an ultimate buyer.

⁴⁵⁴ A set of methods for big data storing, processing and analyzing, and subsequent decision-making.

⁴⁵⁵ Virtual reality/augmented reality.

⁴⁵⁶ Visa to Allow Bank Clients to Remove Card Details from Third-Party Websites, 12 March 2020 // RBC rbc.ru/finances/12/03/2020/5e68eb8c9a794710deecd992.

⁴⁵⁷ Sale of goods and services between consumers.

⁴⁵⁸ Generation born in 1981-1996.

⁴⁵⁹ Generation born in 1996-2017.

⁴⁶⁰ Digitalization of Services in Russia: Yet at the Doorstep, 22 April 2019 // VCIOM wciom.ru/index.php?id=236&uid=9667.

example, household appliances, furniture), on the contrary, is decreasing (from 41% in 2018 to 35% in 2020)⁴⁶¹.

FOR REFERENCE

*The share of Russians having an adequate level of digital literacy has remained almost unchanged throughout the last 3 years. In 2018, this figure was 26%, in January 2020 – 27%. Lagging behind the target values of the federal project "Human Resources for the Digital Economy" has so far been 3 pp.*⁴⁶²

Speaking about the cross-border trade, it should be noted that every year the terms of purchase of goods from outside the EAEU are becoming more and more stringent⁴⁶³.

In addition to the measures adopted earlier and pursuant to the Instructions of the President of the Russian Federation dated 25 March 2020, the measures to protect the interests of individual borrowers affected by the COVID-19 spread due to decline in income⁴⁶⁴ were published on 27 March 2020. Taking into account that in the context of its spread remote sales are becoming more and more important for the population and entities, it is decided to limit the maximum value of acquiring commissions for online purchases and set them for the period from 15 April to 30 September 2020 at the level not exceeding 1% (at present they amount to 1.2-2.2%). Thus, citizens will be able to do online shopping staying at home, and retail and service outlets can offer consumer goods with home delivery.

Rospotrebnadzor sees the need in further improvement of its activities on protection of citizens' rights in the context of technological revolution, macroeconomic uncertainty, sanitary and epidemiological hazards. One of the aspects of the said activities is informing citizens of the risks of remote trade and preparation of recommendations.

CONSUMER RISKS (Regarding Remote Trade)

- Acquisition of goods that do not correspond to the description, mandatory requirements, low-quality and unsafe goods
- Failure to provide the consumer with the necessary information, including concealment or incomplete disclosure of information about the seller (manufacturer, contractor)
- Fraudulent misrepresentation on consumer properties of goods
- Failure to deliver paid goods/services under the agreement or late delivery of goods/services
- Seller's evasion from considering consumer's claims
- Non-refund by the seller (evasion from refund) of the money paid, refusal to compensate for losses

RECOMMENDATIONS TO CONSUMERS

- It is necessary to demand from the seller information in full and understandable form about main properties of goods and the seller's address, place of manufacture of the goods, full name of the seller, price and conditions of purchase of the goods, delivery terms, service life, shelf life and warranty period, payment procedure as well as the period during which the contract proposal is valid
- It is possible to refuse the goods within 3 months from the date of transfer if information on the procedure and terms of return of the goods of proper quality was not provided in writing at the time of delivery
- It is not prohibited to refer to other evidence of the goods purchase in addition to the document confirming payment for the goods
- It is possible to refuse the goods at any time before transfer thereof and within 7 days after transfer of the goods
- It is allowed to return the goods of proper quality if their marketable condition, consumer properties and a document confirming payment are preserved
- It is impossible to refuse a product of proper quality if the specified product can be used exclusively by the consumer who purchased it
- Upon refusal from the goods, it is necessary to demand from the seller a refund of the amount paid, except for costs of transportation of the returned goods from the buyer within 10 days from the date of the specified demand
- It is possible, within 20 days after receipt of the goods, to notify the seller of transfer of the goods in violation of the contract terms regarding their quantity, range, quality, completeness, tare and/or packaging of the goods
- It is possible to present claims within 2 years from the date of transfer of the goods if defects in the goods are found, and the warranty period or expiration dates with regard to the goods are not established
- It is necessary to demand from the seller to refund the amount paid by the buyer when the buyer returns the goods of proper or improper quality, even if the goods were paid for by the buyer by transfer of funds to the account of a third party specified by the seller

In the recent years, remote sales through social networks have been developing actively, for which reason

⁴⁶¹ Digital Detox: Why, How and What for? No. 4161, 04 February 2020 // VCIOM wciom.ru/index.php?id=236&uid=10149.

⁴⁶² Digital Literacy of Russians: Survey 2020, 10 April 2020 // NAFI nafi.ru/analytics/tsifrovaya-gramotnost-rossiyan-issledovanie-2020.

⁴⁶³ Decision of EEC Board No. 107 dated 20 December 2017 "On Certain Issues Related to Goods for Personal Consumption".

⁴⁶⁴ Bank of Russia Approves Additional Measures to Support the Public, Economy, and Financial Sector During the Coronavirus Pandemic, 27 March 2020 // Bank of Russia cbr.ru/press/pr/?file=27032020_152031dkp2020-03-27T15_20_11.htm.

Rospotrebnadzor draws attention to certain consumer risks in this area and the appropriate recommendations.

CONSUMER RISKS (When Buying Goods Through Social Networks)

- *Non-performance of the obligation to transfer goods, or dispatch of goods other than those ordered, with the subsequent termination of any contacts by the "seller"*

RECOMMENDATIONS TO CONSUMERS

- *It should be kept in mind that in case of disputes with a seller being an individual, the Consumer Protection Law may not be applied to such transactions, since this law does not regulate legal relations between citizens*
- *When ordering goods in the social networks, it is advisable to conclude a sale and purchase agreement, require the provision of documents confirming the payment as well as data on the seller's identity and address. Otherwise, the consumer loses the right to protection according to the consumer protection legislation, and it will be almost impossible to return the funds.*

Aggregators of Information on Goods (Services)

Starting from 01 January 2019, the Law "On Consumer Protection" covers owners of goods (service) information aggregators⁴⁶⁵. This allows for protecting consumer interests when dealing with such consumer market professionals that have actually formed a new niche in the e-commerce market (the Internet platforms that aggregate information about the goods and services in order to facilitate their search, selection, comparison and buying).

Before adoption of the stated law, goods and services online aggregators like Yandex.Market, Tovary.Mail.Ru, Banki.ru had no liability to consumers under the consumer protection legislation.

The aggregator owner means an entity or individual entrepreneur that owns a program, a website on the Internet providing the consumer with the possibility to get acquainted with the seller's (contractor's) offer on the product sale (service provision), buy a product or service and make an advance payment by cashless transfer.

It should be noted that aggregator owners are included in the list of entities subject to the federal state supervision of consumer protection⁴⁶⁶.

Adoption of the stated law is one of the essential steps in implementation of the approved Strategy of State Consumer Protection Policy of the Russian Federation Until 2030, which names consumer protection in the e-commerce as one of the priority issues.

In November 2019, the draft law⁴⁶⁷ was introduced into the SD RF supplementing the powers of the Government of the Russian Federation to regulate the activities of the aggregator owner when concluding a retail sale and purchase agreement between a seller and a consumer, including remote sales of goods.

According to Sub-Clause "I" Clause 1 of the List of Instructions of the President of the Russian Federation No. Pr-113 dated 24 January 2020 on Implementation of the Presidential Address to the Federal Assembly of the Russian Federation dated 15 January 2020, as well as in view of information support of citizens in the context of the COVID-19 spread, in March 2020, a number of aggregators and marketplaces were included in the list of national socially important information resources on the Internet⁴⁶⁸.

This experiment on providing citizens free of charge with communication services of data transfer and access to the Internet for usage of socially important information resources on the Internet is supposed to be held from 01 April 2020 to 01 July 2020.

Due to emergence of new regulation aimed at improving the consumer protection, Rospotrebnadzor carries out explanatory work which includes informing citizens about consumer risks and providing appropriate recommendations.

CONSUMER RISKS (Relating to Aggregators of Information on Goods and Services)

- *Submission of false or incomplete information*
- *Non-reimbursement for losses incurred by the consumer due to the aggregator's improper actions*
- *Non-refund of advance payments in the specified cases*

RECOMMENDATIONS TO CONSUMERS

- *A compensation for losses resulting from provision by the aggregator owner of false information about the actual seller, as well as inaccurate or incomplete information about the product (service) should be claimed.*
- *A claim may be lodged towards the aggregator owner on refund of advance payment for the goods (service). The*

⁴⁶⁵ Federal Law No. 250-FZ dated 29 July 2018 "On Amendments to the Law of the Russian Federation "On Consumer Protection".

⁴⁶⁶ Resolution of the Government of the Russian Federation No. 1536 dated 14 December 2018 "On Amendments to the Regulation on Federal State Supervision of Consumer Protection".

⁴⁶⁷ Draft Law No. 831855-7 "On Amendments to Article 1 of the Law of the Russian Federation "On Consumer Protection" (on specifying the powers of the Government of the Russian Federation in terms of regulation of the activities of the aggregator owner).

⁴⁶⁸ Order of the Ministry of Communications and Mass Media (Minkomsvyazi) of Russia No. 148 dated 31 March 2020 "On Experiment of Providing Citizens with Free Communication Services of Data Transfer and Access to the Information and Telecommunication Network "Internet" in the Territory of the Russian Federation for Usage of Socially Important Information Resources on the Information and Telecommunication Network "Internet".

aggregator owner shall refund it within 10 days subject to the following conditions: (1) the product (service) were not delivered (not provided) in due time; (2) the consumer sent a sale and purchase agreement (services agreement) repudiation notice to the seller as the latter failed to fulfil its obligations to deliver the goods or provide the service in due time.

- A reasoned complaint could be forwarded to Rospotrebnadzor in case of violation of the right to obtain reliable and complete information about a product (service), a seller (service provider)

Development Trends of Cryptocurrencies Market

In 2019, most cryptocurrencies did not demonstrate any impressive growth, in spite of 2.5 times increase of the Bitcoin rate. At the same time, the cryptocurrency industry has become a part of the economy driven by projects of Facebook, Telegram and Central Banks around the world.

By the end of 2019, the total capitalization of digital money had reached USD 195 bln, although at the beginning of 2019, this figure was at the level of USD 125 bln, that is, the growth rate was about 56%. The trade volumes rose manyfold – from USD 15 bln to USD 78 bln, approximately by 420%⁴⁶⁹.

In April 2019, VCIOM presented survey results showing low interest of Russians in Bitcoins: two-thirds of Russians who have heard about Bitcoins believe such investments 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 aged 18-24- years), people having higher education (71%), men (66%), and active users of the Internet (69%).

In mid-2019, it was reported that the Bank of Russia considered the possibility of creating its own digital currency based on secure technologies. Many central banks including those of Japan, the Netherlands and Ecuador reported their plans to issue national digital currencies⁴⁷⁰.

FOR REFERENCE

In Croatia, in 2019, a pilot project was launched to exchange cryptocurrencies to the national currency in post offices.

In February 2019, post offices of Liechtenstein started to sell cryptocurrency.

In 2017, more than 1,800 post offices in Austria began selling Bitcoin, Ethereum, Dash and Litecoin⁴⁷¹.

In July 2019, UnionBank, the largest bank of the Philippines, launched its own cryptocurrency pegged to the Philippine peso⁴⁷².

In Rio de Janeiro (Brazil), in December 2018, the Oásis Supermercados supermarket chain began to accept payments in Bitcoin Cash and Litecoin⁴⁷³.

In mid-2019, Iran approved the law that permits cryptocurrency mining⁴⁷⁴.

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 "On Digital Financial Assets" introduced to the SD RF on 20 March 2018⁴⁷⁵. It is intended to make investing in digital financial assets more transparent and protect future investors. The draft law was adopted in the 1st reading in May 2018 and has undergone significant changes since then.

As of March 2020,⁴⁷⁶ the draft law contains the definition of the digital financial assets and establishes the essence of a distributed ledger where digital financial assets are circulated and recorded. The core infrastructure for organizing the issuance and circulation of digital financial assets, operators of information systems and exchange operators is determined together with requirements which are specified for these institutions and their leaders.

FOR REFERENCE

Transactions with cryptocurrencies are prohibited: Algeria, Bolivia, Vietnam, Indonesia, Kyrgyzstan, Morocco, Pakistan, Ecuador, etc.

The state is wary of cryptocurrencies, some restrictions are introduced, but citizens are not prosecuted for the use thereof: Armenia, Brazil, India, Iran, Iceland, Kazakhstan, China, Lithuania, the UAE, Russia, France, Estonia, South Korea, etc.

Cryptocurrencies have an official status (of a commodity, financial asset, means of payment), the market is under state control, or the use thereof is in no way restricted by the authorities: Australia, Argentina, Belarus, the UK, Germany, Georgia, Denmark, the EU, Spain, Canada, the USA, South Africa, Japan, etc.⁴⁷⁷

⁴⁶⁹ Hype and Prospects. Changes in Cryptocurrency Market in 2019, 10 January 2019 // RBC rbc.ru/crypto/news/5e183c8f9a7947044a4ea99d.

⁴⁷⁰ CB Reports Considering Idea of Creating Own Digital Currency, 15 June 2019 // RBC rbc.ru/rbcfreenews/5d04ccb69a7947da3eacd621.

⁴⁷¹ In Post Offices of Croatia Cryptocurrency to Be Exchanged into Fiat Money, 26 July 2019 // RBC

rbc.ru/crypto/news/5d3afcb9a7947f5a6443cc8?from=main.

⁴⁷² Largest Philippines Bank Launches Own Cryptocurrency, 26 July 2019 // RBC rbc.ru/crypto/news/5d3b19cd9a7947025caa04b7?from=center.

⁴⁷³ In Brazil Payments for Public Transport in Cryptocurrency to Be Allowed, 29 July 2019 // RBC

rbc.ru/crypto/news/5d3eaa0b9a79476beb6b7354?from=main.

⁴⁷⁴ Iranian Authorities Permit Cryptocurrency Mining, 29 July 2019 // RBC rbc.ru/rbcfreenews/5d3e9d129a794764c727b51c.

⁴⁷⁵ Draft law No. 419059-7 "On Digital Financial Assets".

⁴⁷⁶ Interview of Aleksey Guznov, Director of Legal Department to Interfax Agency, 17 March 2020 // Bank of Russia cbr.ru/press/event/?id=6512.

⁴⁷⁷ Where Bitcoin Feels Good. Legal Status of Cryptocurrencies in the World // Kommersant Online Publishing kommersant.ru/doc/3498021.

The decision on issue may indicate that digital financial assets are collateralized by the property of their issuer or third parties, a description of the collateral, and terms of providing the collateral. At the same time, the issue and organization of the cryptocurrency circulation are directly prohibited, and liability for violation of the prohibition is introduced.

In August 2019, a very important Law was adopted concerning attracting investments through the use of investment platforms⁴⁷⁸. The Law effective from 01 January 2020 regulates relations of investing and attracting investments using investment platforms, and also establishes the legal framework for the activities of the investment platform operators. Furthermore, the procedure for investments by individuals is established.

In February 2019, the SC RF equated cryptocurrency with funds in criminal cases on money laundering⁴⁷⁹. Clarifications of Articles 174 and 174.1 of CrC RF are given. In particular:

- The subject matter of crimes may be, among other things, money converted from cryptocurrency acquired as a result of a crime;
- If the subject of the crime is money in foreign currency, the major or large-scale amount of the act specified for by the said articles is determined at the official exchange rate of the relevant currency established at the time of commencement of financial operations or transactions involving the specified currency.

It should be noted that there are still some gaps in the legal regulation of the seizure mechanism for virtual assets with the view of confiscation thereof. Due to this fact, according to Clause 12.2 of the Decision of the Collegium dated 01 November 2019,⁴⁸⁰ the Ministry of Internal Affairs of Russia together with Rosfinmonitoring, the Prosecutor General's Office of Russia, Investigative Committee, Ministry of Justice of Russia, Federal Security Service of Russia, Federal Customs Service of Russia, FBS of Russia with the participation of the SC RF shall (until 31 December 2021) elaborate proposals on the seizure mechanism for virtual assets with the view of confiscation thereof.

Review of international best practices in regulation of cryptocurrencies showed the following risks related to purchase, ownership, and dealing with virtual currencies:

CONSUMER RISKS (Relating to Operations with Cryptocurrencies)

- *Issue of cryptocurrencies by an unlimited circle of anonymous persons does not allow for determining the entity that guarantees property security and completion of operations*
- *Lack of statutory regulation to protect consumers from losses in case of collapse of companies that own relevant technologies needed to facilitate the exchange of cryptocurrencies (collapse of cryptocurrencies exchanges) or decision of such companies to cease this business*
- *Absence of rights to refund in case of making payments with cryptocurrencies under the legislation (e.g. in case a person refuses to perform a transaction, no money will be returned, unlike operations with payment cards)*
- *Shut-down of virtual currency exchanges in a short time, including by law enforcement agencies, and loss of digital assets by consumers*
- *Fraud related to virtual currency e-wallets kept on personal computers, laptops and mobile smartphones (their owners will not be protected by the respective legislation)*
- *Lack of a mechanism of seizure of virtual assets*
- *High volatility of the cryptocurrency market*
- *Wide possibilities for manipulating the cryptocurrency market*

RECOMMENDATIONS TO CONSUMERS

- *It is necessary to consider high risks of investing in cryptocurrencies*
- *Sale of the cryptocurrency belonging to the debtor can be demanded to compensate for the consumer's losses. For example, in spite of uncertain legal status, cryptocurrencies are already considered by the courts as negotiable property, through the sale of which creditors' claims can be satisfied*

Bank Cards

As of the beginning of 2020, 305 credit institutions were engaged in the issue and/or acquiring of payment cards, which is 37 institutions less than at the beginning of 2019⁴⁸¹. At the same time, the number of bank cards issued by credit institutions in Russia is growing annually (Figure 2.26).

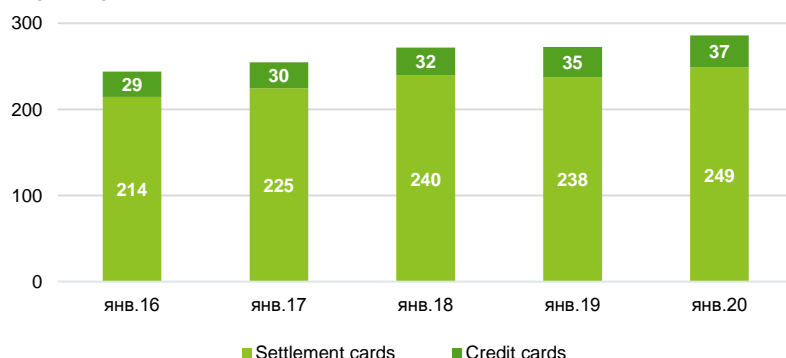
⁴⁷⁸ Federal Law No. 259-FZ dated 02 August 2019 "On Attracting Investments Through the Use of Investment Platforms and Introducing Amendments to Certain Legal Acts of the Russian Federation".

⁴⁷⁹ Resolution of the Plenum of the SC RF No. 1 dated 26 February 2019 "On Amendments to Resolution of Plenum of the Supreme Court of the Russian Federation No. 32 dated 07 July 2015 "On Judicial Practice on Cases Concerning Legalization (Laundering) of Funds or Other Property Obtained by Crime and on Acquisition or Sale of Property Knowingly Obtained by Crime".

⁴⁸⁰ Order of the MIA of Russia No. 878 dated 25 November 2019 "On Declaration of the Decision of the Collegium of the Ministry of Internal Affairs of the Russian Federation No. 3km dated 01 November 2019".

⁴⁸¹ Number of Credit Institutions Engaged in Issue and/or Acquiring of Payment Cards // Bank of Russia cbr.ru/Content/Document/File/105967/t12.xlsx.

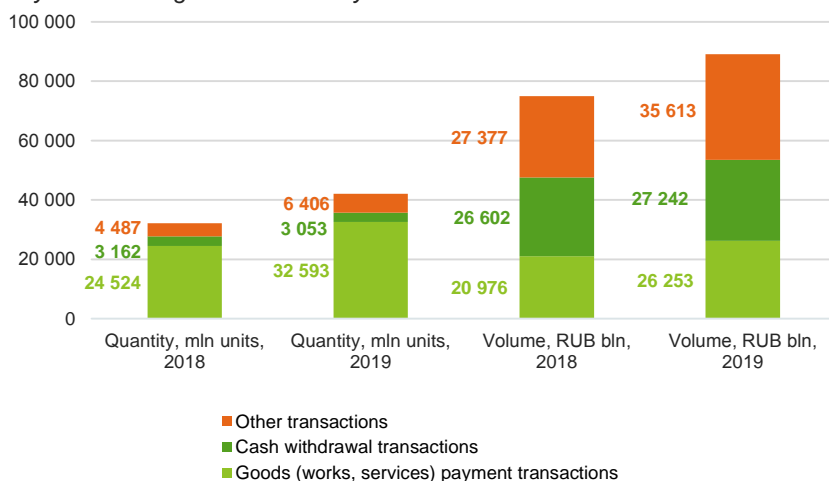
Figure 2.26. Dynamics of the Number of Bank Cards Issued by Credit Institutions Broken down by Card Types as of the Beginning of 2016 -2020, Mln Units



Source: Bank of Russia

Annual increment of issued payment cards is 4.9%, which is significantly higher than the increment rate in 2018 (0.3%). At the same time, the number of settlement cards grew by 4.7%, credit cards – by 6%⁴⁸². The number of transactions involving the use of bank cards by individuals as a means of payment grows actively while the number of cash withdrawal transactions slightly goes down (Figure 2.27)⁴⁸³.

Figure 2.27. Dynamics of the Structure of Number and Volumes of Transactions Performed in the Territory of Russia and Beyond Involving Cards Issued by Credit Institutions and Bank of Russia Broken down by Transaction Types for 2018-2019



Source: Bank of Russia

In addition, the number and volumes of transactions performed in the territory of Russia and beyond involving cards issued by credit institutions and Bank of Russia are constantly growing. For instance, the increment of the number of transactions is 31%, the increment of the volume of transactions is 19%.

The share of payments for goods and services in 2019 raised to 78% (76% in 2018) of all transactions performed by Russian citizens using payment cards. At the same time, the percentage of these transactions of the total volume was only 29% (28% in 2018).

In 2019, RUB 27.2 trn was withdrawn by cardholders from payment cards, which is 2.4% more than in the previous year. The volume of cashless payments involving bank cards increased by 27.9% and amounted to RUB 61.9 trn. At the same time, the volume of transactions of payment for goods, works and services increased by 25.2%, other transactions – by 30.1%⁴⁸⁴.

Growth of volumes of other transactions involving payment cards is associated, inter alia, with remote transfers between individuals, payments to charity 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 results of 2018 show that national Mir cards took away 5.5% of Visa's market share and 6% of MasterCard's market share. These data are contained in the reference materials prepared by the FAS of Russia. For instance, the share of active Visa cards owned by the citizens within the period from 01 January 2018 to 01 January 2019 decreased from 45% to 39.5%, and the share of MasterCard – from 42% to 36%. The decrease in the shares of international payment systems is observed in the context of doubling of the share of active Mir cards, from 12.5% to 24.5%.

⁴⁸² Number of Payment Cards Issued by Credit Institutions and Bank of Russia Broken down by Card Types // Bank of Russia cbr.ru/Content/Document/File/105968/t13.xlsx.

⁴⁸³ Transactions Performed Within and Outside Russia Involving Settlement Cards and Payment Cards Issued by Credit Institutions and Bank of Russia Broken down by Client Types // Bank of Russia cbr.ru/Content/Document/File/105969/t14_1.xlsx.

⁴⁸⁴ Ibid.

The large-scale growth of the market share of Mir cards is determined by establishment of the obligation to pay wages to employees of public sector bodies and organizations, military personnel, judges, scholarships, allowances, social payments and pensions using national payment instruments^{485, 486}.

The full transfer to Mir cards was to be completed on 01 July 2020. However, amidst the COVID-19 spread and establishment of restrictions concerning movement of citizens, it was decided to extend the terms of transfer to Mir cards until 01 October 2020⁴⁸⁷.

In August 2019, the law⁴⁸⁸ was also adopted which stipulates that credit institutions in case of using payment cards are obliged to provide individuals only with national payment instruments in order to ensure the possibility of receiving measures of social support in kind, state social assistance and benefits, including when using transport services.

In spite of the fact that there is almost a quarter of active users of Mir cards, their share in the volume of cashless payments is two times lower being 12.64% at the end of 2018, although in comparison with 2017 it grew 5.9 times (from the level of 2.1%). Visa cards account for almost a half of payments (47.3% in 2018 versus 52.4% in 2017), the share of MasterCard is 38% (40.7% in 2017).

As of 01 January 2019, 305 banks issued and acquired Mir cards used in the payments in shops (or performed one of these functions), 260 banks were engaged in the issue and acquiring of Visa cards, and 291 banks issued and acquired MasterCard. Mir cards are accepted by 8 countries: Armenia, Abkhazia, South Ossetia, Belarus, Kazakhstan, Kyrgyzstan, Uzbekistan, Turkey⁴⁸⁹.

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. To make a purchase for up to RUB 1 thous., it is enough to bring the card to the terminal for 2-3 seconds, if the amount exceeds RUB 1 thous., a PIN code must be entered. Starting from April 2019, Visa cards allow making payments for purchases at a cost below RUB 3 thous. without a PIN code⁴⁹⁰.

It should be noted that in 2019, a law⁴⁹¹ was adopted allowing the regulator to determine the maximum amount of fees charged by banks to clients for making money transfers and providing services within international payment systems.

One of the main risks inherent in bank card usage is still the risk of unauthorized access to funds on the account. Thus, the volume of all transactions performed without the clients' consent with an electronic payment instrument⁴⁹² in 2019 amounted to RUB 5.7 bln (Figure 2.28), the number of transactions was 572 thous.

The share of the volume of transactions performed without the clients' consent in the total volume of transactions involving payment cards, in turn, amounted to 0.0023% (in 2018 – 0.0018%)⁴⁹³.

The vast majority of thefts are carried out via social engineering mechanisms. Following the results of 2019, they accounted for almost 69% of cases (97% in 2018). To solve the problems of unplanned payments and data leaks, the Visa payment system plans to launch a service in Russia that will allow bank clients to track the list of the Internet resources where they left their card details and manage these subscriptions⁴⁹⁴.

In mid-2019, Sberbank enabled commission-free cash withdrawal when making purchases at the cash desks in retail outlets in remote and sparsely populated areas in 76 regions⁴⁹⁵. The limit for a single cash withdrawal is RUB 0.1-5 thous., the daily limit cannot exceed RUB 20 thous.

Due to numerous publications and declarations in mass media on the issue of the possibility of cash withdrawal at the cash desks of retailers, Rospotrebnadzor outlined its position⁴⁹⁶.

⁴⁸⁵ Federal Law No. 88-FZ dated 01 May 2017 "On Amendments to Article 16.1 of the Law of the Russian Federation "On Consumer Protection" and the Federal Law "On National Payment System".

⁴⁸⁶ Resolution of the Government of the Russian Federation No. 1466 dated 01 December 2018 "On Approval of the List of Other Disbursements out of Budget Funds of the Budgetary System of the Russian Federation for the Purposes of Application of Parts 5 and 5.1 Article 30.5 of the Federal Law "On National Payment System".

⁴⁸⁷ Transfer of Pensioners to Mir Cards Extended Until 01 October 2020, 24 April 2020 // Bank of Russia cbr.ru/press/event/?id=6670.

⁴⁸⁸ Federal Law No. 264-FZ dated 02 August 2019 "On Amendments to the Federal Law "On National Payment System" and the Federal Law "On Central Bank of the Russian Federation (Bank of Russia)".

⁴⁸⁹ Facts on Mir Cards as of 20 April 2020 // Mir Payment System mironline.ru.

⁴⁹⁰ Visa Extends Contactless Payment Limit to RUB 3,000, 11 March 2019 // RBC rbc.ru/finances/11/03/2019/5c8130909a79473a4e09e618.

⁴⁹¹ Federal Law No. 264-FZ dated 02 August 2019 "On Amendments to the Federal Law "On National Payment System" and the Federal Law "On Central Bank of the Russian Federation (Bank of Russia)".

⁴⁹² It allows making payments for goods and services by means of state-of-the-art technologies without cash. Bank cards and e-wallets are the most common types.

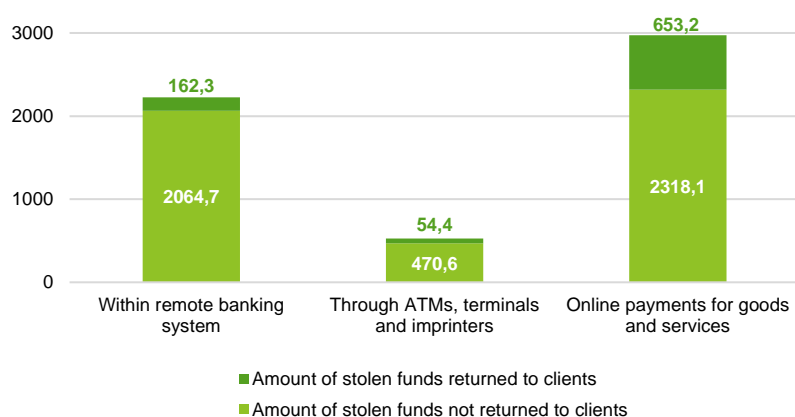
⁴⁹³ Review of Transactions Performed Without Consent of Clients of Financial Organizations for 2019 // Bank of Russia cbr.ru/Content/Document/File/103609/Review_of_transactions_2019.pdf.

⁴⁹⁴ Visa to Allow Bank Clients to Remove Card Details from Third-Party Websites, 12 March 2020 // RBC rbc.ru/finances/12/03/2020/5e68eb8c9a794710deecd992.

⁴⁹⁵ Sberbank Enables Cash Withdrawal from Bank Cards at Cash Desks in Retail Outlets in Remote and Sparsely Populated Areas, 08 August 2019 // PJSC Sberbank sberbank.ru/ru/press_center/all/article?newsID=ca0a9965-eba6-4124-816e-c1ae14d562d1&blockID=1303®ionID=77&lang=ru&type=NEWS.

⁴⁹⁶ On Possibility of Cash Withdrawal at Cash Desks of Retail Stores, 18 July 2019 // Consumer Protection State Information Resource zpp.rospotrebnadzor.ru/news/federal/176793.

Figure 2.28. Amounts of Compensated and Non-Compensated Damage Under Transactions Using Electronic Payment Instruments Performed in 2019 Without Consent of Clients Being Individuals, Based on the Terms of Their Performance, RUB Bln



Source: Bank of Russia, estimates by FBK Grant Thornton

For instance, it is not illegal for banks to engage sellers performing retail sale of goods to consumers as bank paying agents for cash dispensing.

At the same time, Rospotrebnadzor sees the probability of certain risks for some consumers, who, in particular, may find themselves in a situation where they will be denied the conclusion of a sale and purchase agreement due to the fact that there is not enough cash for change at the store's cash desk because cash money was dispensed when the seller exercised its functions of the bank paying agent.

Rospotrebnadzor will monitor the situation thoroughly in order to prevent, eliminate, timely identify and suppress within its competence those actions in the consumer market that lead to violations of consumer rights.

On 17 April 2020, additional measures were published to protect interests of individuals in connection with the COVID-19 spread. They recommend ensuring the possibility for citizens to perform transactions using payment cards after their expiry until 01 July 2020⁴⁹⁷.

CONSUMER RISKS (Relating to Transactions with Bank Cards)

- The consumer may not be aware of the moment of payment if contactless payment is available
- Growth of fraudulent transactions related to theft of a card due to increase of the limit of funds when paying without entering a PIN code
- Compromise of the card details, PIN code, code word
- Gaining by intruders of direct access to electronic payment instruments or encouraging citizens to independently make a transfer in favor of fraudsters by deception or abuse of trust (using social engineering methods)
- Unauthorized (implicit) adding of a card to the account, online service, application or online store after the first transaction
- Presence of suspicious devices or overlays in the places where the card is used and the PIN code for ATMs is entered
- Loss or theft of a card
- Non-informing of clients about all card transactions
- Increase of the credit limit which was not permitted by a client
- Automatic re-issue of a card and charging of a fee for annual maintenance and re-issue
- Delay in performing cashless payments
- Insufficient informing on the possibilities of restricting the parameters of transactions that may be performed through the Internet banking system
- An extremely low share of funds returned by banks for transactions using electronic payment instruments performed without the clients' consent

RECOMMENDATIONS TO CONSUMERS (General Recommendations for Bank Cards)

- Various terms on card products should be assessed
- Remember your PIN code, do not write it down or tell it anyone, never enter the PIN code on the Internet, and cover it with your hand when entering in the terminal
- Choose a code word independently
- It is advisable to activate SMS notifications and/or check the account status and transactions in the Internet bank every day

⁴⁹⁷ Bank of Russia Approves Additional Measures to Protect Interests of Citizens, Support Crediting of Economy, Temporary Easement of AML/FT and Currency Control, 17 April 2020 // Bank of Russia cbr.ru/press/pr/?file=17042020_125400if2020-04-17T12_49_42.htm.

- Current contact details should be provided to the bank at all time
- Online shopping should be performed on verified websites using a separate card, for example, a virtual one which has a small spending limit
- Beware when using an ATM, pay attention to strangers and suspicious devices or overlays in the places where the card is used and the PIN code is entered
- Inform the bank immediately if the card is lost, its details became known to third parties or money was debited from the card without the holder's consent
- Remember about foreign exchange differences when using the card abroad
- It is required to notify the bank before the end of the next day in case of a fraudulent or erroneous card transaction so that the transaction amount is fully reimbursed by the bank. If the notification comes later, it would be difficult to return the money. At the same time, the bank is obliged to inform the cardholder of all transactions involving the card.

RECOMMENDATIONS TO CONSUMERS (for Debit Cards)

- It is necessary to review the overdraft terms, short-term account credits which are repaid from the receipts on the account. A fee is charged for overdraft usage according to the agreement
- The overdraft amount should be repaid in full
- The increase of the own funds available on the card or the overdraft limit should be monitored. If the balance of funds available on the card suddenly increased, and you do not expect any receipts, you should ask the bank for explanations
- It is recommended to avoid any indebtedness on the card
- It is required to leave some funds on the card for auto payments
- If the card was issued at work, then after dismissal you should contact the bank and find out the terms of its further maintenance

RECOMMENDATIONS TO CONSUMERS (for Credit Cards)

- It should be remembered that sometimes it is more advantageous to use not a credit card, but a consumer credit, preferably granted by the same bank where the debit card is opened. The bank will offer a regular client favorable credit conditions – usually, the credit interest rate is lower than the interest rate on a credit card
- Before opening a credit card, it is advisable to compare future payments for the credit with the income
- You should carefully study the terms of the grace period (the ability to use credit card funds without paying interest): its validity period (when it starts, when it ends, whether it changes or not during the term of the agreement); the list of operations to which it applies
- It is necessary to make a monthly compulsory payment to the bank (usually, about 5-10% of the debt amount). Otherwise, along with the interest on the outstanding credit amount, additional fines or penalties will be charged on the card. An amount exceeding the compulsory payment should be deposited to the account, if possible. The larger debt repayment instalments are, the less interest will be accrued
- It is possible to refuse the increase in the card limit by contacting the bank. For instance, credit institutions can automatically increase the credit limit by notifying the client of its amount by SMS. The rules of the credit limit change should be reviewed when signing the agreement
- Upon the card expiry it is required to take a decision on the extension of the agreement for card maintenance or termination thereof. For example, the bank can reissue the card automatically and charge commissions for its annual maintenance and reissue
- Cash withdrawal should be avoided if payments by card are available. Banks charge high fees for cash withdrawal. Sometimes the grace period ends upon cash withdrawal
- It is necessary to control the account state and the actual payment performance as “unexpected” debts may occur for various reasons: cashless payments may come to the credit account with a delay. Funds for debt repayment should be deposited 2-3 days before the maturity date; Payment terminals may charge a fee for depositing funds to the card. If the fee amount is not added to the debt repayment amount, the payment to the bank will decrease. The bank will also charge penalties on this small debt. Delayed payments can lead to the credit limit exceeding, i.e. technical overdraft, for use whereof the bank charges a fine. This situation may arise when withdrawing cash, if the entire amount is withdrawn without balance that could compensate for the fee.

Cashback

The so-called “cashback” is becoming more and more popular both in Russia and globally. It allows cardholders to partially refund the money paid for the purchases using a bank card. The accrual terms and the amount of such refund are usually defined by the bank or cashback service for each partner or service sector (for example, 10% cashback when paying for gasoline at any gas station).

Cashback

According to NAFI data as of October 2019, 71% of Russians know what cashback is. Almost every fourth respondent

(23%) already uses this service. 35% of citizens are aware of this service, but do not want to use it⁴⁹⁸.

In 2019, banks began to analyze the behavior statistics with regard to holders of such cards and limit the cashback accrual for excessively active users, or deny cashback due to the card “misuse”. For instance, the number of individuals having a separate card for each category of goods or services with high cashback (5-10%) is growing, and this leads to increase in costs of cashback programs for banks. Due to this fact, starting from the end of 2019, the banks began to adjust the loyalty programs – reduce the cashback accrued and in some cases deactivate cashback programs⁴⁹⁹.

Due to the wide spread of cashback programs, Rospotrebnadzor informs consumers about their risks and provides consumers with recommendations.

CONSUMER RISKS (Relating to Cashback)

- *Denial to pay cashback because the client “misuses” the card and receives material benefits*
- *Change of loyalty program and deterioration of its terms*

RECOMMENDATIONS TO CONSUMERS

- *It is advisable to compare the cost of the card servicing and cashback*
- *It is necessary to clarify if any restrictions apply to the share of spending in certain categories, including those with increased cashback, and the maximum cashback amount*
- *If cashback is accrued in the form of points or bonuses, it is required to clarify the terms of their further use*
- *Delays of payments under a credit card should not be allowed, since this may be the ground for cashback denial*
- *It is necessary to calculate the share of expenses in the categories with increased cashback with regard to the total amount of expenses. A card with cashback without categories may be more advantageous⁵⁰⁰*

Faster Payments System



On 28 January 2019, the Faster Payments System (FPS) began to operate, which allows individuals to make instant transfers by mobile phone number to any bank being the FPS member and make payments for goods and services in retail stores and the Internet using a QR code. As of 22 April 2020, 55 banks are the FPS members⁵⁰¹.

The system can be accessed through mobile applications of banks from a smartphone, tablet and computer. To make an instant transfer, the client shall select the transfer via the FPS in the menu of the mobile application of its bank, the account from which the payment is to be made, indicate the recipient's mobile phone number and the transfer amount. In a few seconds after confirmation of the transaction by the payer, the money will be transferred and available to the recipient.

According to the information as of 03 April 2020⁵⁰², the payment system of the Bank of Russia as well as the FPS operate normally as on regular business days in the period from 04 April to 30 April 2020, except for Saturdays and Sundays. Operations of the Mir payment system as well as other payment systems will be arranged in the normal course.

On 20 March 2020, the measures to support the public, economy, and financial sector during the COVID-19 pandemic⁵⁰³ were published. For instance, to provide citizens with the possibility to make online transfers between individuals without hindrances, the limit value of bank fees for transfers between individuals is established from 01 May 2020, namely:

Transfers within the FPS for up to RUB 100 thous. per month shall be carried out by banks free of charge;

For transfers within the FPS for the amount exceeding RUB 100 thous. per month the fee shall not exceed 0.5% of the transfer amount but not more than RUB 1.5 thous.

The respective clarifications are published by Rospotrebnadzor on the state information resource for consumer protection⁵⁰⁴.

In March 2020, it was suggested to increase the amount of transfers within the FPS to RUB 2 mln from the current level of RUB 600 thous. This will allow citizens to make cashless payments within the FPS for goods and services for large amounts. The respective change was reflected in the draft regulation “On Payment System of the Bank of Russia”.

The document also specifies the timeframes for banks to introduce different types of payments within the FPS for their clients. It is important that the document stipulates a stepwise implementation of the types of payments. Banks may also do this earlier when they are ready. At present, some banks have already been deploying payment services for different types of payments.

It should be noted that the FPS transfers between individuals shall be carried out by systemically important banks from

⁴⁹⁸ Russians Use Cashback and Watch Stories of Banks, 14 November 2019 // NAFI nafi.ru/analytics/rossiyane-polzuyutsya-keshbekom-i-smotryat-storis-bankov.

⁴⁹⁹ Escaping Cashback // Kommersant Newspaper dated 16 March 2019, 12:11 kommersant.ru/doc/3914795.

⁵⁰⁰ Ibid.

⁵⁰¹ FPS // sbp.nspk.ru.

⁵⁰² Bank of Russia Information on Operation of Financial Organizations and Continuity in the Financial Sector to Be Ensured by the Bank of Russia in the Period from 04 Through 30 April 2020, 03 April 2020 // Bank of Russia cbr.ru/press/pr/?file=03042020_132700if2020-04-03T13_25_36.htm.

⁵⁰³ Bank of Russia Approves Measures to Support the Public, Economy, and Financial Sector During the Coronavirus Pandemic, 20 March 2020 // Bank of Russia cbr.ru/press/pr/?file=20032020_133645if2020-03-20T13_36_08.htm.

⁵⁰⁴ COVID-19 Coronavirus: What Rights Do Consumers Have and How to Protect Them? (Frequently Asked Questions) Section 8.2 On Measures to Support the Public Amidst the Coronavirus Pandemic // SIRCP zpp.rospotrebnadzor.ru/handbook/turist/memos/207045#Раздел82.

01 October 2019, and banks having a universal license from – 01 October 2020. The obligation of the banks to connect to the FPS and provide their clients with services for these types of transactions is aimed at increasing financial inclusion of citizens, reducing cost of payments for consumers, and developing competition in the financial market⁵⁰⁵.

Remote Banking

In 2019, credit institutions made 376.2 mln payments of individuals for the approximate amount of RUB 4.8 trn based on payment orders executed and transferred electronically. In quantitative terms this figure is 30.6% higher than that for 2018, in terms of amount it is 33.4% higher. The Internet is widely used for making payments – in 2019, 279.2 mln payments of individuals were made via the Internet (increment of 34.9% if compared to 2018) for the total amount exceeding RUB 3.9 trn (payment volume increment with regard to 2018 was 40.9%).

Even higher growth rates were observed in 2019 in relation to payments of individuals through messages using customer devices of mobile communication. Through such devices 81.6 mln payments were made (increment rate is 37.3% compared to 2018) for the total amount of RUB 409 bln (increment rate is 62.6% compared to 2018).

Following the results of 2019, the share of payments via the Internet in the total amount of payments of individuals was 55.9%, the share of mobile payments – 16.3%. The share of payments via the Internet in the total volume of payments amounted to 38.4% in monetary terms. In turn, the share of mobile payments increases annually, and in 2019, it was 4% of the total volume of payments of individuals⁵⁰⁶.

It should be noted that the money transfer operator acting on the basis of a client's application sent by the method defined in the agreement between the operator and the client, shall establish specific restrictions with regard to parameters of the transactions that the client may perform through the Internet banking system⁵⁰⁷.

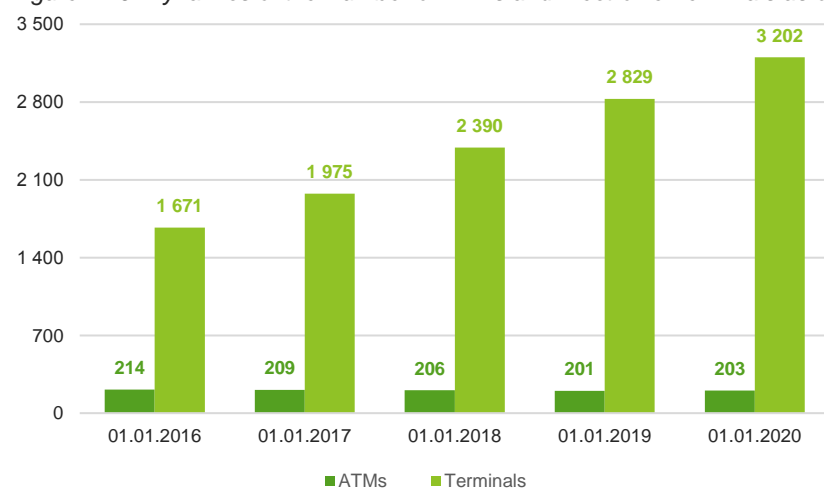
However, financial consumers do not know about this option oftentimes, and money transfer operators do not inform their clients about this right, thus, increasing risks of unauthorized transactions.

FOR REFERENCE

In 2019, significant demand for remote banking services is observed⁵⁰⁸. For instance, 53% of the Russians use the mobile bank and 30% use the Internet bank. Most often, the Russian citizens aged 18 to 34 prefer to manage a bank account online (75% of them use mobile bank). Mobile applications are gaining popularity, since they provide access to banking services anywhere and anytime.

In order to minimize risks of unauthorized funds transfers, the open list of restrictions is established⁵⁰⁹ with effect from 01 January 2020, and such restrictions may be specified following the client request for money transfer parameters (including the maximum amount of funds transferred in a single transaction and/or for a certain period of time. The analysis of the hardware infrastructure of remote banking system showed that the number of ATMs, after declining in the previous periods, began to grow, while the number of terminals continued to grow (Figure 2.29).

Figure 2.29. Dynamics of the Number of ATMs and Electronic Terminals as of the Beginning of 2016-2020, Thous. Units



Source: Bank of Russia

In 2019, the total number of terminals grew by 13.2% (+372 thous.) and reached 3.2 mln units. Together with this, the

⁵⁰⁵ Transfers in Faster Payments System to Be Increased to RUB 2 Mln, 10 March 2020 // Bank of Russia cbr.ru/Press/event/?id=6486.

⁵⁰⁶ Payments Made by Clients of Credit Institutions Based on Payment Orders Received by Credit Institutions, Broken down by Method of Receipt // Bank of Russia cbr.ru/Content/Document/File/105966/t11.xlsx.

⁵⁰⁷ Regulation 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).

⁵⁰⁸ Payroll Cards and Mobile Banking Are Financial Products Most Popular with Russians, 11 September 2019 // NAFI nafi.ru/analytics/zarplatnye-karty-i-mobilnyy-bank-samyey-populyarnyye-finansovyye-produkty-u-rossiyan.

⁵⁰⁹ Ordinance of the Bank of Russia No. 4793-U dated 07 May 2018 "On Amendments to Regulation of the Bank of Russia No. 382-P dated 09 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".

number of ATMs increased insignificantly by 0.8% (+1.6 thous.) and amounted to 202.6 thous. units⁵¹⁰.

It should be noted that oftentimes, banks do not disclose the terms and conditions of remote banking services to the consumers, and such practice is illegal. Due to this fact, Rospotrebnadzor ensures the protection of citizens' rights (including in court)⁵¹¹.

Remote Identification



Traditional payments are being replaced by remote bank service facilities, in particular, due to the mechanism for remote identification of bank clients based on their biometric personal data which was launched on 30 June 2018.

Hence, banks can open and maintain accounts of individuals, provide credits and carry out money transfers on behalf of citizens without their personal presence after identification through the UIAS and UBS⁵¹². As of 01 March 2020, such service is provided by more than 13.5 thous. structural divisions of the banks⁵¹³.

To use the remote identification mechanism, a citizen must go through primary identification with an authorized bank which records the client in the UIAS and UBS after obtaining the client's biometric data (face image and voice recording).

Afterwards, to receive remote services in a new bank, the citizen will have to go through the authorization procedure at UIAS and confirm his/her biometric data using a smartphone, tablet or computer with a camera and microphone.

As of April 2020, a number of the largest banks (Pochta Bank, Tinkoff Bank, Home Credit Bank, Alfa Bank, Sovcombank, PSB) open accounts on a remote basis. The UBS provides for recognition accuracy rate exceeding 99.99%. Taking into account the need for verification by the UPSMS login and password, the system identifies a person much more accurately than other methods⁵¹⁴. In 2019, financial organizations were given recommendations for improvement and optimization by the banks of the processes of the clients' data recording in the UIAS and UBS⁵¹⁵.

The citizen's phone number and e-mail will also be transferred to the UBS to inform the citizens about actions involving biometric data⁵¹⁶. This will make using the system safer and more convenient. Firstly, the citizen will receive an SMS confirmation without leaving the bank. Secondly, a citizen can be sure that information about all transactions will be forwarded by SMS or e-mail.⁵¹⁷

Afterwards, it is planned to provide for the possibility of remote provision of NFO services as well as state and other services.

It should be noted that entities within Rospotrebnadzor system constantly inform consumers about new financial technologies. In particular, information "Remote Identification of Bank Clients" is posted on the Internet⁵¹⁸.

CONSUMER RISKS (Relating to Remote Identification)

- *Compromise and falsification of biometric data*
- *Poor quality of data collection and false recognition*
- *Vulnerabilities of biometric systems*

RECOMMENDATIONS TO CONSUMERS

- *To register in the UBS, the below procedure should be followed:*
 1. *It is necessary to visit the bank, provide biometric data and register at the UPSMS*
 2. *After registering at the UBS, it is possible to receive remote services of a bank working with the system. To do this, the UPSMS login/password should be entered and a short control phrase generated by the system should be said while looking at the camera of a smartphone or computer.*
- *To open a bank account remotely, it is required to download two applications – the bank's mobile application and the remote biometric identification application – or open the bank's website. To pass remote identification, the user only needs access to the Internet and a smartphone or computer equipped with a webcam⁵¹⁹.*

Electronic Payment Services

There are 5 main methods for making electronic payments: payment by bank cards, including through the Internet bank;

⁵¹⁰ Information on Devices Located Within Russia and Intended for Transactions Involving Payment Cards and Without Them // Bank of Russia cbr.ru/Content/Document/File/105971/t16.xlsx.

⁵¹¹ Resolution of the Seventeenth Arbitration Court of Appeal No. 17AP-16947/2019-AKu dated 31 December 2019 under Case No. A60-45018/2019 (Claim: On Annulment of Acts on Imposition of Administrative Sanctions Under Part 2 Article 14.8 of the AOC RF. Ruling: To dismiss the claim).

⁵¹² Federal Law No. 482-FZ dated 31 December 2017 "On Amendments to Certain Legal Acts of the Russian Federation".

⁵¹³ Remote Identification // Bank of Russia cbr.ru/fintech/digital_biometric_id.

⁵¹⁴ Section "Help" // UBS bio.rt.ru/faq.

⁵¹⁵ Bank of Russia Information Letter 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 07 August 2001 "On Anti-Money Laundering and Combating the Financing of Terrorism".

⁵¹⁶ Resolution of the Government of the Russia Federation No. 1197 dated 13 September 2019 "On Introducing Changes into Composition of Data Placed in the Unified Information System of Personal Data".

⁵¹⁷ Unified Biometric System to Inform Citizens on Operations with Biometric Data, 18 September 2019 // Unified Biometric System

bio.rt.ru/news/?ELEMENT_ID=176341.

⁵¹⁸ Remote Identification of Bank Clients // FBHI Center of Hygiene and Epidemiology in Krasnoyarsk Territory fbuz24.ru/Sections/actualo-Udalennaya-identifikaciya-klientov-Bankov.

⁵¹⁹ Section "Help" // Unified Biometric System bio.rt.ru/faq/security_for_civil.

payment via electronic wallets; mobile payments by sending SMS to a short number; cash payments through a payment terminal; payments in the office of the payment organizations.

An important factor to consider when choosing a payment method to pay for the online purchase, along with payments security and fees charged, is the comfort of payment for the client.

In 2019, individuals made 652.7 mln money transfers⁵²⁰ without opening a payer's bank account for the total amount of about RUB 2.6 trn (-15.3% versus the level of 2018), within the country – RUB 2.4 trn (-14.4%), outside the country – RUB 161.4 bln (-26.9%)⁵²¹.

Therefore, traditional money transfers gave way to transactions involving electronic payment instruments (hereinafter referred to as "EPI")⁵²² for transferring e-money.

FOR REFERENCE

In 2019, volume of payments within e-money systems amounted to RUB 1.9 trn (thus, exceeding the figure of 2010 by 27 times). There are 2.8 bln transactions in Russia annually, or more than 5,300 transactions per hour⁵²³.

In order to enhance control over payments made by persons that have not passed identification, relevant legal amendments have been introduced⁵²⁴. In particular, it is established that the funds recorded by the e-money operator as balance of such funds of a client using the relevant EPI 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 EPI is used.

FOR REFERENCE

According to the Association of E-Money and Remittance Market Participants, there are approximately 10 mln users of anonymous e-wallets⁵²⁵.

At the beginning of 2019, an initiative on amendments was suggested stipulating impossibility of cash withdrawal in favour of the e-wallet service operator if no payments are made. One more suggestion is to limit the amount of fees which should not lead to total loss of funds of the wallet owner⁵²⁶.

Starting from August 2020, owners of anonymous e-wallets will not be able to replenish them with cash through payment terminals and mobile operator offices – a bank account will be required for this purpose⁵²⁷.

It should be noted that total amount of electronic funds transferred using one anonymous e-wallet shall not exceed RUB 40 thous. per month, and balance at any time shall not exceed RUB 15 thous.

Rospotrebnadzor constantly provides relevant explanations, including informing citizens about consumer risks and providing appropriate recommendations regarding e-money.

CONSUMER RISKS (In the E-Money Market)

- Loss of e-money user's personal data;
- E-wallet hacking;
- Fraud, including using of "social engineering";
- Loss of data or funds due to equipment malfunction, insufficient information security;
- Loss of user's data due to hacker attacks against such user, a bank, shop or processing centre;
- Cash withdrawal in favour of the e-wallet service operator if the electronic payment instrument is inactive;
- Insufficient informing of the clients on safety rules relating to means of payment;
- Unauthorized usage of personal data

RECOMMENDATIONS TO CONSUMERS

- When registering an e-wallet, create a password consisting of at least 8 characters using upper- and lowercase letters, numbers and special characters.

⁵²⁰ Transactions involving electronic payment instruments for transfer of electronic money are not included.

⁵²¹ Structure of Money Transfers Without Bank Account Opening for Payer (Individual) // cbr.ru/Content/Document/File/105963/t8.xlsx.

⁵²² An electronic payment instrument allows for paying for goods and services by means of state-of-the-art technologies without cash. Bank cards and e-wallets are the most common types of the EPI.

⁵²³ Association of E-Money and Remittance Market Participants Celebrates Its Tenth Anniversary, 30 March 2020 // Website of the Association of E-Money and Remittance Market Participants npaed.ru/RU/analytics-media/669-10anniversary.

⁵²⁴ Federal Law No. 33-FZ dated 18 March 2019 "On Amendments to Articles 7 and 7.1 of the Federal Law "On Anti-Money Laundering and Combating the Financing of Terrorism" and Articles 7 and 10 of the Federal Law "On National Payment System".

⁵²⁵ In Russia Anonymous Replenishment of Yandex.Money and QIWI Wallets to Be Prohibited, 29 July 2019 // RBC rbc.ru/finances/29/07/2019/5d3b00db9a7947f7ddb3787.

⁵²⁶ Money Without Expiration Date // Kommersant Newspaper No. 8 dated 18 January 2019, p. 1 kommersant.ru/doc/3855855.

⁵²⁷ Federal Law No. 264-FZ dated 02 August 2019 "On Amendments to the Federal Law "On National Payment System" and the Federal Law "On Central Bank of the Russian Federation (Bank of Russia)".

- Do not store logins, passwords and other confidential data on a computer, tablet or smartphone.
- You should familiarize yourself with the terms of use of the wallet, e-money transfers before making payments.
- The “Incognito” mode is preferred when doing online shopping. You should block pop-up windows, install safeguarding software against phishing and malware, and delete information about payments by clearing the cache memory and cookies.
- Do not make payments from shared computers (for example, in the Internet cafes, libraries, etc.).
- Always make payments from a secured payment page the address whereof starts from https://.
- Upon data entry, you should complete the payment process properly and close the page with payment details.
- Do not react to messages suggesting to reregister, enter the data once more, etc.
- You should inform the payment organization immediately if your e-wallet has been hacked, the card is lost or money is withdrawn therefrom without the holder’s consent, etc.
- Do not pay for goods to the e-wallet number: such transaction could be fraudulent.

Development of the Project “Marketplace”



Market Place

In the framework of implementing the Main Growth Areas of Financial Technologies for the Period of 2018-2020,⁵²⁸ in December 2017, the project “Marketplace” was launched⁵²⁹.

Among the project advantages one can name improvement of the financial inclusion situation, 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 including deposits, RMCs and Compulsory Motor TPL Insurance. In a long run, the project may be expanded involving other credit, insurance and other services.

The project does not provide for government investments in developing the “Marketplace” system elements. 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 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 system “Marketplace”, developers will also use such innovative solutions from other projects of the Association of Financial Technologies Development as standard open interfaces (Open API) and the Faster Payments System.

According to Decree of the President of the Russian Federation No. 203 dated 09 May 2017 “On Strategy of Information Society Development in the Russian Federation for 2017-2030”, 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”, and Sections 2.2.3 and 2.2.4 of Main Directions of Financial Technologies Development for 2018-2020” approved by the Bank of Russia Board of Directors on 15 December 2017, draft laws on transactions by means of an online platform were developed^{530, 531}. In such a way, “Marketplace” gets its legal framework.



Development of technologies and growth of e-commerce lead to significant changes in the payment instruments market. Financial organizations have to switch their activities to the online mode increasingly.

New markets and e-commerce models (shared consumption of goods and services, direct deliveries from manufacturer to buyer, sales through social media) contribute to development of electronic payment technologies. Electronic payment instruments, contactless payments, Internet banking, payments by phone number and QR code, remote identification, payment using virtual currencies have got a substantial boost.

However, state regulation often fails to follow all the changes, thus, increasing risks related to the use of e-commerce payment instruments, which requires development of adequate means to mitigate such risks. Special attention should be paid to ensuring cybersecurity, protection against fraud, including use of “social engineering” mechanisms and raising the level of public financial and digital literacy.

2.6. Assessment of Consumer Risks Associated with Development of Certain Sectors of Financial Market

Pawnshops

In 2019, the number of pawnshops continued to decrease. For example, for 9M 2019, their number decreased by 17.1% and amounted to 3,826 units. If compared to the same period of 2018, the number of pawnshops went down by 22.9% (Figure 2.30).

In the context of decline in the number of entities, growth of loan portfolios of the pawnshops was observed. E.g. for 9M

⁵²⁸ Main Growth Areas of Financial Technologies for the Period of 2018-2020 // Bank of Russia cbr.ru/Content/Document/File/85540/ON_FinTex_2017.pdf.

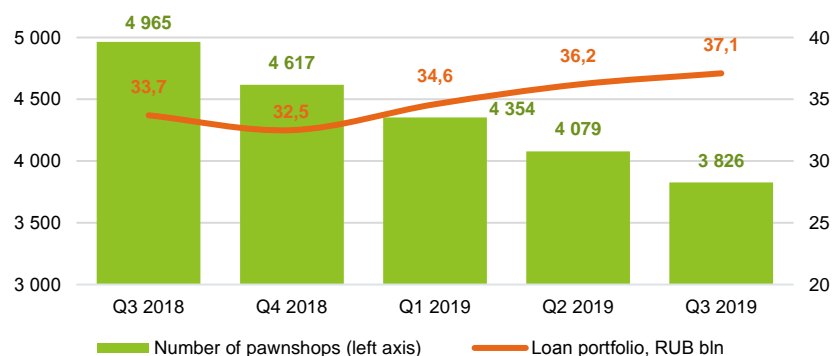
⁵²⁹ Marketplace // Bank of Russia cbr.ru/fintech/market_place.

⁵³⁰ Draft Law No. 617867-7 “On Performing Transactions by Means of an Online Platform”.

⁵³¹ Draft Law No. 617880-7 “On Amendments to Certain Legal Acts of the Russian Federation due to Adoption of the Federal Law “On Transactions by Means of an Online Platform”.

2019, the aggregate loan portfolio increased by 14.2% and amounted to RUB 37.1 bln. Growth was 10.1% in comparison with the same period of 2018. These trends reflect the consolidation process in the pawnshop segment⁵³².

Figure 2.30. Quarterly Dynamics of the Number of Pawnshops and Loan Portfolio of Pawnshops in Q3 2018 – Q3 2019



Source: Bank of Russia

The number of pawnshop borrowers for the period under review decreased slightly (by 4.2% for 9M 2019 and by 3.2% if compared to the same period of 2018) and amounted to 2.5 mln.

In Q4 2019, the average market FCLV for pawnshops amounted to 107%, and 66.8% for loans secured by pledge of a vehicle. Thus, threshold amounts of FCLV are 142.7% and 89.1% respectively (applied to loan agreements concluded in Q2 2020)⁵³³.

If compared to the same period of 2018, market averages and thresholds of FCLV for pawnshops went down by 4.7%, and with regard to loans secured by pledge of a vehicle – by 2.6%.

During 2019, FCLV thresholds calculated for auto pawnshops showed various dynamics, while FCLV thresholds for loans secured by pledge of other property demonstrated a decrease (Figure 2.31)⁵³⁴.

In November 2019, a draft law was adopted in the first reading which is aimed, inter alia, at decreasing the pawnshop clients' risks and preventing from establishment of pawnshop-based financial pyramid schemes⁵³⁵. For instance, it is suggested to ascertain that a legal entity acquires a pawnshop status from the date of entering data thereon into the state registry of pawnshops, and loses a pawnshop status from the date of exclusion of the above data from the stated registry.

Figure 2.31. Quarterly Dynamics of FCLV Thresholds of Pawnshops Broken down by Loan Types in 2019, %



Source: Bank of Russia

The regulator is entitled to approve the form of a pawn ticket which includes the FCLV table, and this in turn will allow pawnshops to avoid issuing two documents: a pawn ticket according to the form established by the Ministry of Finance of Russia⁵³⁶ and an agreement according to requirements of the Consumer Credit Law and Ordinance No. 3240-U⁵³⁷.

Pawnshops have also received extended powers in terms of possibility of the immovable property leasing (subleasing) and performance of activities of a bank paying agent.

To prevent pawnshops from issuing loans exceeding the assessment value of the pledged item, there is a restriction stipulating that the amount of the loan granted shall not exceed the assessment value of the pledged item.

According to the Report "On State of Consumer Protection in the Financial Sector in 2018"⁵³⁸, participants of the pawnshop market suppose that the out-of-trial mechanism of exclusion of pawnshops from the registry bears some risks of biased attitude and misuse, that is why it is necessary to draw up an exhaustive list of violations which lead to exclusion of

⁵³² Review of Key Performance Indicators of Microfinance Institutions in Q3 2019 // Bank of Russia cbr.ru/collection/collection/file/25677/review_mfi_19q3.pdf.

⁵³³ Information on Market Averages for Full Consumer Credit (Loan) Value Granted by Pawnshops, 14 February 2020 // Bank of Russia cbr.ru/Collection/Collection/File/27314/14022020_Lomb.pdf.

⁵³⁴ Information Concerning Market Averages for Full Consumer Credit (Loan) Value // Bank of Russia cbr.ru/statistics/bank_sector/psk.

⁵³⁵ Draft Law No. 775367-7 "On Amendments to Certain Legal Acts of the Russian Federation (Relating to Improvement of Procedure of Admitting Pawnshops to Financial Market, Principles of Operation of Credit Cooperatives and Informing Consumers of Financial Services of Microfinance Institutions)".

⁵³⁶ Order of the Ministry of Finance of Russia No. 3n dated 14 January 2008 "On Approval of Registrable Forms".

⁵³⁷ Ordinance of the Bank of Russia No. 3240-u dated 23 April 2014 "On Table Form of Individual Terms of a Consumer Credit (Loan) Agreement".

⁵³⁸ Report "On State of Consumer Protection in the Financial Sector in 2018", p. 209 // FBK Grant Thornton fbk.ru/upload/Документ_2018.pdf.

a pawnshop from the registry or take into account only material violations and specify the materiality criterion.

In addition, the initiatives setting additional requirements to the market entry, as well as new grounds for losing the right to do this business, will push away both the existing and new players in the context of ongoing decrease in the number of pawnshops.

In course of the draft law finalization, concerns of the pawnshop market participants will probably be considered. For instance, their position was taken into account on the draft law that obliges pawnshops to give a unique identification number to loan agreements and submit the data on these agreements to CHBs, as other creditors do.

The Report "On State of Consumer Protection in the Financial Sector in 2018" contains concerns of the pawnshop market participants that if the said draft law is adopted, many pawnshop clients will have their credit history tarnished due to specific features of the pawnshop activities and will be forced to apply to entities not controlled by the regulator, such as commission stores and thrift shops. Pawnshops may lose over one third of their clients, many will be forced off the market.

Amendments to the Law "On Credit Histories"⁵³⁹ introduced in 2019 with regard to unique identification number of the agreement (transaction)⁵⁴⁰ do not impose a mandatory requirement on pawnshops to submit information on borrowers to CHBs. At the same time, pawnshops may submit such information on a voluntary basis.

Together with this, the problem of illegal pawnshops offering services of commission stores and thrift shops to clients remains urgent.

FOR REFERENCE

In the context of measures taken by state authorities to prevent the spread of the COVID-19, recommendations on organization of activities are prepared for MFIs⁵⁴¹. In particular, the following recommendations are given to the pawnshops:

To place items transferred as a pledge or for storage subject to sanitary and epidemiological requirements;

To consider the possibility of increasing the period during which the pawnshop will not sell the pledged item being not less than 3 months from the day following the day of the loan repayment specified in the pawn ticket, and notify the borrowers on such increase.

According to a representative of the Pawnshop Development Association, a dispute involving the Ural network of commission stores resulted in recognition of violation of the advertising legislation committed by the stores, not the legislation on financial activities. There were more than 25 meetings of the inter-departmental commission established to solve the issues associated with commission stores. The expert believes that there is some progress but it is too early to speak about any considerable achievements⁵⁴².

Struggling for clients with commission stores which are not subject to the relevant legislation, and trying to compensate for revenue decrease, pawnshops started to act as sales agents for financial products. In doing so, pawnshops expect that they will not only improve their financial position, but attract new clients as well. According to the estimates of pawnshop associations, 10-25% of visitors may be interested in purchasing additional products. The expansion of the service range will allow pawnshops to increase the proceeds by 20-30%⁵⁴³.

Sales of financial instruments are of interest for the pawnshops, however, they may bear risks for consumers in financial distress. Offers of additional financial products may increase debt load for citizens who are already overburdened.

Fraudsters often hide the leaseback scheme under advertisements of pawnshop services. Such scheme allows unscrupulous companies and individual entrepreneurs to violate requirements to maximum loan rate and protection of consumers. A client of such quasi pawnshop is often exposed to loss of money and property. Advertising sometimes misleads consumers by using familiar images. In this regard, experts urge consumers to pay more attention to financial companies, understand the essence of a forthcoming transaction, and ask bona fide market participants to report on fraudsters on the regulator's website⁵⁴⁴.

FOR REFERENCE

Leaseback is a kind of a leasing transaction where the lessee is the seller of the leased property. An individual or a legal entity sells its assets to a leasing company and at the same time concludes an agreement with this company to lease the sold property.

After the transaction is performed, the lessor becomes the asset owner for the agreement validity period. The agreement is usually concluded for a long term. After the term expiry, the individual or the company retakes possession of the property⁵⁴⁵.

As per the Law "On Pawnshops", an item pledged or placed in storage shall be insured for the entire period of its being kept by the pawnshop. At the same time, pawnshops are entitled to insure at their own expense against other risks

⁵³⁹ Federal Law No. 218-FZ dated 30 December 2004 "On Credit Histories".

⁵⁴⁰ Federal Law No. 77-FZ dated 01 May 2019 "On Amendments to Article 4 of Federal Law "On Credit Histories".

⁵⁴¹ Bank of Russia Information Letter No. IN-015-44/66 dated 15 April 2020 "On Additional Measures of Support to Microfinance Institutions".

⁵⁴² Last Hope of Overburdened Borrowers, 27 March 2019 // Information Portal zaim.com zaim.com/news/novosti-dlya-lombardov/poslednyaya-nadezhda-zakreditovannykh-zaemshchikov.

⁵⁴³ Pawnshops to Receive Commission // Kommersant Newspaper No. 95 dated 04 June 2019, p. 8 kommersant.ru/doc/3990904.

⁵⁴⁴ CB Concerned About New Fraud Under the Guise of Pawnshops, 17 December 2019 // Information Portal zaim.com zaim.com/news/novosti-dlya-lombardov/tsb-obespekoyen-novym-moshennichestvom-pod-vidom.

⁵⁴⁵ Leaseback // Information Portal zaim.com zaim.com/glossary/ru-v-vozvratnyy-lizing.

associated with the item pledged or placed in storage. However, the key problem in the pawnshop activities' insurance is that in spite of high risks, pawnshops practically do not take care of their own security. This situation makes working with them disadvantageous for insurance companies⁵⁴⁶.

In order to establish common operation rules for pawnshops and insurers, ARUI has developed the Recommended Practices concerning insurance of an item taken by a pawnshop as a pledge or in storage which will be applied by insurance companies on a voluntary basis⁵⁴⁷.

In addition, the Pawnshop Development Association suggested an idea of establishment of the Mutual Insurance Society for pawnshops that allows for solving problems related to fulfilment of the requirements on prescribed insurance of citizens' property. Such societies are now very common in various sectors⁵⁴⁸.

CONSUMER RISKS (in the Pawnshop Market)

- *Granting loans secured by pledge of immovable property or any documents (this is a sign of fraud)*
- *Illegal pawnshops imitating commission stores*
- *Attracting clients by illegal pawnshops with low loan interest rates*
- *Loss of property transferred to illegal pawnshop due to its sale*
- *Difficulties in giving evidence to court when dealing with an illegal pawnshop*
- *Non-issue of a pawn ticket and other documents*
- *Activities of shady pawnshops offering services of "network pawnshops". For instance, to make a transaction, employees of such pawnshops visit clients at home and buy assets at understated prices for further sale*

RECOMMENDATIONS TO CONSUMERS

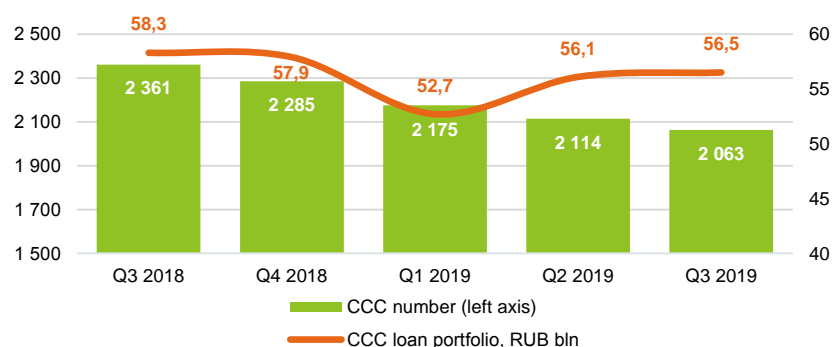
- *It should be kept in mind that pawnshops are entitled only to grant short-term loans against pledge or storage of movable assets. Register of Active Pawnshops cbr.ru/vfs/finmarkets/files/supervision/list_PS.xlsx*
- *A loan agreement, not a commission contract or sale and purchase contract, must be concluded with a client. The agreement shall always stipulate details of the pawnshop: its name, legal address, INN, OGRN, phone.*
- *A pawn ticket must always be issued to a client and contain exhaustive features of the pledged item.*
- *A pledged item can be taken out from the pawnshop within 30 days. However, an unscrupulous pawnshop employee may indicate that the agreement term is only 1 day not informing the client thereof. Always check the agreement term specified in the pawn ticket.*
- *The loan shall be repaid within the stated timeframe, otherwise, the pawnshop is entitled to sell the pledged item. After the sale, all claims towards the borrower are deemed satisfied even if the proceeds do not cover the loan and interest.*

Consumer Credit Cooperatives

The CCC number continues to decrease. Their number decreased by 5% for 9M 2019 and by 12.6% if compared to the same period of the previous year. As of the end of Q3 2019, 2,063 CCCs were active⁵⁴⁹ (Figure 2.32).

In spite of slight growth of the CCC loan portfolio in Q2-Q3 2019, in general, the total loan portfolio decreased by 2.5% for 9M 2019 and amounted to RUB 56.5 bln. If compared to the similar period of 2018, total decrease was 3.1%. Volume of funds raised by CCCs for the same period decreased more substantially, by 22.9%.

Figure 2.32. Quarterly Dynamics of the Number of CCCs and Their Loan Portfolio in Q3 2018 – Q3 2019



Source: Bank of Russia

The number of CCC members is also decreasing steadily (by 9.4% for 9M 2019 and by 12.2% if compared to the same

⁵⁴⁶ Insurance of Pawnshop Activities: Will the Market Evolve? 15 March 2018 // bosfera.ru/bo/strahovanie-lombardov-poyavitsya-li-rynok.

⁵⁴⁷ Information Message // ARUI ins-union.ru/rus/news/bcc/3423.

⁵⁴⁸ Last Hope of Overburdened Borrowers, 27 March 2019 // Information Portal zaim.com zaim.com/news/novosti-dlya-lombardov/poslednyaya-nadezhda-zakreditovannykh-zaemshchikov.

⁵⁴⁹ Review of Key Performance Indicators of Microfinance Institutions in Q3 2019 // Bank of Russia cbr.ru/collection/collection/file/25677/review_mfi_19q3.pdf.

period of the previous year). As of the end of Q3 2019, the number of CCC members amounted to 837 thous.

In 2019, a draft law⁵⁵⁰ was adopted in the first reading which is aimed, inter alia, at improving the CCC operation procedures and preventing from establishment of financial pyramid schemes based on them and any illegal activities.

To protect the rights of citizens being the CCC members and avoid any misuse, additional requirements are established concerning disclosure of territorial, professional and social principles of association of the CCC members. The Charter of the CCC shall disclose the established principle of association of the CCC members, stipulate the possibility and the procedure of admittance of persons not corresponding to the stated principle as well as disclose municipalities and/or regions where the CCC members are admitted according to the territorial principle, contain the name of the legal entity (professional association, non-commercial organization) in case of professional or social principle of the CCC membership.

The CCCs having more than 3 thous. members are now obliged to disclose information on their activities on the Internet.

A requirement is also introduced to notify the regulator of opening standalone divisions of CCCs to suppress any activities of financial pyramids under the guise of a CCC.

Due to the existing practices of unscrupulous CCCs aimed at avoiding control and supervision by self-regulating organizations of the CCCs and the Bank of Russia by means of change of the legal form and becoming not subject to the provisions of the Law "On Credit Cooperation"⁵⁵¹, and with the view of protecting the CCC members' interests, the possibility of reorganization of the CCCs by means of transformation is excluded.

According to the legislative amendments⁵⁵² starting from 01 October 2019, the threshold interest rate on mortgage loans granted by CCCs and ACCCs to individuals shall be limited to 17% per annum⁵⁵³.

According to the opinion of representatives of some CCC SROs, this limitation will reduce the yield on loans which are secured by mortgage. However, it seems fair and reasonable, if the low property status of the majority of CCC members, their limited opportunities and the capital intensity of RMCs are taken into account⁵⁵⁴.

FOR REFERENCE

To prevent the spread of the COVID-19, certain recommendations on organization of activities have been prepared for MFIs⁵⁵⁵ (including CCCs), namely:

Keeping to a minimum personal contacts with borrowers;

Organizing remote interaction with clients with the possibility of further submission of documents (within 3 months);

Ensuring service provision and obligation performance, including loan repayment via digital services and remote service channels;

Timely informing clients of office working hours, changes in the servicing procedures, obligation performance and working of online services, including updating information on the Internet and/or informing clients in a different way;

Keeping to a minimum the use of cash and paper workflow when it is possible to perform transactions in the MFI offices and branches taking into account the adopted restrictions;

Preventing the increase of the borrowers' debt burden to a level which makes total debt servicing impossible.

In order to involve the CCC members in governance activities and minimize costs on meeting arrangement in the framework of infrastructure development, proposals were elaborated on usage of the blockchain-based remote voting system which are now discussed with CCC SROs.

This system could be used by CCCs with the members living in the remote areas to ensure their right to take part in the CCC governance efficiently. Together with participation in the general meeting, such members can be elected to the collegial bodies of the CCC – the board, supervisory council (revision committee), loan committee, and are able to take part in their activities in the remote mode. This mechanism can reduce quite a fair share of formal attitude and disregarding rights and interests of members observed at present at the meetings⁵⁵⁶.

In 2019, the policy of the regulator and CCC SROs was oriented towards wiping unscrupulous players out of the credit cooperation market. For example, as of the end of Q1 2019, 184 CCCs were engaged in unfair business practices⁵⁵⁷. At the same time, at present, no increase in the number of financial pyramids into which active CCCs are transformed is observed. According to the regulator, the peak of problems associated with unfair business practices of CCCs is left behind⁵⁵⁸.

It should be noted that credit cooperation has growth prospects, everything depends on the citizens' desire to unite into

⁵⁵⁰ Draft Law No. 775367-7 "On Amendments to Certain Legal Acts of the Russian Federation (Relating to Improvement of Procedure of Admitting Pawnshops to Financial Market, Principles of Operation of Credit Cooperatives and Informing Consumers of Financial Services of Microfinance Institutions)".

⁵⁵¹ Federal Law No. 190-FZ dated 18 July 2009 "On Credit Cooperation".

⁵⁵² Federal Law No. 271-FZ dated 02 August 2019 "On Amendments to Certain Legal Acts of the Russian Federation".

⁵⁵³ The Bank of Russia Board of Directors adopted a resolution on determination of the maximum interest rate on loans granted to CCCs, ACCCs and individuals for the purposes not associated with their entrepreneurial activities and with borrowers' obligations secured by mortgage, 27 September 2019 // Bank of Russia cbr.ru/press/PR/?file=27092019_191000sbfr2019-09-27T19_09_21.htm.

⁵⁵⁴ On Maximum Interest Rate on Mortgage Loans, 30 September 2019 // Association Self-Regulating Organization of Credit Cooperatives Sodeystvie sro-sodeystvie.ru/info/novosti/novost-4443.

⁵⁵⁵ Bank of Russia Information Letter No. IN-015-44/66 dated 15 April 2020 // Bank of Russia cbr.ru/statichnol/file/59420/20200415_in_015_44-66.pdf.

⁵⁵⁶ On Possibilities of Blockchain-Based Remote Voting System, 23 November 2019 // Association Self-Regulating Organization of Credit Cooperatives Sodeystvie sro-sodeystvie.ru/info/novosti/novost-4610.

⁵⁵⁷ Topical Issues of Regulation of the Credit Cooperation Market and Supervision over Its Participants. Credit Cooperation Position in Financial Market (Presentation by G. V. Sharybkina, Counselor to Director of Microfinance Market Department of the Bank of Russia), 05 June 2019 // National Union of Consumer Credit Cooperatives and Their Associations Credit Union League ligaks.ru/editor/upload/1_Sharibkina.pdf.

⁵⁵⁸ Deputy Governor of the Bank of Russia: Peak of Problems with Unfair Credit Cooperatives Left Behind, 28 November 2019 // TASS News Agency tass.ru/interviews/7216241.

cooperatives. For instance, in some countries the level of involvement of economically active population in cooperation is quite high: e.g. in the USA over 50%, in Ireland almost all economically active residents are cooperative members (in Russia credit cooperatives unite as little as 1.1% of the adult population⁵⁵⁹). European credit cooperatives are advanced ecosystems having their own mobile developments, ATMs, logistics mechanisms, stores. Many of them start to introduce and use new technologies (blockchain, neural networks, etc.).

At the same time, the task of the supervisory body and the SRO is to ensure that the activities of the CCCs are transparent for their members, and they are able to respond to risks adequately and independently not relying passively on the CCC Director's honesty. To achieve this, it is important to increase the involvement of the CCC members in the governance process, raise technological level and create relevant mechanisms and tools.

CONSUMER RISKS (in the Credit Cooperation Market)

- *Absence of the guarantee system for members' savings similar to the state DIS*
- *Admittance of new members and attracting private funds by the CCCs not being members of any CCC SRO or excluded from the state register of CCCs*
- *Promising too high interest on contributions by CCCs*
- *Sharp increase in the number of members in the starting CCC (it is probably a financial pyramid).*

RECOMMENDATIONS TO CONSUMERS

- *One should bear in mind that a CCC is a non-commercial organization, so, its name may not contain any LLC, CJSC, OJSC abbreviations.*
- *It is necessary to check documents of the CCC that should be placed on the CCC website to verify the membership in the CCC SRO.*
- *It is necessary to check whether the CCC is included in the state register.*
- *It is required to check whether the limitation regarding maximum amount of payment (interest, compensation) for usage by the CCC of raised funds of its member is complied with. Such limitation may not exceed 1.8 of the key interest rate established as of the date of conclusion of the agreement on transfer of savings.⁵⁶⁰*
- *Active participation in the governance process is required, i.e. participation in the members' meetings, review of financial statements and other documents. Information on candidates to the CCC bodies shall be checked.*
- *It is advisable to analyze advantages and disadvantages of the CCC membership in comparison with other financial services, including secure ones (for example, deposits).*

Securities Market

In 2019, the discussion continued around the draft law⁵⁶¹ providing for consolidation of the following categories of investors: non-qualified investors divided into highly protected investors and ordinary investors, and qualified investors divided into ordinary investors and professional investors.

For each category the criteria are determined that an individual must meet, and with regard to professional participants of the securities market, UIT management companies, credit institutions and insurance companies, requirements are set for transactions with individuals depending on their category. This will ensure a high level of protection for consumers who do not have sufficient knowledge and/or skills necessary for working in the financial market.

In September 2019, the regulator presented a new version of the draft law where the number of categories of private investors was reduced to 3: qualified investors and 2 categories of non-qualified investors (ordinary and highly protected). By default, all investors are considered highly protected ones. To move to the next category of ordinary non-qualified investors, an investor shall obtain a certificate corresponding to the SRO standards or have available funds in the amount of RUB 1.4 mln or more.

FOR REFERENCE

According to estimates, today there is a massive inflow of retail players to the stock market with their number already exceeding 3 mln. Individuals handed over to brokers and management companies RUB 3.2 trn under trust management schemes, including investment portfolios of regional clients for the amount of approximately RUB 551 bln.

According to the new version of the draft law, if non-qualified investors wished to invest in foreign securities, they would have to pass tests to prove their understanding of risks associated with operations in the foreign markets. However, even if the investors pass the tests successfully, they would be able to buy only listed foreign securities. This would substantially narrow the range of available securities: on the Moscow Exchange only 28 instruments are listed, on the Saint-Petersburg Exchange none of more than 1,000 securities is listed. In this regard, companies and SROs requested to allow non-qualified

⁵⁵⁹ Public Consultation Paper "Credit Cooperation Development", 03 October 2017 // Bank of Russia cbr.ru/content/document/file/50692/consultation_paper_171003_01.pdf.

⁵⁶⁰ Basic Standard of Transaction Performance by Consumer Credit Cooperative in Financial Market (approved by the Bank of Russia (Minutes No. KFNP-26 dated 27 July 2017)) // Bank of Russia cbr.ru/queries/xsltblock/file/90010/6.

⁵⁶¹ Draft Law No. 618877-7 "On Amendments to the Federal Law "On Securities Market" and Certain Legal Acts of the Russian Federation".

investors to invest in any securities traded on Russian exchanges, including shares of foreign companies.

Amendments to the draft law will be introduced taking into account opinions of the stock market participants⁵⁶².

At the meeting of the Expert Council for Protection of Rights of Financial Consumers and Minority Shareholders Under the Bank of Russia held on 22 November 2019, the draft law on introducing regulation of categories of investors being individuals was discussed⁵⁶³.

In the opinion of the Expert Council members, test questions for a non-qualified investor should be prepared by the Bank of Russia, and the regulator should carry out monitoring activities to verify whether market participants comply with the requirements to organization of the testing.

There were also proposals to arrange focus groups involving individuals with no experience of investing in securities in order to assess fairly the degree of understanding by a novice investor of special features of financial instruments.

Experts who support strengthening of protection of rights of retail investors in the stock market believe that the task of the financial sector is to help novice investors to raise their welfare level and not just charge a fee for client order performance. It is important that the consumer is not disappointed in using new tools and does not inform other potential investors that he was deceived.

Self-Regulation Institution

As of 24 April 2020, the Unified Register of Financial Market SROs includes 18 organizations which unite 4,240 financial organizations⁵⁶⁴.

One of the main functions of the SRO is to establish rules of conduct for its members through development of the SRO standards. The list of basic standards to be developed by SROs is determined by the Bank of Russia. At present, 18 basic standards are approved by the regulator.

It is planned to develop 42 basic standards in total, including 13 standards for protection of rights and interests of individuals and legal entities being the recipients of financial services provided by SRO members. SROs are able to elaborate basic standards on their own initiative, however, at present, there are no such standards developed by SROs.

In spite of high share of CCCs and MFOs in the total volume of inspections performed, the quality of exercise by control bodies of such SROs of their functions remains at the low level. In most cases, such SROs show formal attitude to the inspections, do not substantiate the conclusions presented in the reports, or completely ignore the issues of activities of their members, and this is the reason why the quality of their inspections is considered unsatisfactory⁵⁶⁵.

In addition, one should mention insufficient and untimely disclosure on the websites of SROs of information on dates and results of inspections of the activities of the SRO members.

Demands on mandatory elimination by a SRO member of revealed violations (52%) and warnings (30%) account for the main share of corrective actions applied by SROs to their members. The share of other corrective measures, i.e. fines (9%), reprimands (4%) and termination of the SRO membership (4%) is insignificant.

The level of transparency of the disciplinary mechanism of the SRO still lags behind the best foreign practices. For instance, Russian SROs are obliged to disclose information on application of corrective measures to their members. However, the information disclosed by most of SROs does not allow for drawing conclusions about either the essence of the violation, or the severity of the applied corrective measures. Most of SROs do not also publish any substantiation for imposing sanctions, although such practice is extremely important for development of application of basic standards.

In the global practice of financial market regulation states in some cases delegate to SROs some of their regulatory functions associated with consumer protection and ensuring proper operation of the market. The delegation of a part of such functions is feasible when SROs are able to exercise them more efficiently than the regulator does due to some jurisdiction-specific reasons.

According to the regulator's opinion, it is not practical to spare supervisory resources of the Bank of Russia on supervision in the low-risk sectors. Consequently, extended powers concerning control of some aspects of activities of financial organizations may be delegated to SROs (for example, inspection of compliance with financial ratios by market participants the activities whereof bear no risks for financial stability can be delegated to SROs).

FOR REFERENCE

At present, standards of NFO SROs contain a set of essential provisions aimed at protection of consumers of financial services, including those that are close to bank services in economic terms. For example, the MFO SRO standard stipulates protection measures for borrowers that are absent in the legislation on consumer credit (loan), in particular: restriction of the number of microloan agreements with a single consumer; restriction of extensions of the microloan term for a single consumer; rules of training of employees who interact with citizens; additional measures of consumer informing, including the requirement for incorporating the QR code into the microloan agreement providing links to the online materials; procedure and terms of handling complaints of their services consumers; the duty to ensure compliance by agents with the basic standard requirements when dealing with consumers.

⁵⁶² CB Balks to Over-Complicate Access to Stock Market for Russians, 11 October 2019 // Vedomosti.vedomosti.ru/finance/articles/2019/10/11/813510-tsb-peredumal.

⁵⁶³ To Reinforce Protection of Retail Investors: Draft Law Discussion in Bank of Russia, 25 November 2019 // Bank of Russia cbr.ru/press/event?id=5014#.

⁵⁶⁴ Unified Register of Financial Market Self-Regulating Organizations // Bank of Russia cbr.ru/vfs/finmarkets/files/supervision/list_sro.xls.

⁵⁶⁵ Public Consultation Paper "Self-Regulation in the Russian Financial Market. Efficiency Analysis and Issues of Improvement of the Existing Model", October 2019 // Bank of Russia cbr.ru/Content/Document/File/85278/Consultation_Paper_191025.pdf.

In October 2019, the Public Consultation Paper “Self-Regulation in the Russian Financial Market. Efficiency Analysis and Issues of Improvement of the Existing Model” was presented, where one of the proposals on expansion of the SRO role in the financial market relates to introduction of the self-regulation institution in the banking market with regard to financial consumer protection.

As noted in the paper, foreign credit institutions of some countries (Poland, Australia and others) join their efforts in the SROs which deal, inter alia, with consumer protection issues. The introduction of mandatory self-regulation of credit institutions will be in line with the Hong Kong experience.

FOR REFERENCE

In the context of measures taken to prevent the spread of the COVID-19, recommendations have been prepared for MFO SROs, CCC SROs and ACCC SROs⁵⁶⁶:

The members shall be provided with information support on the websites and via remote channels, including provision of information on support measures for individuals and organizations;

While applying measures to the members, temporary regulatory and supervisory measures of support for MFIs shall be considered, and the similar set of measures shall be used with regard to control functions, including increase in the term for requirements fulfilling, suspension of the MFI inspections and postponement of scheduled inspections for a period after 01 July 2020.

In the opinion of the Bank of Russia, in the banking market self-regulation should be oriented towards creating a comprehensive mechanism for protecting rights of consumers of credit institutions' services. The rules of conduct of credit institutions in relation to consumers will be established in the corresponding basic standard, and compliance with the standard will be monitored by the bank SROs.

Financial Services Advertising

In 2019, amendments were introduced to the Advertising Law which added the provisions containing special requirements to advertising of investment assistance services using an investment platform as well as advertising associated with attracting investments using an investment platform⁵⁶⁷.

Today, inappropriate and misleading advertising in the financial services market is quite common. Entities engaged in such activities pursue illegal profits. Definitely, this is a negative factor that adversely affects normal development and operations in the financial market.

According to the FAS of Russia, in 2019, the number of violations in the sector of advertising of financial services has increased substantially. In the total number of violations revealed, 22.1% were those in the financial services advertising (in 2018, such violations accounted for 12.75% of all violations). Violations in the area of financial services advertising are also the most numerous ones among all restrictions applied to advertising of certain types of goods⁵⁶⁸.

As the representatives of the FAS of Russia mention, the most common violation is the indication to a single essential term in the advertisement of financial services while other terms that determine the cost of the service for the client are not disclosed. For example, the advertisement indicates the loan interest rate, however, there is no information about the term and amount which are required to obtain the loan at the stated rate. It turns out that the advertisement is generally true, i.e. loans are granted at the stated rate, but only under certain conditions, and these conditions are either not indicated in the advertisement at all, or given in very small print. Consequently, consumers do not receive all the information necessary to make an informed choice about all conditions determining and affecting the cost of loan⁵⁶⁹.

In most cases, banks are fined for non-disclosure of essential conditions affecting the amount of costs payable by the credit recipient. Pawnshops are fined for advertisements of financial services which do not specify the name of the entity providing these services. Another type of violation is advertising of pawnshops containing reference to services prohibited by the law (for example, jewellery buying and repairing)⁵⁷⁰.

An example of the advertising legislation violations by big banks is the violation of the Advertising Law by Tinkoff Bank established by Moscow Department of the FAS of Russia.

A subscriber received a call from the bank representative with an “interesting banking offer”. The bank failed to confirm that it had the subscriber's consent to receipt of marketing messages. Spamming without the subscriber's consent violates the Advertising Law. The administrative offense case has been initiated against the bank⁵⁷¹.

Another example is the violation by Otkritie Bank of the Advertising Law established by Moscow Department of the FAS of Russia.

The ground was the complaints from individuals about receipt of advertisements without giving prior consent thereto. The Department of the Anti-Monopoly Service considered the complaints and revealed some other violations. They include distribution of advertisements of financial services without specifying all essential conditions affecting the amount of costs

⁵⁶⁶ Bank of Russia Information Letter No. IN-015-44/66 dated 15 April 2020 “On Additional Measures of Support to Microfinance Institutions”.

⁵⁶⁷ Federal Law No. 259-FZ dated 02 August 2019 “On Attracting Investments Through the Use of Investment Platforms and Introducing Amendments to Certain Legal Acts of the Russian Federation”.

⁵⁶⁸ Results of State Supervision over Compliance with Advertising Legislation of the Russian Federation in 2019 // FAS of Russia fas.gov.ru/ckeditor_assets/attachments/1119/itogi_nadzora_zh_sobyudeniem_zakonodatelstva_o_reklame_za_2019_god.doc.

⁵⁶⁹ FAS Department Head: Advertising Law Lags Behind the Real Life, 28 June 2019 // TASS News Agency tass.ru/interviews/6601611.

⁵⁷⁰ FAS: Number of Violations of Financial Services Advertising Law Doubled for a Year, 14 April 2020 // Advokatskaya Gazeta advgazeta.ru/novosti/fas-kolichestvo-narusheniy-zakonodatelstva-o-reklame-finansovykh-uslug-za-god-uvlechilos-vdvoe.

⁵⁷¹ FAS Convicts Tinkoff Bank of Advertising Law Violation, 07 August 2019 // FAS of Russia fas.gov.ru/publications/18967.

that a person will incur applying for a credit stated in the advertisement.

As a result, Otkritie Bank was convicted of the violation of the Advertising Law. The decision was taken to transfer documents to the authorities for imposition of administrative sanctions on the bank and its officials⁵⁷².

During the roundtable session on 27 June 2019 devoted to measures on counteracting advertising of unscrupulous financial entities, the need for joint efforts of the Bank of Russia and the FAS of Russia was mentioned in order to suppress violations of the legislation on advertising of financial services⁵⁷³.

Upon the regulator's initiative, prohibition of advertising of services provided by the so-called "black creditors", i.e. MFOs having no appropriate registration with the Bank of Russia, was introduced in the legislation in 2015, but such advertisements are still being published. They can be seen both in mass media and outdoor.

FOR REFERENCE

In 2019, Kemerovo Region authorities concerned about the growing debt load of citizens and consumer lending volumes came up with an initiative to introduce a ban on advertising and issue of microloans in the crowded areas (train stations, airports, shopping malls, markets, shops, bus stop pavilions).

The Kuzbass authorities forwarded inquiries to other Russian regions, and their initiative was supported by some constituent entities of the Russian Federation. Krasnoyarsk Territory authorities made a proposal that lending activities should be performed solely in permanent buildings equipped with ventilation and alarm systems. This rule will have a disciplinary effect on the market participants ⁵⁷⁴.

At the same time, the above proposals of the regions have not yet found support at the federal level.

To find out whether the advertiser belongs to the MFOs and whether it is entitled to advertise the respective services, one should check the state register of MFOs.

Credit Histories Institution

In June 2019, a draft law⁵⁷⁵ was introduced to the SD RF which is aimed at solving the following tasks:

1. Implementation of the mechanism for calculating the total debt (payment) burden involving qualified CHBs;
2. Clarifications on the composition of data included in the credit history with entitling the regulator to determine the procedure of this data compilation (for example, the detailed composition of information on overdue debt, on the group of related borrowers, etc.);
3. Improvement of accuracy of identifying the credit history subjects on which the data are transmitted.

FOR REFERENCE

*In April 2020, the regulator issued the letter which recommended to exercise the possibility of specifying in the credit history the reason for grace period application to ensure further possible exclusion of restructuring of debt obligations associated with the spread of the COVID-19 out of the creditors' models of the probability of default of the borrower and individual rating of the credit history subject calculated by CHBs*⁵⁷⁶.

According to the market participants, this draft law may significantly strengthen the position of the largest players and weaken the position of small CHBs. However, no profound changes for creditors will occur. At present, small bureaus have almost no data being of interest for federal players, but they still occupy their own niche which will survive with a high degree of probability.

As of 13 March 2020, there were 11 bureaus⁵⁷⁷ in the State Registry of Credit History Bureaus. Three largest players of them consolidate 95% of data, namely NBCH, CJSC OKB, Equifax⁵⁷⁸.

The problem of reliability of the data on the borrower kept by CHBs remains unresolved. Such data may include, for example, information on credits issued under invalid documents. According to Equifax, such credits account for 1-2% of all new credits issued. In some cases where personal data of 2 borrowers coincide, their credit histories are combined into one or got tangled. Not only CHBs make mistakes, but banks and MFOs as well. According to the bureaus' estimates, the share of histories got tarnished through no fault of the borrower is approximately 2-3%. Every month several hundreds of citizens try to dispute records made in their credit histories. In this situation mistakes made by creditors are not always corrected. According to calculations of CJSC OKB, banks and MFOs refuse to make corrections in approximately 10% of cases⁵⁷⁹.

There are cases when creditors send an enquiry to CHBs without the citizens' consent to access thereof to their credit histories.

⁵⁷² FAS Decides to Fine Otkritie Bank RUB 700 Thous. for Intrusive Advertising, 14 August 2019 // FAS of Russia fas.gov.ru/publications/19014.

⁵⁷³ Discussion of Measures to Counteract Advertising of Unscrupulous Financial Entities Held in Bank of Russia, 27 June 2019 // Moscow Department of FAS of Russia moscow.fas.gov.ru/news/17160.

⁵⁷⁴ Annoying Microloans, 14 August 2019 // Rossiyskaya Gazeta - Federal Issue No. 180 rg.ru/2019/08/14/reg-sibfo/v-regionah-predlozhiili-zapretit-reklamu-kreditov-v-obshchestvennyh-mestah.html.

⁵⁷⁵ Draft Law No. 724741-7 "On Amendments to the Federal Law "On Credit Histories" and Chapter 1 of the Federal Law "On Agricultural Cooperation (Regarding Upgrade of the Credit Histories Formation System)".

⁵⁷⁶ Bank of Russia Letter No. IN-05-47/52 dated 07 April 2020 "Information Letter Relating to Entry into Force of Federal Law No. 106-FZ dated 03 April 2020".

⁵⁷⁷ State Register of Credit History Bureaus // Bank of Russia cbr.ru/vfs/ckki/restr/reg_bki.xlsx.

⁵⁷⁸ History with Qualification: Selected CHBs to Collect Data on Debt Load // Kommersant Newspaper dated 05 June 2019 kommersant.ru/doc/3992174.

⁵⁷⁹ Debt Mistake: What Is Lacking in Work of Credit Bureaus, 12 July 2019 // RBC pro.rbc.ru/news/5d24b5d29a794716527ecf5d.

For example, in 2019, administrative sanctions were imposed on Otkritie Bank under Articles 14.29 (illegal receipt or provision of a credit report) and 15.26.3 (failure to comply with the obligation to confirm and submit corrected information contained in the main part of the credit history to the CHB) of the AOC RF (fines for entities of RUB 30-50 thous.)⁵⁸⁰.

CONSUMER RISKS (in the Credit Histories Market)

- *Increase in a rate or denial of contract conclusion by an insurance company as well as denial of employment in case of bad credit history*
- *Introduction by financial organizations into credit histories of inaccurate information, errors or unlucky coincidence of personal data of citizens, for example, their last names, first names and patronymics*
- *Inability of citizens to directly control the accuracy of their data in the credit histories*

RECOMMENDATIONS TO CONSUMERS

- *It is important to track the credit history, thus having the possibility to correct all mistakes (if any) on a timely basis*
- *It is recommended to obtain the credit history twice a year free of charge, including through the UPSMS (gosuslugi.ru/329476/2)*
- *Inaccurate data contained in the credit history report shall be disputed fully or partially in the claim sent to the CHB*
- *The CHB's denial to satisfy the claim for making changes or additions to the credit history as well as its failure to submit a written reply on the claim in time may be appealed in court.*

Financial Pyramid Schemes

In 2019, 237 financial pyramids were revealed, which is almost 1.5 times more than a year before⁵⁸¹. The number of pyramids organized as LLCs increased over the year from 72 to 88, the number of pyramids in the form of consumer cooperatives went up from 5 to 21. Most of them were registered in the Central Federal District.

The number of pyramids in the form of Internet projects raised from 18 to 55. 43% of such projects were registered in the UK. To perform their activities, such companies also choose foreign payment systems.

Most often, pyramid organizers are active in the 1st quarter, since citizens have more money received in the form of annual bonuses. In the 2nd quarter, they close down their business after having collected money.

Growing number of the revealed financial pyramids is associated, among other things, with establishment of a special competence center for financial pyramids which identifies and investigates the activities of such organizations. The activities of this center are aimed, first of all, at suppressing such projects at the emergence stage, before they grow into financial pyramids. In particular, 80 companies would have become financial pyramids unless their activities had been revealed and terminated at the stage of their emergence⁵⁸².

Special algorithms based on artificial intelligence help to identify pyramids at an early stage⁵⁸³. Primarily, fraudsters attract money to invest in cryptocurrencies and cryptoassets, including those of social networks Facebook and Telegram.

FOR REFERENCE

*AirBitClub that attracted funds of individuals for investing in cryptocurrency lays claim to being the biggest financial pyramid of 2019. According to the estimates of experts in financial fraud issues, their organizers managed to involve in the pyramid about 60 thous. persons who invested more than RUB 500 mln.*⁵⁸⁴

Fraudsters also attract money under the guise of investments in immovable property, cultivation of crops and investments in unlisted shares of companies that are just about to become listed.

In 2019, new schemes began to spread, which involved people in financial pyramids, for example, offering to invest in the construction of residential buildings based on 3D printing or purchase cruise tickets at a price 50% below the market level.

To obtain the latter option, the client was to transfer at least USD 100 to the organizer's account on a monthly basis and attract at least 5 friends or acquaintances. For each new pyramid member on top of the stipulated 5 persons, transfer to the client's personal account of percentage of their contributions was promised. Subject to fulfilment of all terms, the client could apply for a cheap trip voucher in a year. Several pyramids of this kind were revealed. According to estimates, each of them involved about 500 members.

Experts mention that matrix-type pyramids (when members have to fill the next row of the pyramid with the invited members) is dangerous because it is difficult for people to invite, for example, 10 new clients. And over the time this task becomes even more difficult due to the "scorched land effect".

⁵⁸⁰ Regulator Fines Its Own Bank // Kommersant Newspaper dated 06 August 2019 kommersant.ru/doc/4053643.

⁵⁸¹ In 2019, CB Unmasked 237 Financial Pyramids, 04 February 2020 // INTERFAX News Agency interfax.ru/business/694010.

⁵⁸² CB Reports Growth in Number of Financial Pyramids in Russia, 04 February 2020 // RBC rbc.ru/finances/04/02/2020/5e3953949a79471f668954c9.

⁵⁸³ Central Bank Launches Robot for Search of Financial Pyramids, 05 February 2019 // RBC

rbc.ru/technology_and_media/05/02/2019/5c58f32d9a794742b6d4927a.

⁵⁸⁴ The Ship Does Not Float: CB Tells About New Tricks of Pyramid Scheme Makers // Izevstiya Newspaper, 26 February 2020 iz.ru/980148/anna-kaledina/i-korabl-ne-plyvet-v-tcb-rasskazali-o-novykh-ulovkakh-sozdatele-piramid.

Since 2015, when the regulator started to reveal financial pyramids, about 1,000 such organizations have been identified.

FOR REFERENCE

The pyramid in the Far East was built according to the matrix scheme. The financial pyramid offered “investments” in the rapidly growing economies of neighbouring countries (first of all, China) in the segments of food production, consumer goods, components for electrical goods, electronics and immovable property. The company positioned itself as an international investment platform based on a foreign logistics company. The organizers offered a rate of return of up to 1% per day, the investment period of 12 months, and the minimum investment amount as little as RUB 5 thous. Becoming an investor was possible only upon personal invitation of the company’s partner. People were promised a referral bonus for involving new investors and partners (10-level referral program stipulating payments of 0.5-5% of the contribution of the involved partner) and the possibility of career growth and bonus on the basis of monthly performance results⁵⁸⁵.

Moving of financial fraudsters to the online environment reduced the cost of creating new financial pyramids by ten folds and made possible their replication with different myths intended for various audiences. Earlier registration of a financial service took at least a few hours, and now a few minutes are enough. At the same time, it is not enough to raise public financial literacy because, firstly, fraudsters develop the schemes which are intended for quite intelligent people, and secondly, pyramid organizers often arrange “training” courses providing people only with the information that is beneficial for the organizers themselves.

In 2019, the draft law intended to empower the Bank of Russia to block websites used in breach of the Russian legislation on the financial market, including such usage for committing fraudulent actions, was not adopted. The stated draft law passed the 1st reading in the SD RF way back in January 2019⁵⁸⁶.

The regulator also suggested returning to the discussion by legislators on the need to supplement the list of persons having negative business reputation with organizers and beneficiaries of financial pyramids and illegal creditors.

Indeed, the problem is that the list of persons having negative business reputation mainly consists of financiers who were employed by entities with licenses revoked. If the organization did not have a license initially, but simply offered its quasi services in the financial market, its managers are not included in the black list⁵⁸⁷.

To counteract financial pyramids efficiently, in addition to regulatory measures, a proactive social position is very important, which allows for identifying fraudsters or illegal businessmen at an early stage when the damage from their activities is small.

CONSUMER RISKS (Relating to Financial Pyramids)

- *Financial pyramid is not always identifiable*
- *Quick loss of all invested money*
- *Uncertainty when the financial pyramid will cease to exist*
- *Profit gaining is possible solely at the expense of others*

RECOMMENDATIONS TO CONSUMERS

- *Special attention should be paid to absence of a license for activities in the financial market/information in the registers of the Bank of Russia*
- *It is necessary to compare the proposed terms with market offers. If the yield on funds attracted by the organization is significantly higher than the offers of banking institutions, then loss of investments is highly probable*
- *Information on investing mechanisms used by the organization and its economic activities should be obtained. For example, the organization promises high interest due to investing in highly-profitable stock market instruments, however, upon studying the information, it turns out that in reality, the organization does not trade on the exchange, and the promised interest is paid only out of money of “new” involved members.*

Misselling Practices

According to the regulator’s data, in February-December 2019, 3.8 thous. complaints relating to misselling issues were received. 2.2 thous. such complaints (almost 60%) were associated with banking activities⁵⁸⁸.

In 2018 – the beginning of 2019, the sale of investment life insurance products masked as deposits was very common. It was typical misselling – people did not understand what kind of financial product exactly they purchased. For example, most of them did not know that in case of early termination of the ILI agreement they could not return their money in full because they were invested in the assets for a definite period.

To solve this problem, a directive has been issued being effective from 01 April 2019 which sets requirements to

⁵⁸⁵ The Ship Does Not Float: CB Tells About New Tricks of Pyramid Scheme Makers, 26 February 2020 // IZ.RU Online Publishing iz.ru/980148/anna-kaledina/i-korabl-ne-plyvet-v-tcb-rasskazali-o-novykh-ulovkakh-sozdatelel-piramid.

⁵⁸⁶ 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”.

⁵⁸⁷ CB Suggests Blacklisting Illegal Creditors // Kommersant Newspaper dated 22 July 2019 kommersant.ru/doc/4039663.

⁵⁸⁸ Deposit Found: Banks Pick up New Sham Method of Selling Services to Clients, 19 February 2020 // IZ.RU Online Publishing iz.ru/977717/anna-kaledina/nashli-vklad-banki-osvoili-novyi-sposob-nedobrosovestnykh-prodazh-uslug-klientam.

information disclosure upon ILI sales. Together with this, from January 2020, ARUI standards have become effective that adjust procedures of sales of insurance products via banks.

As a result, misselling has decreased substantially in the ILI market, since it has become more difficult for unscrupulous sellers to mislead the consumer. At the same time, sales of this type of insurance have also dropped. It lost its leading position and gave the way to CVLI. According to ARUI, payments under ILI decreased by 32% for 9M 2019 if compared to the same period of the previous year⁵⁸⁹.

FOR REFERENCE

In the United States, the fact of unscrupulous hard selling of financial products and services is punishable by a fine that is many times higher than the damage caused.

In the UK, consumers strive against misselling forwarding complaints to the Financial Ombudsman.

In the Netherlands, a client of a financial organization always receives a memo stipulating main features of the contract, including detailed investment parameters.

In Germany, there is an institution of independent consumer unions, including those in the financial services sector, which provide clients with free advice on any issues related to the acquisition of financial services⁵⁹⁰.

In the context of misselling, decrease in the ILI market unscrupulous sales grew in other segments of the financial market. In particular, in the segments of trust management, broker services, for example, upon opening of individual investment accounts.

Misselling is largely based on incomplete disclosure of information to the consumer which is allowable under the legislation. When this situation becomes illegal with regard not only to ILI, but to all other financial instruments, the range of possibilities to suppress such practices will be much wider. In this regard, the adoption of a law on protection of retail investors is so essential⁵⁹¹.

In 2019, the Standards to Protect the Rights and Interests of Individuals Being Clients of Credit Institutions When Selling Financial Products by Credit Institutions That Are Agents of NFOs and Members of the Stated Associations were developed.

Credit institutions sharing the rules and norms of interaction with financial consumers established by the Standards are entitled to join the Standards on a voluntary basis.

In order to increase the level of trust in the financial market, the regulator recommended that NFOs when organizing sale of financial products to consumers, should refrain from cooperation with credit institutions that have not joined the Standards⁵⁹².

The next step in the misselling prevention was approval by SRO National Financial Association⁵⁹³ and SRO National Association of Stock Market Participants (NAUFOR)⁵⁹⁴ of internal standards establishing requirements to interaction with individuals when financial organizations-members of the stated SROs offer financial instruments to them.

Standards stipulate the following principles of financial instrument offering:

1. Prohibition of hard selling of a financial instrument;
2. Ensuring proper informing about the proposed financial instrument.

Informing about the financial instrument shall be carried out on the basis of good practices, principles of accuracy and completeness of the information provided. It is not allowed to provide any information about the proposed financial instrument that is misleading.

Standardized forms are being introduced (passports of financial instruments which are similar to the European KID, Key information document) for complex financial products, where all data about the product, its characteristics, risks and necessary costs must be indicated. The passport of a complex financial product shall be developed by the issuer that is obliged to update the information throughout the entire validity period of its proposal.

Passports of financial instruments will allow citizens to study basic information about products and services in a simple and accessible form. The opportunity to review such booklets before an agreement is concluded shall minimize the probability of misselling⁵⁹⁵.

At the same time, it is expected that an employee selling a product should not present it as investment advice. The employee should avoid any comments, judgments, assessments, advice indicating the compliance of the proposed financial products with the client's interests. On the contrary, the consultant is obliged to explain to the client that the instrument may not suit the client.

⁵⁸⁹ Ibid.

⁵⁹⁰ Forced Investment // Kommersant Newspaper, "Economy of Region", Supplement No. 213 dated 20 November 2019, p. 24 kommersant.ru/doc/4163499.

⁵⁹¹ Draft Law No. 618877-7 "On Amendments to the Federal Law "On Securities Market" and Certain Legal Acts of the Russian Federation".

⁵⁹² Bank of Russia Information Letter No. IN-01-59/49 dated 13 June 2019 "On Standards to Protect the Rights and Interests of Individuals Being Clients of Credit Institutions When Selling Financial Products by Credit Institutions That Are Agents of Non-Credit Financial Organizations".

⁵⁹³ Internal Standard "Requirements to Interaction with Individuals When Offering Financial Instruments" of Self-Regulating Organization National Financial Association Approved by the Decision of SRO NFA dated 24 December 2019, Minutes No. 27/19-SD // SRO NFA new.nfa.ru/upload/iblock/e45/Vnutrenniy-standart_Predlozhenie-finansovykh-instrumentov-_ITOG_utverzhen-24.12.2019.pdf.

⁵⁹⁴ Internal Standard "Requirements to Interaction with Individuals When Offering Financial Instruments" of Self-Regulating Organization National Association of Stock Market Participants approved by the Decision of the Board of Directors of NAUFOR.

04 December 2019 // NAUFOR naufor.ru/getfile.asp?id=13602&hk=20191204.

⁵⁹⁵ Finance ABC: Banks Not to Be Allowed to Mislead Clients, 12 July 2019 // IZ.RU Online Publishing iz.ru/898414/anna-kaledina/finansovaia-gramota-bankam-ne-pozvoliat-vvodit-klientov-v-zabluzhdenie.

FOR REFERENCE

The Standard "Requirements to Interaction with Individuals When Offering Financial Instruments" was supposed to come into force from 01 June 2020. However, due to spread of the COVID-19, the term for bringing the activities of NAUFOR members into compliance with the stated standard is postponed to 01 January 2021⁵⁹⁶.

In March 2020, a letter was forwarded to financial organizations containing recommendations to ensure development and implementation of measures aimed at mitigation of risks of unfair business practices, including preparation and approval of standards for offering and selling financial instruments and services, disclosure of information on such instruments and services while offering and selling them, including via agent networks⁵⁹⁷.

It should be noted that misselling comprises one more problem, mispricing. Examples of mispricing: a fee is charged twice for the same service, i.e. the first time the price is embedded inside the instrument being sold, and the second time it is charged, for example, when selling under trust management scheme. Some cases have been already revealed where such practices are suspected⁵⁹⁸.

CONSUMER RISKS (Relating to Misselling)

- *Difficulties of counteracting misselling as the client signs an agreement that describes a financial product or service in detail, thereby confirming that he/she is allegedly informed*
- *Lack of regulation which defines misselling as a violation of the law rather than an unfair practice*

RECOMMENDATIONS TO CONSUMERS

- *It is necessary to review the agreement thoroughly and study the financial instrument. Indeed, employees of financial organizations are interested in commission fees, so, their recommendations cannot be the basis for making a decision.*
- *It is necessary to check the other party to the agreement (a bank or another organization), whether the financial product is included in the DIS, whether the validity term and sanctions for early termination are specified along with information on yield and possible commissions*
- *Documents should not be signed without assessing all terms and risks. Investment products, unlike deposits, do not guarantee profitability – the higher the promised profitability, the higher the risk*
- *It is recommended to make audio- or video records of communication in the office of the company. These materials can be attached to the complaint to make it easier to prove the fact of hard selling. Moreover, it is better to tell the manager about this in advance, probably, an attempt of hard selling of a financial instrument will not follow.*



In 2019, the process of consolidation continued in the market of pawnshop services and CCCs. The main driver was strengthening of regulation of the financial organizations' activities aimed at reducing the risks of service consumers, increasing the financial market transparency and pushing unscrupulous participants out of the market.

At the same time, the regulation does not always prevent unfair behaviour and "lags behind" the market development. In view of this, in 2019, a discussion began concerning the increase of the role of the self-regulation institution, including introduction thereof in the banking market.

In the reporting year, organizers of financial pyramids became more active as well, and new types of fraudulent schemes and unfair practices in the sale of financial products appeared.

The stated trends require development and adoption of additional measures on consumer protection oriented both towards strengthening requirements to financial organizations and reinforcing control over their fulfilment, and expansion of information and educational activities of the stakeholders, including Rospotrebnadzor.

⁵⁹⁶Information on the Standard, 15 April 2020 // NAUFOR naufor.ru/tree.asp?n=19271&hk=20200415.

⁵⁹⁷ Bank of Russia Information Letter No. IN-01-59/27 dated 24 March 2020 "On Recommendations for Countering Unfair Practices Associated with the Offering and Sale of Financial Instruments and Services".

⁵⁹⁸ Mikhail Mamuta: To Fight Misselling Purposefully, 11 September 2019 // Invest Foresight Business Magazine if24.ru/mihail-mamuta-misselling.

3. Participation of Rospotrebnadzor in the International Cooperation for Financial Consumer Protection

3.1. Activities of the United Nations



A basic international document on protection of consumers (including financial ones) being the basis for national legal acts of most countries is The United Nations Guidelines for Consumer Protection adopted by the United Nations in 1985 (hereinafter referred to as the “UN Guidelines”).

FOR REFERENCE

The UN Guidelines include:

- *Physical safety;*
- *Promotion and protection of the economic interests of consumers;*
- *Standards for the safety and quality of consumer goods and services;*
- *Distribution facilities for essential consumer goods and services;*
- *Dispute resolution and legal remedies;*
- *Education and information programs;*
- *Promotion of sustainable consumption;*
- *Measures relating to specific areas;*
- *Electronic commerce;*
- *Financial services;*
- *National policies for consumer protection.*

The UNCTAD vested with mandate of the UN coordinator for consumer protection is directly engaged in protection of consumer rights.

FOR REFERENCE

In April 2020, the UNCTAD published nine key actions to better protect consumer rights during the COVID-19 pandemic⁵⁹⁹. The UNCTAD recommendations with regard to financial consumer protection include:

- *Setting up coordination mechanisms composed of relevant government bodies (including healthcare, customs, consumer protection and competition bodies) to ensure coherent responses.*
- *Attending to the needs of vulnerable and disadvantaged consumers, ensuring their access to essential goods and services, including financial services.*
- *Considering the possibility of extending deadlines for payment of debts and interest on credit cards, in cooperation with financial institutions.*
- *Launching campaigns to inform consumers on fraud, misleading and unfair business practices related to COVID-19; and on ways of filing complaints and receiving compensation.*
- *Cooperating with other consumer protection agencies by exchanging information on COVID-19-related national policies and measures in the field of consumer protection.*

In addition to certain activities which the UNCTAD calls all countries for, the UN suggested a number of steps to mitigate risks associated with COVID-19⁶⁰⁰. With regard to consumers, one should mention the need to maintain consumer demand, i.e. to protect household incomes, thus promoting further development of the economy in the long run.

In 2015, under the auspices of the UNCTAD, the Intergovernmental Group of Experts on Consumer Protection Law and Policy was established (hereinafter referred to as the “Intergovernmental Group”), the activities whereof are aimed at evaluating application of the UN Guidelines.

In July 2019, the fourth session of the Intergovernmental Group was held, where challenges of the digital economy were named one of the major concerns for consumer protection bodies around the world as growing e-commerce and new business models powered by large digital platforms change the market structure and consumption patterns at a rapid pace.

Hence, the UNCTAD can assist to exchange information on best global practices on this issue by preparing a

⁵⁹⁹ COVID-19: Firmer action needed to better protect consumers, 08.04.2020 // UNCTAD unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2326.

⁶⁰⁰ Shared responsibility, global solidarity: Responding to the socio-economic impacts of COVID-19, March 2020 // UNCTAD unsdg.un.org/sites/default/files/2020-03/SG-Report-Socio-Economic-Impact-of-Covid19.pdf.

questionnaire with the view to find out problems, needs and priorities in different countries. Upon the poll results, the UNCTAD shall determine main areas of assistance to certain countries.

The primary focus on the session was put on contribution of consumer protection system to sustainable consumption, creation of the global consumer protection map and virtual catalogue of the best global practices in the consumer protection area.

It was suggested considering the addition of a new indicator of achieving the Sustainable Development Goals called “Number of countries that implemented consumer protection policies” for SDG 10 “Reduce inequalities within and among countries” and SDG 17 “Revitalize the global partnership for sustainable development” using the said consumer protection map as a data source⁶⁰¹.

It is worth noting that the annual Global UNCTAD Forum dedicated to consumer protection issues named accurate information, efficient protection, and solid consumer rights both online and offline a powerful force for achieving the Sustainable Development Goals.

Thus, consumers have a decisive power to weigh in and set a new course for development in the context of growing social inequalities. The consumers’ choices determine the sustainability of economic development. Once more it is highlighted that national laws are not enough to deal with the sweeping power of the digital giants⁶⁰².

Therefore, new information technologies became one of the most important issues of the session and will form the agenda of working meetings on e-commerce and protection of data, including consumer data.

In the near future, main areas of the consumer protection bodies will include⁶⁰³:

- Training activities focused on the features of the digital economy and the evolution of new business forms for effective consumer protection;
- Exchange of experiences to improve public policies on the basis of international best practices;
- Studies for better understanding of the new markets from both public and private sector viewpoints;
- New strategies for action taking into account needs of socially vulnerable groups of consumers;
- Enhanced international cooperation between consumer protection bodies through enforcement-related agreements and the development of common information systems.

Consumer protection bodies suggested addressing a broad range of experts, sectoral regulators, public administration bodies, business, the judiciary and academic communities.

The Report of the Working Group on Consumer Protection in E-Commerce was reviewed during the session⁶⁰⁴. Among the most common types of unfair business practices in the e-commerce, including problems with online platforms (information disclosure and responsibility) and social media, the following ones were named:

- Drip pricing⁶⁰⁵;
- Fake discounts;
- Personalized pricing and marketing;
- Non-delivery or late delivery of goods.

Delegates of Rospotrebnadzor also took part in this session of the Intergovernmental Group. In its report, Rospotrebnadzor presented the national experience in implementation of main provisions of the UN Guidelines, shared information on the progress of implementing the Strategy of State Consumer Protection Policy Until 2030, activities on consumers’ education and raising their awareness on their rights as well as on legislative initiatives on protection of vulnerable categories of consumers. Together with this, delegates shared the experience of Financial Ombudsman institution in dispute settlement in the area of financial services⁶⁰⁶.

Following the session of the Intergovernmental Group, the 18th session of the Intergovernmental Group of Experts on Competition Law and Policy⁶⁰⁷ took place devoted to similar problems: competition in the digital economy, consumer protection and privacy in the context of adverse consequences of increasing market impact of the digital platforms (Amazon, Apple, Google) as well as searching for solutions for the problems identified⁶⁰⁸.

The session participants highlighted that limited choice of digital platforms and lack of consumers’ control over collection and usage of their personal data caused concerns of consumer protection bodies all over the world.

Together with this, the data obtained with the help of digital technologies could be new sources of knowledge, innovations and profit if they are analyzed and transformed into information. These issues were discussed during the third session of the Intergovernmental Group of Experts on E-Commerce and Digital Economy⁶⁰⁹ held in April 2019. For instance, data about

⁶⁰¹ Report of the Intergovernmental Group of Experts on Consumer Protection Law and Policy on its fourth session // UNCTAD unctad.org/meetings/en/SessionalDocuments/cicplpd20_ru.pdf.

⁶⁰² Smart consumers can set a new course for people and planet // UNCTAD unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2145.

⁶⁰³ Review of capacity-building in and technical assistance on competition and consumer protection law and policy // UNCTAD unctad.org/meetings/en/SessionalDocuments/cicplpd19_ru.pdf.

⁶⁰⁴ Working Group on Consumer Protection in E-commerce.

⁶⁰⁵ A technique used by online retailers whereby a headline price is advertised at the beginning of the purchase process, following which additional fees, taxes or charges are then incrementally “dripped”.

⁶⁰⁶ On the Session of the UNCTAD Intergovernmental Group of Experts on Consumer Protection Law and Policy // Rospotrebnadzor rospotrebnadzor.ru/about/info/news_details.php?ELEMENT_ID=12246.

⁶⁰⁷ Intergovernmental Group of Experts on E-commerce and the Digital Economy, eighteenth session, 10-12.07.2019 // UNCTAD unctad.org/en/Pages/MeetingDetails.aspx?meetingid=1895.

⁶⁰⁸ Competition issues in digital economy, 01.05.2019 // UNCTAD unctad.org/meetings/en/SessionalDocuments/cicplpd54_ru.pdf.

⁶⁰⁹ Intergovernmental Group of Experts on E-commerce and the Digital Economy, third session, 03-04.04.2020 // UNCTAD unctad.org/en/pages/MeetingDetails.aspx?meetingid=2068.

behaviour of the platform users and consumers in the Internet could help the platform owners to implement new features and offer new products and services that are of higher quality and more tailored. Moreover, data analytics may be used for implementing the 2030 Agenda for Sustainable Development.

Many services of the digital platforms are free of charge for a consumer, however, usually the consumer pays for them with the personal data that could be used to the detriment of the consumer. At present, there is a “consumer welfare” concept which assesses benefits or harm from providing personal data for obtaining lower prices. A consumer usually uses personal data to obtain lower prices, therefore, it is necessary to extend the consumer welfare definition and include such criteria as privacy, the consumer’s right of choice, protection of personal data, etc.

FOR REFERENCE

The Australian Competition and Consumer Commission performed an inquiry into digital platforms and their impact on consumers⁶¹⁰. The inquiry identified concerns associated with the lack of transparency in the operations of such platforms towards consumers; consumers’ understanding of the ways of using information collected from them as well as confidentiality of the data provided by them.

The inquiry focused on such platforms as Facebook and Google due to their size and level of influence on news and journalism in Australia. Consumers played a crucial role in raising advertisers’ funds by digital platforms. Thus, such information helped digital platforms to capture new consumers.

Measures that could address some of the issues identified may include:

- *Striving for ensuring sufficient supervision of digital platforms;*
- *Ensuring protection of consumer rights;*
- *Strengthening consumer and privacy protection laws;*
- *Better consumers’ informing;*
- *Improving regulators’ bargaining positions when dealing with digital platforms, including through gaining greater control of personal data.*

In April 2019, the UNCTAD held the eCommerce Week⁶¹¹, which highlighted the interest of many countries in developing e-commerce strategies. For instance, Senegal, Rwanda, Nepal and some other countries started to work on this strategy.

Digital economy issues were discussed in the Global Consumer Protection Summit in Portugal in May 2019. One of the issues discussed by the Summit participants was devoted to the fact that laws and regulations protecting consumers and their privacy had been adopted a long time before dramatic development of e-commerce⁶¹². According to the UNCTAD, only 58% of countries have data protection and privacy laws, at the same time, only 52% of countries have legal framework for protecting consumers online⁶¹³.

The agreement between the UNCTAD and China Silk Road Group of Companies signed on 10 July 2019 providing consumers in the South-East Asia with the possibility for online dispute settlement has become an important tool for protecting rights of consumers including financial ones. The agreement will contribute to the e-commerce considerable improvement⁶¹⁴.

Importance of adopting appropriate legal acts on data protection and privacy, prevention of cyber crimes, consumer protection was also mentioned during the third session of the Trade and Development Board of the Intergovernmental Group of Experts on E-commerce and the Digital Economy.^{615,616}

3.2. Activities of the Group of Twenty and Organization for Economic Cooperation and Development



Due to emergency situation caused by COVID-19 pandemic, OECD issued a set of measures for mitigation of the coronavirus impact on financial consumers in March 2020⁶¹⁷. The stated measures are not the OECD recommendations, however, they could be using for regulators and financial service providers in rendering assistance to consumers in the context of the national law. It is worth noting that the measures are in line with G20/OECD High-level Principles on Financial Consumer Protection.

Measures aimed at mitigating the COVID-19 impact on financial consumers suggested by OECD include:

- *Flexibility on credit repayment:* consumers facing financial hardship could be offered repayment deferral (e.g. mortgage payment holidays), extension of credit terms, waiving of fees and charges. Clear information about the implications of such offers for the credit plays an essential role.

⁶¹⁰ Report of the Intergovernmental Group of Experts on Consumer Protection Law and Policy on its 18th session // UNCTAD unctad.org/meetings/en/SessionalDocuments/ciclpd55_en.pdf.

⁶¹¹ UNCTAD’s eCommerce Week, 01.05.2019 // UNCTAD unctad.org/meetings/en/SessionalDocuments/dtl_eWeek2019_summary_en.pdf.

⁶¹² Summit puts consumers at the heart of digital innovation, 03.05.2020 // UNCTAD unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2070.

⁶¹³ Summary of Adoption of E-Commerce Legislation Worldwide // UNCTAD unctad.org/en/Pages/DTL/STI_and_ICTs/ICT4D-Legislation/eCom-Global-Legislation.aspx.

⁶¹⁴ Partnership to deliver online dispute resolution to consumers, 11.07.2019 // UNCTAD unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2146.

⁶¹⁵ Trade and Development Board, Intergovernmental Group of Experts on E-commerce and the Digital Economy.

⁶¹⁶ Report of the Intergovernmental Group of Experts on E-Commerce and Digital Economy on its third session, 03-05.04.2020 // UNCTAD unctad.org/meetings/en/SessionalDocuments/tdb_ed3d3_ru.pdf.

⁶¹⁷ Financial consumer protection responses to COVID-19. Support for financial consumer // OECD read.oecd-ilibrary.org/view/?ref=124_124996-e6qk9dk3ta&title=Financial_consumer_protection_responses_to_COVID-19.

- *Suspension or deferral of debt collection activities:* regulators could consider suspending or deferring debt collection activities in relation to consumers facing financial difficulties.
- *Emergency access to funds:* regulators could consider granting by financial service providers (banks, fund managers, etc.) emergency access to funds held on term deposits, and other savings and investment products for consumers experiencing financial difficulties.
- *Access to banking services:* regulators could work with banks to ensure continued access to banking services using a range of options (branches, telephone, the Internet, and mobile banking), taking account of the access needs and limitations of some consumers.
- *COVID-19 and insurance cover:* regulators could work with insurance companies to ensure that exclusions in insurance cover relating to COVID-19 are clearly communicated to the existing and new policyholders, including at the insurance policy renewal.
- *Insurance claims:* regulators could work with insurance companies to enable fair consideration of insurance claims, recognizing changes in circumstances that financial consumers may be facing.
- *Information for financial consumers and retail investors:* regulators could provide information for financial consumers about how to manage their personal finances and investments, and what actions they need to take if they are facing financial difficulties.
- *Warnings against fraud:* regulators could work with the financial market players, law enforcement and other agencies to warn consumers against financial fraud (such as phishing), and provide various advice.
- *Clear communication:* the implementation of any of the above or other measures should be clearly communicated to financial consumers.

The said measures are intended to mitigate risks for financial consumers both during the virus dissemination period and afterwards.

At the same time, it is necessary to mention the milestones of 2019 that had a positive impact on the improvement of consumer protection in the financial sector.



In June 2019, Japan hosted the 14th G20 Summit upon the results of which the Declaration was issued⁶¹⁸.

The Declaration stipulates that digitalization and application of emerging technologies will promote a human-centered future society.

At the same time, cross-border flow of data, information and knowledge generates higher productivity, greater innovation, and sustainable development, while raising challenges related to privacy and data protection. Proper addressing these challenges will further facilitate data free flow and strengthen consumer trust. In turn, such data free flow may be used in the digital economy.

To further promote innovation in the digital economy, the Declaration supports the sharing of good practices on effective policy and regulatory approaches that are innovative as well as agile, flexible and adapted to the digital era.

The Declaration also welcomes enhancing financial inclusion for older consumers. Therefore, the priorities with regard to aging and financial inclusion⁶¹⁹ prepared on the basis of materials of national reports, FinCoNet, the OECD International Network on Financial Education, the Alliance for Financial Inclusion were approved.

Eight priorities are based on the activities of the G20 in the fields of financial inclusion, financial consumer protection and financial education. They will help regulators, financial service providers and other stakeholders to maximize financial well-being for consumers from different age groups.

For instance, older people may generate demand for new or additional financial services as their working lives lengthen, and their economic activities form the “Longevity Economy”. At the same time, population aging poses certain challenges for financial inclusion. As people age, the risk of financial hardship due to insufficient savings and income as well as additional expenditures increases.

FOR REFERENCE

10 factors contributing to financial exclusion among older persons reported by consumer protection bodies⁶²⁰:

- *Low digital capability;*
- *Low financial literacy;*
- *Cognitive decline;*
- *Physical decline;*
- *Social isolation;*
- *Living on a fixed income, pension;*
- *Reliance on family members;*
- *Difficulty accessing financial advice;*

⁶¹⁸ G20 Osaka Leaders' Declaration // [g20.utoronto.ca/2019/2019-g20-osaka-leaders-declaration.html](https://www.g20.utoronto.ca/2019/2019-g20-osaka-leaders-declaration.html).

⁶¹⁹ G20 Fukuoka Policy Priorities on Aging and Financial Inclusion // GPFI

gpi.org/sites/gpi/files/documents/G20%20Fukuoka%20Policy%20Priorities%20on%20Aging%20and%20Financial%20Inclusion.pdf.

⁶²⁰ Ibid.

- *Lack of financial products for older persons;*
- *Reliance on financial professionals.*

The priorities aim to help regulators, financial service providers, consumers and other stakeholders to identify and address the challenges associated with aging population and the global increase in longevity as well as to reduce risks arising out of financial exclusion of older consumers (Table 3.1⁶²¹).

Financial inclusion efforts are most effective when they are based on certain information and evidence. So, it is important to understand behaviour of older adults and challenges they face. Such information can also be used when developing financial inclusion measures and monitoring their effectiveness.

Table 3.1. G20 Policy Priorities on Population Aging and Financial Inclusion and their brief description

Priority	Description
Use data and evidence	Use various sources of data and evidence to show which policies are working and identify what else needs to be done
Improve digital and financial literacy	Aim to provide everyone with practical skills and knowledge to manage in a changing financial landscape
Support lifetime financial planning	Develop programs and products to encourage long-term plans
Customize – address the diverse needs of older people	Create financial services that are tailored to the range of needs of older people
Innovate – harness inclusive technologies	Make the most of technologies in developing financial services, protecting consumers and delivering financial education
Protect – tackle financial abuse and fraud of older people	Identify problems quickly and use multi-pronged approaches to prevent older people from becoming victims of financial abuse or fraud
Encourage stakeholder engagement – a multi-sectoral approach	Work with different sectors to ensure a consistent and comprehensive approach towards financial inclusion
Target key audiences – address vulnerabilities	Consider the needs of groups who may be vulnerable or underserved with regard to financial services

There is a need to support the digital and financial literacy skills of older people and mitigate risk factors that could influence their financial well-being. Older people need tailored provision of up-to-date knowledge and information presented in a clear way. They also need to know when and where to seek professional financial advice, be confident to ask questions, make complaints or seek compensation for damage.

Financial education can be provided through employer-sponsored training or self-guided learning. Social media can also be used to create online communities where participants support one another providing tips on budget generation, personal savings or investments. With the increased digitalization of the financial landscape, including the digital delivery of financial education, it is also critical to support and strengthen the digital skills of older people.

Many adults reach old age without sufficient savings, insurance and pension assets. For example, only 68% of the world's older population receive a pension (and as little as 26% in Central and Southern Africa). Together with this, men get higher pensions than women. Therefore, financial planning becomes essential being supported by a combination of financial guidance, advice and appropriate consumer protection system.

Financial inclusion approaches shall address the diverse financial needs of older consumers in a customized way, respecting their individual characteristics (physical capacity, health or assets).

Financial institutions have a role to play in supporting older consumers. For instance, some financial institutions offer mobile bank branches or banking facilities with post offices, or offer home visits of bank staff to the consumers.

New and existing financial services can be provided using large print, a system of appointments, etc. In addition, cashier desks and ATMs can be designed to be accessible to people with physical impairments. Audio and video communication technologies can also be used to provide customized services for those with low levels of literacy or sensory limitations.

Technology can play an important role in realizing the opportunities and addressing the challenges for financial inclusion associated with aging. Access to digital financial services depends in part on access to mobile phones and the Internet. It should be mentioned that such access is lowest among older adults in all countries: fewer than half of the eldest adults in low and middle income economies have a mobile phone, and less than 10% have the Internet access.

At the same time, technology can create barriers for some older consumers who may prefer traditional forms of transacting, such as cash payments, face-to-face banking and paper statements. It is vital that technology takes account of those older consumers who may lack digital literacy.

Innovation in social security provision and digital financial services can support the financial inclusion of older people. For example, in some jurisdictions advancements in biometrics, identification and verification technologies have been

⁶²¹ Ibid.

employed in government service provision, including in remote areas and for customers with physical impairments.

Voice commands can be used in place of keyboard or touchscreen controls to help with online access to financial accounts.

5 most common types of financial scams targeting older persons include:

- Fake investment opportunities;
- Phishing;
- Fake prizes and lottery scams;
- Advance-fee frauds;
- Pyramid schemes.

At the same time, trustworthy financial service providers can support older consumers exposed to the risks stated above. For instance, financial organizations may disseminate tailored fraud prevention messages and recommendations, establish dedicated call centers, train branch staff to recognize suspicious or unusual payments from older consumers.

Given the multiple dimensions of the financial sphere, it is important that public and private organizations from financial and non-financial sectors work together to support the financial inclusion of older persons. Formal or informal committees can be useful to develop the basis of a strategy and a roadmap concerning protection of rights and education of older financial consumers.

Women still belong to one of the most vulnerable consumer categories. On average, they get paid less and receive smaller pension payments, are less digitally and financially literate, use fewer financial services (including bank accounts) and live longer than men.

It is necessary to work with young people in order to develop their future habits of rational financial behaviour. Well-designed and timely financial education policies and appropriate financial products are essential to help them make financial plans and develop positive habits.

Financial inclusion goals for vulnerable groups of the population are summarized in Table 3.2⁶²².

Table 3.2. Financial Inclusion Goals and Tasks for Vulnerable People

Goals	Tasks
Ensuring financial inclusion for older people	Making easy access to financial services
	Meeting a variety of financial needs
	Strengthening consumer protection system
Ensuring financial inclusion for other vulnerable categories of the population	Financial education and life planning at early stages
	Evaluating risks and opportunities for young people, women and other groups of the population which are the most vulnerable ones

Issues of the population aging impact on the level of financial consumer protection were discussed not only by the G20 representatives, but by the OECD specialists as well. During the regular meeting in October 2019, the Task Force on Financial Consumer Protection discussed financial inclusion in the context of the population aging, and development of a set of measures to protect socially vulnerable consumers. Investigation of these issues shows that many states have similar problems and approaches to their solutions. The Russian delegation with the representatives of the Ministry of Finance of Russia and Rospotrebnadzor took an active part in the discussion.

Together with the problems of increasing risks to which older financial consumers are exposed, the meeting was dedicated to mortgage lending and acquisition of housing. Rospotrebnadzor presented a report on Russian experience of protecting consumers who buy housing, and on the efforts of the Government of the Russian Federation, Rospotrebnadzor, the Ministry of Finance of Russia, the Bank of Russia and the Ministry of Construction of Russia aimed at protection of financial interests of the Russian citizens. Among such measures one can name switch to project financing of apartment block construction, establishment of the fund for protecting shared construction participants, state co-funding for housing acquisition by families with the second and third child, development of financial literacy programs, establishment of the Single Information System for Housing Development (DOM.RF) and digital services based thereon to provide consumers with complete information on special features of housing acquisition and development. High involvement of Rospotrebnadzor in the judicial protection of affected consumers was emphasized. About half a billion rubles have been repaid to housing buyers over the last two years thanks to direct support of Rospotrebnadzor provided to consumers in court proceedings⁶²³.

From the viewpoint of systematization and codification of the Russian legislation on consumer protection, the experience of Great Britain presented in the meeting is of particular interest. A British consumer who applied for long-term mortgage is entitled to demand the review of the mortgage terms every two years during the entire mortgage period if the bank improves mortgage terms for new clients in the same period. This approach seems fair for long-term contracts, since consumers who have already concluded contracts with providers of various services often face less favourable terms (including price terms)

⁶²² Ibid.

⁶²³ On Participation of Rospotrebnadzor in the Meeting of the G20/OECD Task Force on Financial Consumer Protection, 21.10.2020 // Rospotrebnadzor rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=12875.

than new clients.

In addition, the meeting participants discussed protection of personal data of financial consumers, risks associated with cryptocurrencies and digital assets. It is reported that at the moment of buying digital currencies, most consumers did not understand how this technology works and did not recognize their risks. At the same time, in some countries up to a quarter of people who invested in cryptocurrencies applied for credits for these purposes.

Issues of digital assets and technologies resulting in update of approaches to regulation of service markets with the view of consumer protection were discussed earlier, in April 2019, during the meeting of the OECD Consumption Policy Committee with the participation of Rospotrebnadzor⁶²⁴.

One of the main discussions covered voice recognition technologies. Apart from significant benefits for consumers presented by Google and Amazon representatives, there are new risks as well, since consumers are unable to compare services with regard to prices and other features and, consequently, it is hard for them to make a right choice, and they may incur unreasonable costs.

Rospotrebnadzor presented the review of Russian experience of consumer protection including information on the most troublesome areas of consumer relations from the point of view of Russian consumers. Financial services sector belongs to this category as well.

Practical solutions for a number of problems have already been embedded in the national Strategy of State Consumer Protection Policy. This will be the ultimate goal of adoption of the "law on aggregators", development of laws on online dispute settlement, establishment of the institution of class-action lawsuits, launch of a single call center on consumer protection issues, implementation of financial literacy programs, update of information resources and creation of new digital services. Russian experience of usage of artificial intelligence technologies for consumer protection was also presented.

During the meeting of the Consumption Policy Committee, discussion of an important issue was started for the first time relating to possible approaches to efficiency evaluation of the consumer policy of various states, its impact on sustainable economic development.

Complexity and insufficient accuracy of evaluation of harm inflicted to consumers are still outstanding issues for many countries.

Authorized bodies of the OECD countries still place greater focus on the personal data issue. Therefore, the Committee is preparing recommendations on the issue based on recognition of applicability of main approaches used for protection of consumers and their personal data (providing information on the purposes and methods of using personal data, ensuring safe storage and protection of data, inadmissibility of unilateral changes in contractual terms, prohibition of unfair practices in this area).

In April 2019, Rospotrebnadzor participated in the activities of the G20/OECD Task Force on Financial Consumer Protection, where new approaches to regulation of financial services sector presented in the Report of the Consultative Group to Assist the Poorest were discussed⁶²⁵.

The Task Force also approved new version of the OECD Recommendations on Consumer Credit which was developed with active involvement of Rospotrebnadzor.

One of the meetings was devoted to the report of Rospotrebnadzor on national experience in financial consumer protection met with interest by the Task Force participants. Besides other things, it was mentioned in the report that despite the trend of decrease in litigations initiated by consumers and non-governmental consumer organizations, the number of cases with Rospotrebnadzor involvement was growing every year, thus indicating the extreme demand for this power, especially on the part of socially vulnerable categories of consumers.

In 2019, the OECD prepared consolidated document "Effective Approaches for Financial Consumer Protection in the Digital Age: Financial Consumer Protection Principles 1, 2, 3, 4, 6, 9"⁶²⁶.

Digital financial services are defined here as financial operations using digital technology including electronic money, mobile financial services, online financial services, remote banking, whether through bank or non-bank institutions.

Principle 1. Legal, Regulatory and Supervisory Framework

The legal and regulatory framework should be based, among other things, on the principle of technological neutrality making sure it is capable of adapting to change and innovation while maintaining an appropriate level of financial consumer protection.

Regulators should monitor market trends and changes brought in retail trade by digitalization. Particular attention should be paid to looking at how changes in the market are impacting consumer behaviour.

Regulators should determine whether the existing rules and regulations may be interpreted as hindrances or barriers to competition and financial innovation. It is necessary to balance regulation, market entry opportunities for a number of financial services providers and consumer protection.

Domestic public bodies responsible for financial consumer protection should adopt a risk-based approach to most risky digital financial services.

⁶²⁴ On Participation of Rospotrebnadzor in the Meetings of the Consumption Policy Committee and Working Group on Consumer Product Safety Under the Auspices of the Organization for Economic Co-operation and Development, 16.04.2019 // Rospotrebnadzor rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=11753.

⁶²⁵ On Attending the Meeting of the G20/OECD Task Force on Financial Consumer Protection, 03.04.2019 // Rospotrebnadzor rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=11643.

⁶²⁶ Effective Approaches for Financial Consumer Protection in the Digital Age: FCP Principles 1, 2, 3, 4, 6 and 9 // OECD oecd.org/finance/financial-education/Effective-Approaches-FCP-Principles_Digital_Environment.pdf.

FOR REFERENCE

Financial Consumer Agency of Canada (FCAC) is an example of a financial regulator using the risk-based approach in its activities. The Agency supervises consumer protection, in particular, raising the level of financial literacy of consumers, as well as conduct of market participants (banks, insurance companies, trust and loan companies, credit unions, payment card network operators, complaint handling organizations, property and liability insurance companies)⁶²⁷.

The supervision process includes three stages having specific tools:

- *Promoting responsible market conduct (rulings, guidelines and rules of the Agency, interaction with stakeholders);*
- *Monitoring market conduct (examinations, reports, industry reviews, market conduct profiles);*
- *Enforcing market conduct rules (investigations, action plans, notices of breach/non-compliance).*

To ensure compliance with the financial consumer protection requirements, supervision is carried out using a risk-based model that relies on reports on consumer complaints, inspections of market participants, reviews of their compliance with legal requirements, research on market trends and issues as well as information obtained from national and international regulators.

Entities subject to supervision are classified as either Tier 1 or Tier 2 ones depending on the level of market conduct risk that is present or inherent in their business activities, and these classifications guide the nature and intensity of the supervision.

Tier 1 entities engage in business activities that inherently include market conduct risk. Such entities include providers of retail services to consumers, paying agents and organizations offering dispute resolution services. The nature of the services offered by them requires compliance with market conduct obligations.

An employee in charge of supervision activities is assigned for each Tier 1 entity. The supervision intensity depends on:

- *The entity size;*
- *The complexity of its business model;*
- *The entity's market conduct;*
- *The entity's inherent risks and risk management system.*

The supervision intensity (the degree of differentiation of the entities according to risks) depends on the entity's market conduct and is determined within three stages:

- *Planning. Annual supervision plans are developed for each entity.*
- *Enforcement. Main factors taken into account include the entity's business model and market conduct, risk management system and compliance with market conduct obligations (for example, internal audit), willingness and ability to actively mitigate risks, planned growth or changes in the business model, history of investigations and violations of the legislation, trends or problems identified in the course of ongoing monitoring.*
- *Reporting. Information about the entities is updated regularly, including inspection findings.*

Tier 1 entities are subject both to desk audits and on-site once a year.

Tier 2 includes banks and trust companies that do not offer retail services, or insurance companies engaged in sale of insurance policies. Such companies are deemed to have minimal risk of non-compliance with market conduct obligations, and the supervision is less intensive. Tier 2 entities may be reclassified to Tier 1 if they start using more risky market conduct models.

Supervision bodies should cooperate when developing the legal framework referred to digital financial consumer protection.

Supervision bodies should consider ways of communicating directly with consumers on relevant digital financial services issues, for example, emerging risks related to new services.

Principle 2. Role of Supervision Bodies

Supervision bodies should have adequate knowledge of financial services. To ensure this they may, for example:

- Conduct market reviews or research to understand developments, e.g. in terms of new services, their distribution channels;
- Engage proactively and regularly with financial organizations regarding innovative products or services;
- Engage with all relevant stakeholders to get information in relation to technological developments, trends and issues in the financial market;
- Identify and analyze the impact of digitalization on financial sector and its risks;
- Engage proactively and regularly with consumers, including consumer research, and with consumer representatives to ensure adequate understanding of the issues and experiences from the perspective of consumers in relation to digital financial services.

Supervision bodies should ensure the availability of regulatory and supervisory tools, and explore new opportunities for

⁶²⁷ Financial Consumer Agency of Canada Act (S.C. 2001, c. 9), Supervision Framework 2018 // Government of Canada canada.ca/en/financial-consumer-agency/services/industry/supervision-framework.html.

operating effectively in the digital environment. Their actions could include:

- Establishing or upgrading systems and processes to collect, store and analyze relevant data;
- Ensuring access to such data necessary to allow for effective monitoring;
- Exploring the use and application of various technologies to supervise financial service providers and identify and monitor risks arising in the financial system.

Supervision bodies have the required resources and capabilities to operate effectively, for example, by:

- Ensuring that their staff have the right mix of skills and capabilities to identify and understand potential risks inherent in digital financial services;
- Ensuring that the staff are trained and developed in line with the latest technological innovations.

It is important to create internal working groups to deal with new financial services, regulation and challenges.

Cooperation of the regulatory bodies on cross-border trade issues still remains among the priorities. International cooperation could be implemented by several ways, including:

- Sharing information on effective supervision of cross-border sale of financial services;
- Ensuring that consumers' complaints in relation to international financial services are redirected to the relevant competent body;
- International bodies' cooperating on law enforcement issues.

Principle 3. Equitable and Fair Treatment of Customers

Regulators should seek to understand and address the issues hindering consumers, particularly those who may be vulnerable, from accessing different financial markets and services.

It should be ensured that computer programs or algorithms underpinning digital financial services are designed to take account of capabilities and needs of potential consumers, and provide them with fair terms of financial services. Together with this, they should approach potential risks that could be mitigated by means of a monitoring system, testing programs and algorithms, and using appropriate information.

Principle 4. Information Disclosure and Transparency

It should be ensured that disclosure and transparency requirements are applied, and information is provided through all channels relevant to digital financial services. It is also important to cover all relevant stages of the service lifecycle.

Consumer communications should be clear and simple to understand regardless of the channel of communication.

Evaluating the existing information disclosure requirements (if required in the context of digital financial services), testing and exploring new ways of making disclosure more effective for consumers are necessary in terms of more targeted, proportionate and consumer-centric approach.

Financial service providers should be encouraged to test digital disclosure approaches to ensure their effectiveness, taking into account factors such as different communication formats, the target audience for the service, etc.

Principle 6. Responsible Business Conduct of Financial Service Providers and Their Agents

The objective to work in the best interest of the customer should be central to a financial service provider irrespective of the channels used to provide financial services.

Financial service providers should provide customers with assistance as appropriate when selling a financial service through digital channels. This can be done through advice, clarifications, explanatory notes.

Consumers should receive explicit information on the contractual party involved in the provision of the digital financial service. For instance, this could be online aggregators or brokers.

Financial service providers should not pass on customer details, including payment details, to third parties without the consumer's consent.

Firms should take into account the potential differences in consumer behaviour when transacting online versus more traditional methods of transacting, different levels of financial capability, etc.

Financial service providers are responsible for the services, advice or recommendations obtained by consumers of digital advice services.

When using computer programs, such as automated credit scoring models, financial service providers should make sure they are robust, appropriately weigh all relevant variables, and where necessary, provide the possibility of manual intervention.

Principle 9. Complaint Handling and Compensation for Damage

Supervision bodies should ensure that the requirements on complaint handling and compensation for damage apply equally to all financial service providers, irrespective of the distribution channel used.

In turn, consumers should be given clear and precise information on the right to complain and on the procedures to be followed to make a complaint when performing a financial transaction online. This could mean, for example, links to a homepage, FAQs or mobile app menu.

Mechanisms of complaint handling and compensation for damage should be capable of dealing with new types of complaints which may arise from the provision of digital financial services (account hacking, compromised account security

or mistaken payments).

Complaints should be accepted by digital means (website, e-mail, chat, etc.) together with more traditional means like post or phone.

The mechanisms for complaint handling shall take into account the needs of vulnerable groups of the population. Together with this, alternative dispute resolution (ADR) mechanisms should be available. Consumers should be informed of and have access to ADR mechanisms regardless of the channel used to provide financial services. It is important that ADR mechanisms are available by digital means.

Apart from consumer protection in the digital environment, measures aimed at protection of consumers of traditional financial services are still relevant. In July 2019, the OECD approved the new Recommendations concerning consumer protection in the field of consumer credit⁶²⁸ that replaced and updated the same-name Recommendations issued in 1977. All recommendations were divided in line with the High-Level Principles on Financial Consumer Protection. Certain recommendations are given below.

Legal, Regulatory and Supervisory Framework

Regulators should use:

- Mechanisms to identify and address any gaps in the regulation, and control over consumer credit firms, services and delivery channels.
- Tools to identify, control or mitigate consumer risks.

Role of Supervision Bodies

Regulators should ensure:

- A range of effective measures in case of non-compliance by credit providers with the respective legislation;
- Responding to issues effectively;
- Proper guarantees of consumer right protection;
- Avoiding supervision bodies' powers duplication related to this issue.

Equitable and fair treatment of consumers should be ensured by:

- Embedding principles of equitable and fair treatment of customers;
- Providing for a cooling-off period;
- Prohibiting discrimination on any ground;
- Providing reasonable channels for consumers to file complaints, claims, petitions, etc.

Information disclosure and transparency:

- All credit information is clear, accurate and sufficient for the consumer;
- Standardized pre-contractual and contractual disclosure to facilitate comparison between consumer credit services and those of the same nature;
- Disclosure of the real cost of credit and/or annual percentage rate, charges for the credit, and similar information;
- Mandatory disclosure in the contract of names and addresses of all the parties involved, the annual interest rate, any other payments on the credit, the credit amount, the total credit cost, terms or repayment, cooling-off period, terms of early repayment, and other provisions.

Protection of consumer data and privacy:

- Appropriate supervision mechanisms with regard to credit history agencies in order to ensure that the information they hold is used exclusively for the purpose for which it was collected;
- Credit history agencies shall be subject to licensing (or similar mechanisms).

Complaint handling and compensation for damage:

- Requiring credit providers and credit intermediaries to provide consumers with clear and understandable information on the complaint handling and compensation for damage procedures, including alternative dispute resolution schemes;
- Promoting the analysis and publication of consumer complaints data;
- Establishing civil, criminal or administrative sanctions for discrimination on any ground;
- Giving consumers the possibility of bringing a civil action for damages in order to obtain compensation for monetary loss sustained;
- Extending to consumer associations the right to take action in the courts in their own name.

Rospotrebnadzor took part in the international conference of the G20 on consumer protection issues held in September

⁶²⁸ Recommendation of the Council on Consumer Protection in the field of Consumer Credit // OECD oecd.org/daf/fin/financial-education/Recommendation-FCP-Consumer_Credit.pdf.

2019 in Japan, which involved the representatives of the OECD, EU and international consumer associations⁶²⁹. The key topic was associated with the impact of digitalization on consumption.

At the session dedicated to online dispute settlement and digital services, Rospotrebnadzor presented a report on development of such mechanisms in Russia. Together with support of traditional approaches to remote consumer consulting (via 24/7 phone hotline of Rospotrebnadzor, popular messengers such as Skype, WhatsApp, Viber used by specialists of consulting centers for providing advice to residents of remote regions), at present, a new digital platform for consumers is being developed. It will embrace a variety of useful services, for instance, intelligent search for necessary information, step-by-step advice on consumer protection in various situations, voice services, including those for disabled people, informing of unsafe purchasing, search for dispute resolution services, an e-book of complaints and much more.

There was a huge interest in developments of the Russian IT industry relating to robot-based consulting applications for consumers on protection of their rights. The Russian Federation also submitted specific initiatives on the international cooperation development in the consumer protection area and called to adopt a joint declaration of the G20 Member States concerning consumer protection in the next meeting in the Saudi Arabia.

A dialogue on special features of such platforms in different countries was immensely useful to development of Russian draft law on online dispute settlement.

In December 2019, the Conference on Financial Education and Financial Consumer Protection in Asia-Pacific⁶³⁰ was held, where special attention was paid to best practices of expansion of rights and opportunities of consumers to support their financial education and protection of their rights in the era of digital technologies. The participants focused on six principal lessons that are to be learnt by regulators in various countries:

- Highlighting fundamental market principles: financial stability, proper business conduct, consumer protection and market efficiency;
- Using the existing regulation: market problems caused by new services may be settled by the industry legislation;
- Avoiding new regulatory measures, if possible;
- Strengthening potential of regulators;
- Continuing international cooperation;
- Expanding rights and opportunities with regard to consumer protection.

The following activities were recognized core areas of financial consumer protection and financial education:

- Alerting consumers on the risks of cryptoassets and risks when dealing with overseas operators;
- Developing targeted financial education initiatives to promote the understanding of cryptoassets;
- Considering whether there are any cryptoassets regulation gaps in terms of financial consumer protection;
- Considering the possibility of using resources and tools developed by international organizations;
- Collecting data on financial consumer behaviour and monitoring market developments, as well as developing evidence-based regulatory measures;
- Considering the adequacy of disclosure standards for cryptoassets;
- Participating in the international development of guidelines or standards and sharing consumer protection experience.

Issues of financial consumer protection and financial education with regard to people forced to move to other countries are reflected in the OECD Report "Financial Literacy Needs of Migrants and their Families in the Commonwealth of Independent States (CIS)"⁶³¹. It should be noted that there is no exhaustive information on financial literacy needs of the migrants.

Together with this, the Report shows general experience and specific difficulties relating to the stated region. In particular, migrants have limited access to banking services due to low income, language barriers, lack of experience and knowledge on the local financial system and services.

Still, the following main *challenges* exist:

- Low trust in financial institutions across the region.
- Lack of reliable data on the levels of financial literacy and the needs of the various segments of migrants and their families.
- Lack of special financial services for migrants and lack of awareness of the existing ones.
- Language barriers and low levels of financial literacy.

Possible *solutions and recommendations* on financial education initiatives include:

- Determining the list of participants of the financial literacy programs and teaching migrants and their families in the key moments:
 - Using "situations favourable for teaching" when working with migrants and their families;
 - Considering the possibility on inclusion of financial education in the existing orientation and integration programs

⁶²⁹ Representatives of Rospotrebnadzor Took Part in the International Conference of the G20 on Consumer Protection Issues, 06.09.2019 // Rospotrebnadzor rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=12628.

⁶³⁰ Conference on Financial Education and Financial Consumer Protection in Asia-Pacific.

⁶³¹ Financial Literacy Needs of Migrants and their Families in the Commonwealth of Independent States (CIS) // OECD oecd.org/financial/education/Financial-Literacy-Needs-of-Migrants-and-their-families-in-CIS-RU.pdf.

- before leaving;
- Paying special attention to women.
- Mobilizing the support from stakeholders and relying on the existing organizations:
 - Cooperating and interacting with international organizations having experience in working with migrants and supporting them;
 - Attracting stakeholders at the regional level to implement educational programs;
 - Using regional migration centers and employment centers as the basis for implementing financial education programs;
 - Involving diasporas, public and non-governmental organizations for discussion of financial issues with migrants taking into account lack of trust towards financial and some state organizations.
- Providing individual programs of financial education using various channels:
 - Evaluating needs and analyzing gaps in financial literacy of each group and their families;
 - Tracking migrants and their families as a segment in the existing main programs of financial education;
 - Developing financial education programs which go beyond the money transfer topic and promote long-term financial planning, savings, investment and entrepreneurship;
 - Using innovative methods and digital technologies to raise financial literacy promptly and efficiently;
 - Developing interaction and cooperation with countries which host a great number of migrants, including Russia.

3.3. Efforts by the Member States of the Eurasian Economic Union

According to the Treaty on the Eurasian Economic Union dated 29 May 2014, the Member States implement an agreed consumer protection policy based on harmonization of the national legislation.



Issues of a common financial market and enhancing financial inclusion and quality of financial services have been priorities in the EAEU activities over the last years. The output of the joint efforts of the Member States was approval on 01 October 2019 of the Concept on Formation of the EAEU Common Financial Market⁶³².

The *common financial market* means the financial market of the EAEU Member States providing an opportunity for simplified and non-discriminatory access of financial market participants to each other's markets. The common financial market includes the banking sector, securities sector and insurance sector⁶³³.

FOR REFERENCE

To ensure economic stability amidst the COVID-19 pandemic, in April 2020, the EEC Board members supported the respective measures presented in the draft resolution of the Eurasian Intergovernmental Board.

The measures are developed to ensure efficient operation of the EAEU, support of macroeconomic stability and facilitation of further economic growth. They will help the EAEU countries in developing and implementing activities for public health protection, mitigation of adverse consequences for business, keeping the population employment and supporting stability of the financial system⁶³⁴.

The measures are aimed at developing trade digitalization, ensuring stability of financial markets and payment systems, and supporting enterprises which operate in the most affected sectors of the economy.

The Concept emphasizes the necessity of enhancing financial inclusion, reducing cost of financial services and ensuring cybersecurity of financial services for consumers together with risk mitigation. Therefore, one of the criteria for establishing a common financial market highlighted in the Concept is support and improvement of the level of protecting rights of financial consumers and investors.

The common financial market will be established in two stages: until 2025 and after 2025. Until 2025, partial harmonization of regulation in the banking, insurance and securities markets will be arranged. Together with this, common approaches to mutual recognition of licenses within the common financial market will be agreed upon. In this period, the national regulators will still be in charge of admission and regulation activities in financial markets. After 2025, the Member States will continue their efforts for harmonization and creation of the common financial market, including the development of the agreed approaches to provision of financial services without licensing.

With regard to protection of rights and interests of investors and financial consumers in the common financial market there is a special mechanism including:

- Determining and shaping the list of financial services with regard to which the Member States will coordinate their policies of protection of consumer and investor rights;
- Raising awareness of consumers and financial service providers;

⁶³² Timur Zhaksylykov: "Implementation of Agreement on Admission of Brokers and Dealers to the Regulated Trading Promotes Formation of Common Stock Exchange Space of the Union" // EEC eurasiancommission.org/ru/nae/news/Pages/08-10-2019-1.aspx.

⁶³³ Concepts of Formation of the EAEU Common Financial Market // EEC eurasiancommission.org/ru/act/finpol/dofp/Documents/%d0%9a%d0%be%d0%bd%d1%86%d0%b5%d0%bf%d1%86%d0%b8%d1%8f%20%d0%9e%d0%a4%d0%a0.pdf.

⁶³⁴ EEC Council approved set of urgent measures to control coronavirus // EEC eurasiancommission.org/ru/nae/news/Pages/03-04-2020-3.aspx.

- Interaction of all stakeholders, including sharing information on practices of working with consumers, investors, protection of their rights and interests, and dispute settlement (in particular, developing institutions of pre-trial dispute settlement, including with involvement of Financial Ombudsman institution);
- Harmonization and improvement of legislation concerning financial consumer protection;
- Raising financial literacy of financial consumers;
- Development of agreed approaches to disclosure of information on financial services, etc.

Among core elements of financial consumer protection mechanisms the Concept highlights:

- Enhancing transparency of financial markets and ensuring information availability;
- Timely supervision response by the Member States to violations of the national legislation concerning financial consumer protection;
- Harmonization of approaches to handling financial consumers' complaints;
- Mechanisms of out-of-trial settlement of disputes between consumers and financial service providers;
- Coordination of policies and mechanisms ensuring availability of financial services and raising financial literacy of financial consumers.

As activities on creating the common financial market progress, mechanisms of supervisory cooperation of financial regulators of the Member States should be developed. Together with this, the possibility of establishing the conduct supervision system will be considered based on the best global practices.

According to the Concept, another area of financial market shaping is coordination of activities of the Member States' authorized bodies, which will be arranged, in particular, with regard to financial consumer protection. One of the cybersecurity tasks includes ensuring guaranteed and efficient system of financial consumer protection when obtaining such services through the IT systems as well as in case of productive cyberattacks.

With the view of creating the common financial market, the EEC cooperates actively with international organizations, in particular, with the International Organization of Securities Commissions (IOSCO) and the World Federation of Exchanges (WFE) in order to develop efficient mechanisms of regulation and supervision, as well as of responsibility and law enforcement in cross-border transactions. In the contemporary context one should use new digital technologies for supervision and implement best global practices to create indivisible securities markets and protect investors⁶³⁵.

In August 2019, the EEC and Astana International Financial Center (hereinafter referred to as the AIFC) signed the EEC-AIFC Joint Action Plan for 2019-2021. The parties intend to cooperate on development of financial markets, capital markets, trade and investments. Main tasks are regulation of digital financial services, online trade, development of e-commerce, creating regulatory "sandboxes" in the EAEU for testing and tuning of innovative financial services, as well as development of promising areas of protection of financial consumer and investor rights⁶³⁶.

FOR REFERENCE

The AIFC is a regional financial hub uniting capital markets of the countries of the EU, Central Asia, republics of the Transcaucasus, the EAEU, Middle East, Western China, and Mongolia. The independent Court, International Arbitration Center, high tech international exchange, AIFC Committee for Regulation of Financial Services and Bureau for Continuous Professional Training are established.

Launch of the information resource "Consumer Protection" developed by the EEC on the Union's Open Data Portal potrebitel.eaeunion.org is of great importance. Such common information source of the EAEU will provide consumers with full and reliable information on their rights and ways of protection thereof.

The Portal has 11 thematic sections, including "Consumer Protection in the EAEU" section. Here one can easily find FAQs, useful links, consumer guides, legal documents on consumer protection in the context of the national regulation and information materials. The Portal is intended for various groups of users, including public authorities, business community, non-governmental organizations, electronic service developers and individuals.

FOR REFERENCE

In January 2020, the Republic of Uzbekistan hosted the First Consumer Forum of the European and Asian Countries, where over 250 international experts for consumer protection gathered together.

Among key topics of the Forum there were new principles of consumer protection in the area of e-commerce, trade in digital products, developing sustainable and responsible consumer culture, defining the international cooperation prospects in the globalization context⁶³⁷.

Experience of joint activities of Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia in the course of implementation of

⁶³⁵ EEC develops cooperation with International Organization of Securities Commissions and World Federation of Exchanges, 13.12.2019 // eurasiancommission.org/ru/nae/news/Pages/13-12-2019-1.aspx.

⁶³⁶ Cooperation between EEC and Astana International Financial Center to be developed according to the agreed action plan, 13.08.2019 // eurasiancommission.org/ru/nae/news/Pages/13-08-19-2.aspx.

⁶³⁷ The First Consumer Forum Held in Uzbekistan Consolidated the Consumer Protection Efforts of Europe and Asia, 20.01.2020 // Portal of Common Information Resources and Open Data of the EAEU potrebitel.eaeunion.org/ru-ru/Pages/Pervij-potrebiteljskij-forum,-provedennij-v-Uzbekistane,-konsolidiroval-usiliya-Evropi-i-Azii-v-zaschite-prav-potrebitelej.aspx.

the agreed consumer protection policy was presented by the EEC.

The participants highlighted the importance of joint efforts of the EAEU in the consumer protection area and mapped out further working interaction of the EEC and representatives of non-governmental organizations and state bodies of the Republic of Uzbekistan for sharing experience on consumer protection issues, thus promoting further integration of the processes in the EAEU and the CIS.

Upon the results of the Forum activities, the Declaration was adopted stipulating the need for consolidation of all countries for solving consumer protection issues, including those in the e-commerce.

An important part of the EEC activities is the protection of rights and interests of certain categories of consumers, namely, the disabled, children and older population. In May 2019, the EEC Collegium adopted Common Approaches to Establishing Special Measures for Protection of the stated categories of citizens, which will promote creating favourable and equal rights in trade for citizens of the EAEU countries. The document recommends to establish national penalties and sanctions for intentional misleading or refusal to provide access to goods and services by reason of some specific features of vulnerable consumers⁶³⁸.

3.4. Further Efforts by the CIS Member States



In 2019, cooperation of the CIS Member States on elaborating an efficient policy in the area of protecting the rights of consumers, including financial ones, was continued.

An important role in developing and intensifying such cooperation is assigned to the Advisory Board for Consumer Protection of the CIS Member States (hereinafter referred to as the “Advisory Board”) being a forum where financial consumer protection experience of the CIS Member States is analyzed, and opportunities are provided for applying best practices in each CIS country, including Russia.

On 26 September 2019, within the framework of the IV International Exhibition Forum “Eurasian Week-2019” in Bishkek, the joint meeting of the Advisory Board (16th meeting) and the Advisory Committee for Consumer Protection of the EAEU Member States (6th meeting) was held^{639,640}.

The meeting was attended by representatives of executive bodies, non-governmental organizations and consumer associations of six Member States of the CIS and the EAEU (Belarus, Kazakhstan, Kyrgyzstan, Moldova, Uzbekistan, Russia) as well as representatives of international organizations – the UNCTAD, WHO, CIS Executive Committee and EEC.

The meeting participants discussed the progress of integration processes in the consumer protection area in the EAEU and CIS, problems of ensuring consumer protection in the e-commerce, financial services as well as main directions of implementing the consumer protection policy in the context of the UN Sustainable Development Goals.

The experience and practices of the countries relating to further improvement and development of the consumer protection legislation were reviewed during the meeting.

Almost all speakers mentioned the ever-growing importance of comprehensive interaction of the states in the consumer protection area in the current context. At the same time, a wide range of issues discussed at the joint meeting will allow for consolidating the accumulated experience of the Member States and will become the next step in development of common mechanisms and approaches to solving problems in this area of public relations and building of an orderly consumer market in the CIS and EAEU.



The report of the representative of the State Agency for Anti-Monopoly Regulation under the auspices of the Government of the Kyrgyz Republic was dedicated to the systemic work on protection of rights and legitimate interests of consumers in the areas being of priority for the authority, including remote sales, development of draft law “On e-Commerce”, the existing consumer protection issues, including absence of a special law regulating relations with regard to shared housing construction.

The report of the representative of the National Bank of the Kyrgyz Republic was of particular interest for the meeting participants. It was dedicated to best practices used for protection of rights and interests of financial consumers, including those aimed at improvement of the legal and regulatory framework for protecting rights of consumers of bank and microfinancing services.

The report also contained information on implementation of the Program for Raising Public Financial Literacy for 2016-2020. Among the Program priorities one could name:

- Raising the level of financial literacy of schoolchildren and young people;
- Raising the level of financial literacy of adults;
- Ensuring equal and full access to financial information and financial services for all categories of the population.

The GLOBAL MONEY WEEK held on 8-14 April 2019 under the slogan “Learn. Save. Earn” became a large-scale event

⁶³⁸ The EAEU sets up its cooperation with the Pacific Alliance, 22.05.2019 // EEC eurasiancommission.org/ru/nae/news/Pages/22-05-2019-4.aspx.

⁶³⁹ On the Joint Meeting of the Advisory Board for Consumer Protection of the Member States of the Commonwealth of Independent States and Advisory Committee for Consumer Protection of the Member States of the Eurasian Economic Union // rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=12737/

⁶⁴⁰ Information on the 16th Meeting of the Advisory Board for Consumer Protection of the Member States of the Commonwealth of Independent States (Bishkek, 26 September 2019) // CIS Internet Portal <https://e-cis.info/cooperation/2945/83510>.

covering 683 activities and embracing directly 40,000 participants and indirectly 1.6 mln individuals.

It is necessary to mention that the Child & Youth Finance International Fund granted to the National Bank of the Kyrgyz Republic the Youth Involvement-2019 award for implementation of the National Program for Raising Public Financial Literacy among young leaders and schoolchildren.

In March 2020, the Supreme Council of the Kyrgyz Republic adopted in the first reading the draft law “On Amendments to Law “On Consumer Protection”⁶⁴¹. The draft law is aimed at improving consumer protection, eliminating gaps in the stated Law, and bringing it in compliance with the Code of Violations, Code of Minor Offences, Criminal Code and the EEC Recommendations “On Common Approaches to Implementing Coordinated Consumer Protection Policy by the Member States of the Eurasian Economic Union When Performing Remote Selling of Goods (Works, Services)”. The draft law strengthens guarantees of protecting rights of consumers when they do remote shopping, including purchases through online stores, and specifies the list of information on goods and services that a consumer is entitled to receive when making a transaction. Together with this, a possibility of paying with a bank card will be guaranteed to the consumer. An important feature of the draft law is establishment of an authorized state body engaged in the intersectoral coordination in the area of consumer protection and compiling a single register of public associations for consumer protection⁶⁴².



The report of the representative of the Ministry for Anti-Monopoly Regulation and Trade of the Republic of Belarus contained information on main directions of implementing the state consumer protection policy, as well as suggestion on the legislation improvement in the stated area. In particular, amendments to the Consumer Protection Law⁶⁴³ were presented stipulating addition to the stated Law of the chapter “Financial Consumer Protection” comprising the following provisions:

- Determination of the pre-trial procedure for settlement of disputes relating to quality of financial services;
- Introduction of the Institution for Handling Material Complaints of Financial Consumers;
- Determination of powers of the National Bank, associations of financial market participants with regard to financial consumer protection.

The report also contained information on consumer education activities held in the Republic of Belarus, including the Consumer Day on 15 March 2019 under the slogan “Consumer Protection in the Smart Technologies Era”.

Special attention was paid to the coverage of the activities for raising public financial literacy. The Republic of Belarus held the Financial Literacy Week for Children and Young People for the 7th time (25-31 March 2019).

The National Bank of the Republic of Belarus mobilizes financial market participants to carry out this international educational campaign actively and ensures coordination among employees of financial organizations and representatives of the educational system to achieve maximum coverage of schoolchildren with the ongoing events. The activities of the Financial Literacy Week for Children and Young People are based on information materials and presentations developed by the National Bank and posted on the Single Internet Portal for Public Financial Literacy fingramota.by.

To ensure systemic activities at the state level aimed at raising public financial literacy in Belarus as a prerequisite for improving the welfare and quality of life of citizens and strengthening financial stability, the Joint Actions Plan for Raising Public Financial Literacy for 2019-2024⁶⁴⁴ was approved. The actions envisaged by the Plan cover the following areas: personal finances, fundamental financial knowledge, insurance, digital financial technologies, tax literacy, financial consumer protection and various groups of the population. For instance, for pensioners and older people a variety of activities aimed at enhancing their trust in financial institutions is arranged, and unemployed persons are provided with information, consultations and legal assistance.

Certain projects involving mass media are planned, including the contest “Journalists Stand for Financial Literacy”, a contest of videobloggers. Financial literacy accounts are registered in the social media. The financial inclusion project “Learn How to Manage Finance by Yourself” was successfully implemented. It is aimed at creating a barrier-free environment for visually impaired persons, adaptation of banking services and increasing availability of banking institutions. To do this, seminars for visually impaired persons were arranged, Braille guides and audio materials were issued to assist them in using mobile bank applications.



The representative of the Ministry of Economy and Infrastructure of the Republic of Moldova reported at the meeting on development of mechanisms for observance of rights and interests of consumers based on the European practices.

The Association Agreement concluded in 2014 between the Republic of Moldova, on the one part, and the European Union and the European Atomic Energy Community and Their Member States, on the other part, provides for convergence through the harmonization of their consumer protection legislation and includes 18 directives, regulations and decisions

In particular, European standards were implemented into legal acts regulating financial relations. For instance, provisions of Directive 2008/48/CE on Credit Agreements for Consumers were reflected in the Law on Credit

⁶⁴¹ Resolution of the Supreme Council of the Kyrgyz Republic No. 3600-VI “On Adoption in the First Reading of the Draft Law of the Kyrgyz Republic “On Amendments to Law of the Kyrgyz Republic “On Consumer Protection” dated 05.03.2020 // Centralized Data Bank of Legal Information of the Kyrgyz Republic cbd.minjust.gov.kg/act/view/ru-ru/72689/10?mode=tekst.

⁶⁴² EEC Recommendation Will Be the Basis for New Version of Law of the Kyrgyz Republic “On Consumer Protection”, 05.03.2020 // Portal of Common Information Resources and Open Data of the EAEU potrebitel.eaeunion.org/ru-ru/Pages/Rekomendaciya-EEK-stanet-osnovnoj-dlya-novoj-redakcii-zakona-Kirgizskoj-Respubliki-%C2%ABO-zaschite-prav-potrebitelje%C2%BB.aspx.

⁶⁴³ Consumer Protection Law No. 90-Z dated 09 January 2002 // National Legal Portal of the Republic of Belarus pravo.by/document/?guid=3871&p0=h10200090.

⁶⁴⁴ Approved by Regulation of the Council of Ministers of the Republic of Belarus and the National Bank of the Republic of Belarus No. 241/6 dated 12 April 2019 // Single Internet Portal for Public Financial Literacy fingramota.by/ru/documents.

Agreements with Consumers⁶⁴⁵, and provisions of Directive 2002/65/EC Concerning Distance Marketing of Consumer Financial Services were included in the Law on Concluding and Performing Distance Contracts on Consumer Financial Services⁶⁴⁶.

In addition, the Republic Moldova has expended its institutional framework for consumer protection. Apart from the Agency for Consumer Protection and Market Supervision in charge of consumer protection, certain areas of the consumer market are ascribed to the competence of other bodies. For instance, the National Bank of Moldova is responsible for protecting rights of banking services consumers, and the National Commission for Financial Market is in charge of protecting rights of insurance services consumers.

Activities on strengthening the financial consumer protection system, raising the level of financial literacy and education of citizens are continued actively in other CIS Member States.



To improve management of the regulation and control system embracing the financial services market, on 28 November 2019, President of the Republic of Azerbaijan issued the order on abolition of the Financial Market Supervision Chamber of the Republic of Azerbaijan. The powers of the stated body, including regulation and control in the financial services market, protection of investors and financial consumers, are transferred to the Central Bank of the Republic of Azerbaijan⁶⁴⁷.

Solving the task of financial consumer protection the Central Bank exercises the following rights and performs the following duties⁶⁴⁸:

- Receiving and analyzing documents and information from entities and issuers to ensure consumer protection in the financial markets and restoration of consumers' violated rights;
- Receiving reports from issuers, analyzing them and taking appropriate measures;
- Handling statements and complaints received from financial consumers, analyzing them and taking appropriate measures through investigations;
- Taking relevant measures on training investors and consumers of the financial market;
- Participating in legal proceedings related to violation of the rights of investors and consumers in the financial markets;
- Issuing binding instructions to prevent violations of the legislation protecting the rights of consumers and investors in the financial markets and restoring their violated rights.

Special division of the Central Bank, Department for Financial Consumer Protection, investigates complaints of individuals concerning violations committed by insurance companies, credit institutions and joint-stock companies.

If a violation of consumer rights is revealed as a result of the investigation, the Central Bank applies the following measures:

- Communicating binding instructions, applying other actions as well as remedial measures;
- Imposing sanctions, administrative warnings and fines.

The "Strategic Roadmap of Development of Financial Services in the Republic of Azerbaijan"⁶⁴⁹ stipulates that enhancing knowledge and skills of the financial market participants is a separate strategic goal and highlights the importance of financial literacy. This document entrusts the Central Bank with a task of the population education.

One of the tools developed by the Central Bank for raising financial literacy and improving financial consumer protection is the Financial Literacy Portal bizimpullar.az. The users of the Portal may review information materials on economic and financial issues, explanatory videos about banking services, virtual museums and sections for schoolchildren, economic games and calculators.

Another smart resource developed by the Central Bank is virtual educational platform edu.e-cbar.az. This is a free platform providing knowledge and skills in economics, banking and finance. The platform is intended mainly for providing traditional educational methods in a modern format for gaining knowledge and skills in the relevant areas. Using interactive multimedia resources of the virtual educational platform one can achieve a high degree of proficiency anywhere and at any time.

In Armenia active work on protection of rights of financial consumers and their education was performed throughout 2019.



Among the tasks of the Central Bank of the Republic of Armenia one should mention ensuring necessary conditions to protect the rights and interests of consumers in the financial sector. This task is crucial for improving financial security of citizens and overall stability of the financial system of the Republic⁶⁵⁰. The Central Bank established the Center for Consumer Protection and Financial Education which performs the following functions:

- Elaborating and improving legal and regulatory framework for protection of consumers' interests;

⁶⁴⁵ Law on Credit Agreements with Consumers No. 202 dated 12 July 2013 // State Register of Legal Acts of the Republic of Moldova lex.justice.md/index.php?action=view&id=349422&lang=2&view=doc.

⁶⁴⁶ Law on Concluding and Performing Distance Contracts on Consumer Financial Services No. 157 dated 18 July 2014 // State Register of Legal Acts of the Republic of Moldova <http://lex.justice.md/index.php?action=view&view=doc&lang=2&id=354424>.

⁶⁴⁷ Order of President of the Republic of Azerbaijan on Improving Management of the Regulation and Control System for Financial Services Market, 28 November 2019// President of the Republic of Azerbaijan president.az/articles/35001.

⁶⁴⁸ The Central Bank of the Republic of Azerbaijan cbar.az/page-185/areas-of-work.

⁶⁴⁹ Approved by Decree of President dated 06 December 2016 // President of the Republic of Azerbaijan ru.president.az/articles/21953/print.

⁶⁵⁰ Protection of Consumers' Interests // The Central Bank of the Republic of Armenia cbar.am/ru/SitePages/fcpintroduction.aspx.

- Elaborating and improving rules of conduct for financial organizations;
- Carrying out activities aimed at raising the level of awareness and financial literacy of consumers, developing and improving tools of financial education;
- Developing and maintaining a special website for financial consumers “Finances for All” abcfinance.am.

The website “Finances for All” operated under the program “Raising Financial Literacy” contains a variety of educational materials on different financial services (deposits and credit accounts, insurance, payments and transfers, etc.), useful tools (personal budget planning tool, financial vocabulary, financial assistant, financial tests, etc.), and information on the complaint procedure for financial consumers whose rights were violated.

In order to raise public financial literacy, the Central Bank arranges a set of annual events within the program “My Financial Month”. In 2019, the program “My Financial Month” was held under the slogan “Find Your Map in the Financial World”⁶⁵¹. The said program is intended for providing consumers with knowledge on how to manage their personal finances efficiently through various information and interactive activities (seminars of leading specialists, financial bus tour, contests, Welcome Day with Pension Managers, Global Money Week). There were 5 tours, 13 seminars, 2 competitions, 4 Welcome Days, 1 financial and economic contest.

In 2019, the Financial System Mediator of Armenia carried out various information and educational activities aimed at raising financial literacy. For example, “Financial Camp” was arranged for schoolchildren, as well as the insurance law contest for students, the program “Camp of Peace” for school vacations, summer probation programs for students⁶⁵².



In the Republic of Kazakhstan a milestone of 2019 was establishment of a new body within the public administration system, the Ministry of Trade and Integration, to which separate functions and powers of the Ministry of National Economy are transferred, including those concerning consumer protection⁶⁵³.

In view of the above, the Republican State Institution Consumer Protection Committee of the Ministry of Trade and Integration of the Republic of Kazakhstan was established (hereinafter referred to as the “Consumer Protection Committee”) by reorganization of the Republican State Institution Committee for Regulation of Natural Monopolies, Protection of Competition and Consumer Rights of the Ministry of National Economy of the Republic of Kazakhstan⁶⁵⁴.

The mission of the Consumer Protection Committee stipulates the development of holistic and efficient consumer protection policy. The Committee strives for executing two main tasks, namely, ensuring implementation of the state consumer protection policy and intersectoral coordination of activities of state bodies on implementing the state consumer protection policy⁶⁵⁵.

Among the principal legislative initiatives of the Consumer Protection Committee in 2019 one can name draft law “On Amendments and Additions to Certain Legal Acts of the Republic of Kazakhstan on Consumer Protection”⁶⁵⁶.

The draft law contains 8 core provisions:

1. Establishment of the institutional system of consumer protection;
2. Introduction of 3-stage system of complaint handling;
3. Providing legal framework for the pre-trial dispute settlement institutions and the list of consumer's representatives;
4. Establishment of a one-stop Single Information System for receiving complaints concerning consumer protection;
5. Strengthening of the role of the consumer protection authorized body;
6. Establishment of Interdepartmental Council for Consumer Protection;
7. Tightening of responsibility of the consumer protection system participants through the preventive control institution;
8. Support of non-governmental organizations and the civil society in the consumer protection area.

From the middle of 2019, Kazakhstan has been implementing the program aimed at reducing debt burden of citizens⁶⁵⁷ and repaying debts on unsecured consumer loans issued by banks and MFOs. This program helps vulnerable groups of the population, including families with many children, families receiving survivor benefits, families with disabled children, etc.

Together with this, in 2019, the National Bank was reorganized with separation of the Agency for Regulation and Development of Financial Market⁶⁵⁸ starting its activities from 01 January 2020. One of the key tasks of the Agency is ensuring proper level of protection of financial consumers' interests, completeness and availability of information for consumers on activities of financial organizations and financial services provided thereby, as well as raising the level of financial literacy and financial inclusion of the population⁶⁵⁹. In the course of its activities on financial consumer protection,

⁶⁵¹ The Program “My Financial Month 2019” Was Launched // Finances for All <https://abcfinance.am/news/financemonth2019.html>.

⁶⁵² News of the Financial System Mediator of the Republic of Armenia // Financial System Mediator of the Republic of Armenia fsm.am/hy.

⁶⁵³ Decree of President of the Republic of Kazakhstan No. 17 dated 17 June 2019 “On Measures of Further Improvement of the Public Administration System of the Republic of Kazakhstan” // Information and Legal System Adilet adilet.zan.kz/rus/docs/U190000017U.

⁶⁵⁴ Regulation of the Government of the Republic of Kazakhstan No. 497 dated 10 July 2019 “On Measures for Implementation of Decrees of President of the Republic of Kazakhstan No. 17 dated 17 June 2019 and No. 46 dated 01 July 2019 “On Measures of Further Improvement of the Public Administration System of the Republic of Kazakhstan” // Information and Legal System Adilet adilet.zan.kz/rus/docs/P1900000497.

⁶⁵⁵ Eight Measures Will Protect Consumer Rights, 29.01.2020 // Business Information Center Kapital kapital.kz/economic/84239/vosem-mer-zashchityat-prava-potrebitелей.html.

⁶⁵⁶ Ministry of Trade and Integration of the Republic of Kazakhstan gov.kz/memleket/entities/mti-kzpp/documents/details/7977?lang=ru.

⁶⁵⁷ Decree of President of the Republic of Kazakhstan No. 34 dated 26 June 2019 “On Measures Reducing Debt Burden of Citizens of the Republic of Kazakhstan” // Information System Paragraph online zakon.kz/Document/?doc_id=36160841.

⁶⁵⁸ Decree of President of the Republic of Kazakhstan No. 203 dated 11 November 2019 “On Further Improvement of the Public Administration System of the Republic of Kazakhstan” // Information System Paragraph online zakon.kz/Document/?doc_id=32553336#pos=6;-155.

⁶⁵⁹ Financial Consumer Protection // Agency for Regulation and Development of Financial Market of the Republic of Kazakhstan finreg.kz/?docid=3641&switch=russian.

the Agency performs the following tasks:

- Ensuring proper level of protecting rights and legitimate interests of consumers of financial services and services provided by MFOs;
- Developing the consumer protection system;
- Raising financial literacy;
- Monitoring of financial products.

Under one of the Agency's projects, educational website fingramota.kz was developed. It is intended for a wide audience with different levels of financial literacy and financial capabilities.

Information of the website will help its users to understand fundamental financial concepts and principles of financially reasonable behaviour, present the existing financial tools and services and the ways of prudent usage thereof.

Together with the educational website the Agency implements the following financial literacy projects:

- Free lectures on financial literacy in the regions of Kazakhstan;
- Open financial literacy lessons at schools;
- Information and explanatory TV program "Money Time" for a wide audience on Astana TV and YouTube channel;
- TV program for young viewers #TengemaniNext on Astana TV and YouTube channel;
- Special supplements issued by the National Bank of Kazakhstan to newspapers for children of primary and middle school age "Druzhnye Rebyata", "Ulan" and magazine for teens "Oyla";
- NBK Online mobile application;
- Animated videos, comics and other publications in Facebook and Instagram.



The National Bank of Tajikistan continued to carry out activities aimed at developing and improving the financial consumer protection system in accordance with the Strategic Priorities of the National Bank of Tajikistan on Developing Financial Consumer Protection Mechanism in the Republic of Tajikistan for 2017-2019⁶⁶⁰.

The Financial Consumer Protection Department of the National Bank established the Financial Literacy Bureau being in charge of educational- and information activities on financial literacy, in particular, for schoolchildren and young people. For instance, on 17 January 2020, in the education center "Parking" in Dushanbe, the Financial Literacy Bureau organized a financial literacy training session on the topic "How to Save Up for a Dream".

The next important step in this direction is the launch of developing the National Strategy for Financial Education. It is expected that the Strategy will build up the fundamentals for financially prudent behaviour of the population as a prerequisite for financial welfare of households and stable economic growth. Together with this, the plan of actions was compiled envisaging a number of educational activities together with the Ministry of Education and Science of the Republic of Tajikistan, international organizations, financial institutions and other stakeholders⁶⁶¹.

FOR REFERENCE

On 17 April 2019, in Moscow, the Memorandum on Understanding and Cooperation in the Consumer Protection Area was signed by and between Rospotrebnadzor and the Anti-Monopoly Service of the Government of the Republic of Tajikistan.

The Memorandum is aimed at developing relations between Russia and Tajikistan on consumer protection issues and will contribute to strengthening Russian-Tajik contacts in the said area with the view of increasing the level of confidence and security, improving consumer literacy, harmonizing consumer legislation and promoting a coordinated position with regard to participation in the activities of international organizations.

The implementation of the Memorandum will increase potential of the regions of the CIS Member States which is oriented towards development of common approaches in the state policies of legal protection of consumers⁶⁶².



Among milestone events of 2019 in the Republic of Turkmenistan, approval of the national Social -and Economic Development Program for 2019-2025 could be mentioned together with the start of implementing the Concept of Transition to Digital Economy in 2019-2025.

Various ministries, departments, banks, agencies, and entrepreneurs implemented specific measures for establishing necessary network platforms which allow for providing services offered to consumers using the Internet, and shopping online via the national payment system.

An example of embedding digital technologies to the payment system is the payment tool for goods and services developed by Joint-Stock Commercial Bank Rysgal. The tool does not use cash or bank cards and allows for payments with QR codes scanned by a mobile phone.

At the same time, throughout 2019, the work was performed to establish a centralized system of the state trade network in the territory of Ashkhabad. It makes possible tracking goods online: deliveries to warehouses, release of goods to shops,

⁶⁶⁰ National Bank of Tajikistan nbt.tj/files/Protection/strategiya/strategiya_ru.pdf.

⁶⁶¹ Information page of the Financial Consumer Protection Department // National Bank of Tajikistan nbt.tj/ru/Protection/?ELEMENT_ID=493933.

⁶⁶² On Signing the Memorandum on Understanding in the Consumer Protection Area Between Russia and Tajikistan, 18.04.2019 // Rospotrebnadzor rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=11786.

volumes of the goods sold and balances.

The service for purchase of electronic railway tickets is launched. Digitalization projects in the economic, financial and banking areas, e-service for taxation authority are being developed⁶⁶³.

FOR REFERENCE

Upon the proposal of the Turkmen chairmanship in the CIS, the 83th Meeting of the CIS Economic Board was held on 13 September 2019 in Ashkhabad.

The delegation heads approved in principle the draft of the Declaration on Strategic Economic Cooperation of the CIS Member States. The document's goal is to develop a coordinated approach to execution of economic interests of the CIS in general and each Member State, establish efficient partnership mechanisms allowing for improvement of economic ties both within the Commonwealth and with other integration associations and single states.

Members of the CIS Economic Board approved drafts of the Concept of Cooperation of the CIS Member States on the Society's Digital Development and the Plan for its implementation. These documents pursue the following goals: coordination of tasks, principles, main directions and mechanisms of interstate interaction while creating the digital environment in the Commonwealth space⁶⁶⁴.



In 2019, in the Republic of Uzbekistan, the Agency for Capital Market Development was established being the successor of the Center for Coordination and Development of Securities Market under the auspices of the State Competition Committee of the Republic of Uzbekistan⁶⁶⁵.

In September 2019, the Agency discussed the possibility to introduce financial literacy subjects in the upper secondary school in cooperation with German Development Bank KfW having suggested attraction of specialists from Germany to give classes⁶⁶⁶.

To raise financial literacy of journalists, in February 2019, the Central Bank of the Republic of Uzbekistan arranged a regular training seminar for mass media "Improvement of Money Circulation and Prospects of Development of Payment Systems"⁶⁶⁷.

In addition, to attract attention of journalists to the topic of raising public financial literacy and identify the relevant media content, the Central Bank announced the contest "Best Financial Education Material" in February 2020⁶⁶⁸.

To develop payment industry and infrastructure for acceptance of payment instruments in the HUMO payment network, expand usage of MasterCard cards in the payment infrastructure being developed, and arrange joint activities aimed at raising public financial literacy in the Republic of Uzbekistan, the Central Bank and MasterCardEurope signed the Protocol on Measures for Expanding Interaction and Cooperation on 27 March 2019.

The Central Bank also plans to expand cooperation on raising financial literacy and ensuring a reliable system of financial consumer protection together with the Alliance for Financial Inclusion by means of experience sharing with members of the Alliance and applying for technical assistance⁶⁶⁹.

Overall, in 2019, issues of raising financial literacy, developing financial education and strengthening the financial consumer protection system were resolved similarly in the CIS countries. Activities dedicated to reasonable savings and expenses are continued, including such activities for young people and schoolchildren. Financial literacy portals of the majority of the CIS countries are being constantly updated and are attracting various categories of users. Regulatory framework for protecting rights of consumers, including financial ones, is still at the refreshing stage, in some countries changes are being introduced in line with dynamics of the e-commerce market, rights and obligations of authorized bodies are being separated.

The experience of the CIS Member States given above evidences that Russia (with active involvement of Rospotrebnadzor) is developing the financial consumer protection system within the framework of accepted current practices of supporting mortgage crediting, limits of consumer crediting, development of the system of informing and raising public financial literacy.

The most prominent achievements in the area of raising the level of financial literacy, developing financial education, and informing the population of the key aspects of rights of financial consumers in the CIS Member States, as a rule, are reflected in the recommendations prepared based on the results of each meeting of the Advisory Board and to be used by authorized bodies.

For example, use of experience of Belarus on active involvement of mass media and most thorough consideration of special features of different groups of the population, including vulnerable citizens, in the consumer protection system will

⁶⁶³ Chronicles-2019: Financial and Economic Sector, 13.02.2020 // Information Agency Turkmenistan Today tdh.gov.tm/news/articles.aspx&article21505&cat14.

⁶⁶⁴ 83th Meeting of the Economic Board of the Commonwealth of Independent States Was Held in Ashkhabad // CIS Internet Portal e-cis.info/news/564/83209/?sphrase_id=6358.

⁶⁶⁵ Decree of President of the Republic of Uzbekistan No. UP-5630 dated 14 January 2019 "On Measures for Deep Improvement of the System of State Assets Management, Anti-Monopoly Regulation and Capital Market" // National Legal Database of the Republic of Uzbekistan lex.uz/docs/4160396.

⁶⁶⁶ German Development Bank KfW Suggested Raising Financial Literacy of Uzbek Schoolchildren, 11.09.2019 // Economic Review Magazine review.uz/ru/post/nemeckij-bank-razvitiya-kfw-predlozil-povyshat-finansovuyu-gramotnost-uzbekskih-shkolnikov.

⁶⁶⁷ Training Seminar "Improvement of Money Circulation and Prospects of Development of Payment Systems", 19.05.2019 // National Bank of the Republic of Uzbekistan cbu.uz/ru/press_center/news/38215/?sphrase_id=5064.

⁶⁶⁸ Mass Media Contest "Best Financial Education Material", 13.02.2020 // Central Bank of the Republic of Uzbekistan cbu.uz/ru/press_center/news/121552/?sphrase_id=5065.

⁶⁶⁹ Visit of Executive Director of the Alliance for Financial Inclusion (AFI), 02.12.2019 // Central Bank of the Republic of Uzbekistan cbu.uz/ru/press_center/news/84475/?sphrase_id=5070.

contribute to enhancing the level of financial consumer protection in all the CIS Member States, including Russia. Azerbaijan's experience of using virtual educational platform can also be used for enhancing quality of financial education and raising awareness of the population throughout the territory of the CIS, including Russia. Kazakhstan's experience of reducing debt burden of citizens may also be advantageous. Implementation of debt burden reducing measures while educating individuals about debt overburden and the necessity of a responsible approach to borrowing will exert a positive impact not only on the economic situation of borrowers, but their behaviour as financial consumers in future.



International organizations set themselves new tasks on efficient financial consumer protection. In 2019, substantial efforts were made to mitigate consumers' risks in the context of growing e-commerce volumes, development of new business models powered by large digital platforms as well as implementation of new data protection IT. Special attention was also paid to financial inclusion of vulnerable citizens, including older consumers, and impact of the digital economy on the stated groups of the population.

In turn, Rospotrebnadzor continues to participate actively in the international working groups and committees, and make a great contribution to elaborating recommendations and practical actions for development of the financial consumer protection system, fundamentals of financial literacy and education of various groups of the population.

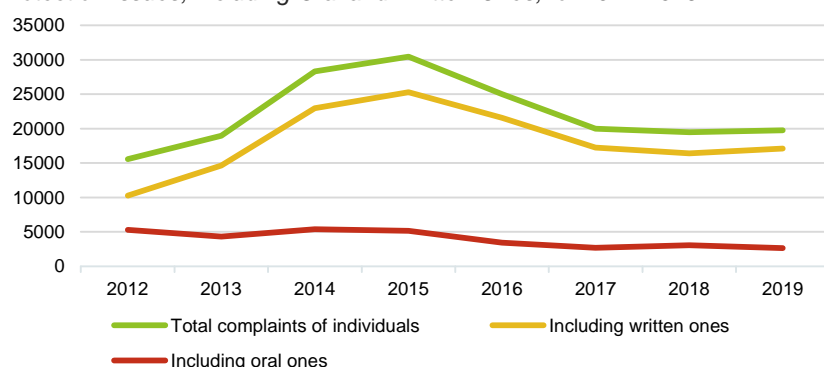
4. Rospotrebnadzor Performance Results in Financial Consumer Protection

4.1. Consideration of Complaints and Statements from Consumers

During 2019, Rospotrebnadzor and its territorial bodies received 23.4 thous. complaints related to the rights of financial consumers (2.4% more than in 2018), of which 19.7 thous. complaints were received from individuals, including 17.1 thous. written ones and 2.6 thous. oral ones (Figure 4.1).

The share of financial consumers' complaints in the total number of complaints received by Rospotrebnadzor remains stable and small, and in 2019 it amounted to 3.5% (in 2018 it was 3.9%). There were 2.6 thous. oral complaints from individuals in 2019 (11.3%) with this figure corresponding to the multi-year level. 5.9 thous. complaints of individuals were forwarded with regard to competence area of the relevant bodies.

Figure 4.1. Dynamics of the Number of Complaints Filed by Individuals to Rospotrebnadzor on Financial Consumer Protection Issues, Including Oral and Written Ones, for 2012-2019



Source: Rospotrebnadzor

Hence, indicators of the previous years evidence that the situation with the complaints of individuals remains stable. Possible reasons for such dynamics are considered in detail in Subsection 4.4 of this Report.

If compared to 2018, in 2019, the Bank of Russia registered continuing decrease of the number of complaints from financial consumers: in total, there were 246.6 thous. ones from financial consumers, being 2.8% less than in 2018. In doing so, the Bank considered the fact that for more comprehensive presentation of the situation with behavioral supervision in 2019, the methodology for registering the number of complaints was defined more precisely.

The new approach takes into account that a single complaint of a consumer may contain claims towards several entities subject to supervision by the Bank of Russia and considers such complaint as several ones. To ensure consistency of annual dynamics, the data on the number of complaints received by the Bank of Russia in 2018 were reviewed according to a new methodology. If the previous methodology were kept, the rate of decrease in the number of complaints would be more significant, by 5.4% (from 243.6 thous. in 2018 to 230.5 thous. in 2019).

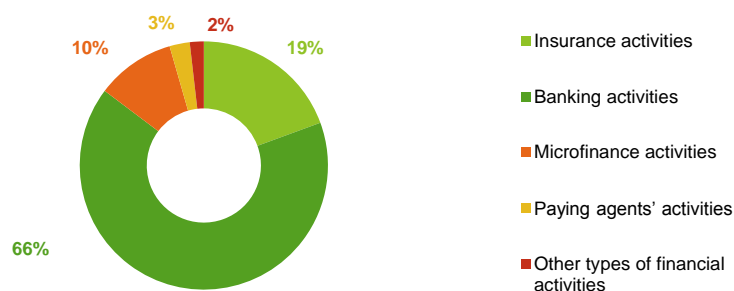
FOR REFERENCE

In 2019, DIA provided public consultations on issues related to banking and insurance services for citizens, including hotline calls (39.4 thous. calls processed) and postal/electronic complaints via the feedback forms available on the official website of the Agency as well as during weekly personal appointment. In the reporting period, 1.4 thous. electronic petitions of individuals received by means of DIA official website were considered. Overall in the reporting period, DIA considered 2 thous. statements of objection to the compensation amount or cancellation of sham credit and debit transactions resulting in an illegal increase in DIA's insurance liability. About 23 thous. responses were generated via automated information services on the Agency's official website making it possible for the depositors to track the status of processing their complaints and receive the data on the agent bank in charge of the compensation payment⁶⁷⁰.

Issues concerning violation of consumer rights by credit institutions (15.4 thous. complaints, or 65.7%) and insurance organizations (4.5 thous., or 19.4%) traditionally prevail in the total number of complaints received by Rospotrebnadzor. 2.4 thous. complaints (10.3%) concerning activities of MFOs and 617 ones (2.6%) concerning activities of paying agents were handled in 2019. The structure of complaints received by Rospotrebnadzor in 2019 by types of consumer financial services is shown in Figure 4.2.

⁶⁷⁰ Annual Report 2019 of State Corporation Deposit Insurance Agency, p. 28 // DIA asv.org.ru/agency/annual/2019/2019_year.pdf.

Figure 4.2. Structure of Individuals' Complaints Considered by Rospotrebnadzor in 2019 Broken down by Types of Financial Services



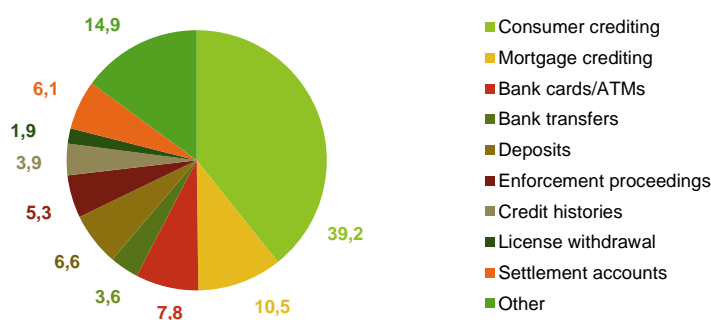
Source: Rospotrebnadzor

Out of 15.4 thous. complaints relating to credit institutions received by Rospotrebnadzor in 2019, 3.5 thous. complaints (23%) were forwarded with regard to competence area of the relevant bodies; following the consideration of 11.5 thous. complaints (75%), appropriate clarifications were given, 431 ones became the ground for control measures against banks, and in 252 cases the administrative investigations were carried out.

In the total number of complaints forwarded to the Bank of Russia in 2019 those concerning credit institutions accounted for 57.4%, those relating to NFOs and corporate relations participants accounted for 33.2%.

141.6 thous. complaints concerning credit institutions were received and considered by the Bank of Russia (that is 0.6% less than in 2018). The highest share of the complaints relating to credit institutions is associated with consumer crediting, 39.2% (Figure 4.3). If compared to 2018, the percentage of such complaints went down by 1.6 pp.

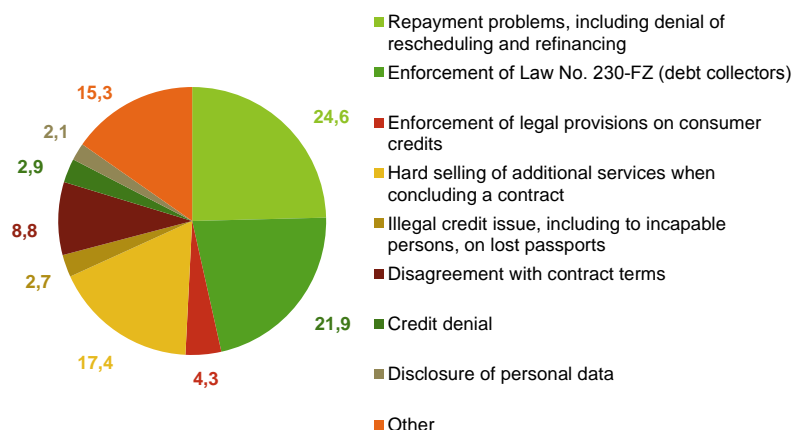
Figure 4.3. Distribution of Complaints Concerning Credit Institutions in 2019 by Subjects, %



Source: Bank of Russia

In 2019, the number of complaints received by the Bank of Russia that related to the subject "Consumer Crediting" decreased by 4.3% compared to 2018 and reached 55.5 thous. (Figure 4.4).

Figure 4.4. Distribution of Complaints by Various Issues of Consumer Crediting in 2019, %



Source: Bank of Russia

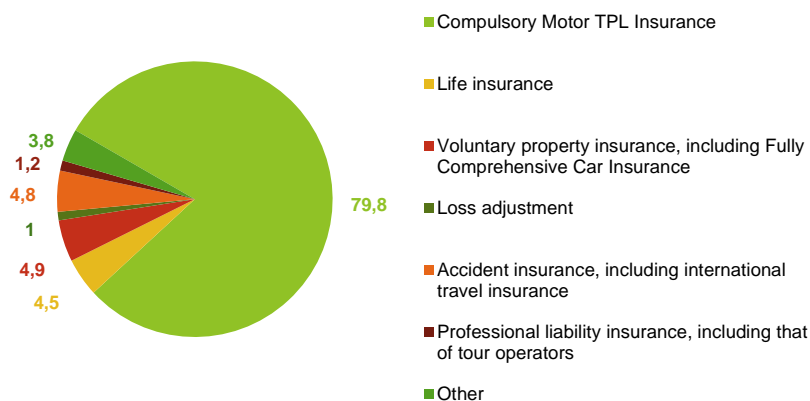
The number of complaints forwarded to the Bank of Russia concerning NFOs and corporate relations participants in 2019 amounted to 81.9 thous., which is 16.5% less than in 2018. The decrease was mostly due to a 34% reduction in the number of complaints relating to insurance entities. The share of complaints relating to insurance entities in the total number of complaints concerning NFOs and corporate relations participants was 50.9% (41.6 thous.), which is 13.5 pp less than in

2018.

By contrast, in 2019, Rospotrebnadzor recorded a growing number of complaints relating to insurance: in total, there were 4.5 thous. ones (in 2018 and 2017, their number did not exceed 3.3 thous.). Out of the stated number, 1.2 thous. complaints were forwarded to the Bank of Russia with regard to its competence area, in 3.3 thous. cases relevant clarifications were given, and only 26 ones became the ground for an unscheduled inspection. On the basis of 27 ones the administrative investigations were carried out.

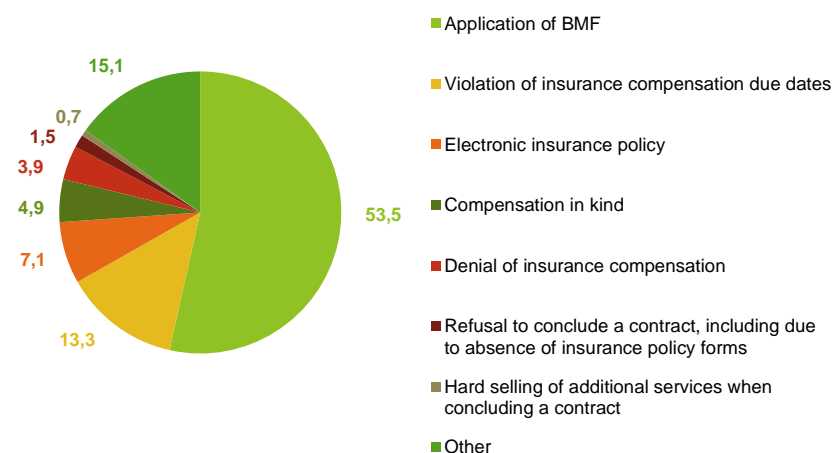
According to the Bank of Russia, Compulsory Motor TPL Insurance accounted for 79.8% of all complaints concerning insurance entities (Figure 4.5). The number of complaints relating to the subject “Compulsory Motor TPL Insurance” in 2019 decreased by 36.7% and amounted to 33.2 thous. The main problem in the Compulsory Motor TPL Insurance segment is the application of BMF⁶⁷¹ – 53.5% (17.8 thous. complaints) (Figure 4.6).

Figure 4.5. Distribution of Complaints Concerning Insurance Entities in 2019 by Subjects, %



Source: Bank of Russia

Figure 4.6. Distribution of Complaints by Various Issues of Compulsory Motor TPL Insurance in 2019, %

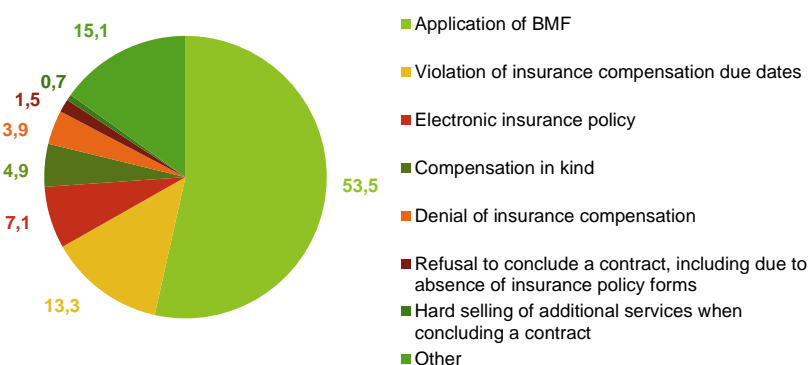


Source: Bank of Russia

In 2019, the number of complaints concerning MFOs received by the Bank of Russia increased by 25.2% compared to 2018 and amounted to 28 thous. The distribution of consumer complaints relating to the activities of MFOs received by the Bank of Russia is shown in Figure 4.7.

⁶⁷¹Bonus-Malus Factor is the coefficient of insurance rates which depends on the presence or absence of insurance compensation paid by insurers in the previous period from 01 April of the previous year to 31 March of the following year inclusive when executing compulsory insurance of civil liability of a vehicle owner.

Figure 4.7. Distribution of Complaints Concerning MFOs in 2019 by Various Subjects, %

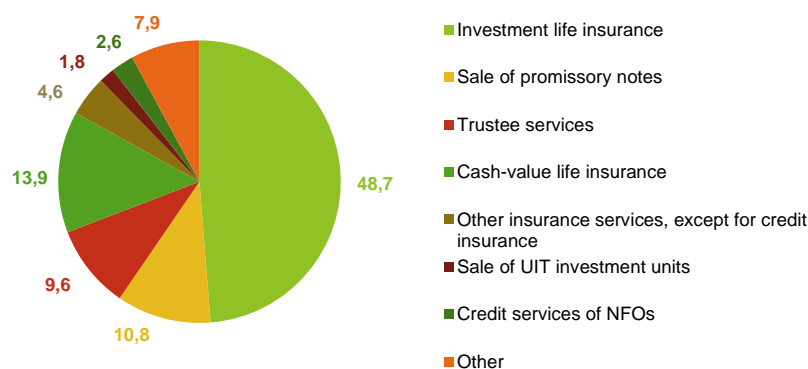


Source: Bank of Russia

According to Rospotrebnadzor, in 2019, 2.4 thous. complaints concerning activities of MFOs were received. Among them 881 ones (37.3%) were forwarded with regard to competence area of the relevant bodies; and following the results of handling 1.6 thous. complaints (66.7%), appropriate clarifications were given. 15 complaints became the ground for control measures against MFOs, and in 17 cases the administrative investigations were carried out.

Starting from February 2019, the Bank of Russia commenced separate accounting for misselling (Figure 4.8).

Figure 4.8. Distribution of Complaints Relating to Misselling by Subjects in 2019, %



Source: Bank of Russia

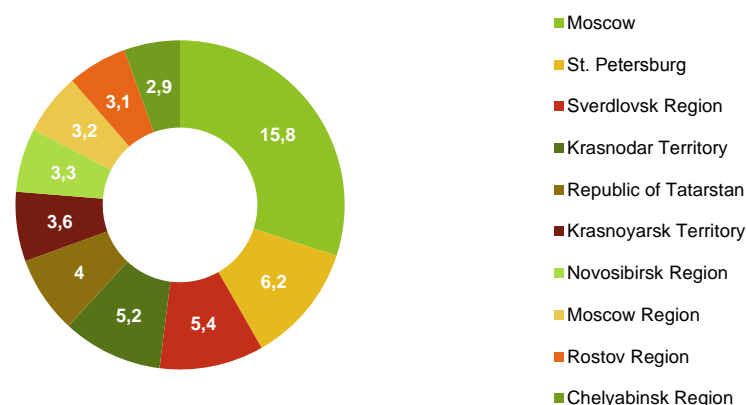
Analysis of handling consumers' complaints by Rospotrebnadzor with regard to all types of violations broken down by regions shows that Top-4 regions with the most active financial consumers remain unchanged. These are the federal cities of Moscow and St. Petersburg, Sverdlovsk Region and Krasnodar Territory (15.8%, 6.2%, 5.4% and 5.2% of all considered complaints respectively). As in the previous period, 10 constituent entities of the Russian Federation leading in terms of the number of complaints account for more than a half of all complaints filed by financial consumers (52.7%). In 2019, Moscow's "breakaway" from other regions grew: 15.8% versus 8.7% in the previous year. Consumers of the Republic of Tatarstan and Rostov Region became more active (Figure 4.9).

In 2019, Moscow became the absolute leader in terms of complaints relating to actions of banking organizations (2.2 thous. complaints). Among other regions, a high numbers of complaints filed to Rospotrebnadzor were observed in St. Petersburg (851), Krasnodar Territory (842), the Republic of Tatarstan (778), Sverdlovsk Region (762) and Krasnoyarsk Territory (626)⁶⁷².

In 2019, activities of insurance companies gave the reasons for filing complaints to Rospotrebnadzor most often in Moscow (682), St. Petersburg (337), slightly less often in Krasnodar Territory (206), Republic of Buryatia (174), Novosibirsk Region (168) and Krasnoyarsk Territory (160).

⁶⁷²14.8%, 5.6%, 5.6%, 5.2%, 5.1% and 4.2% of all complaints concerning banks respectively.

Figure 4.9. Complaints by Financial Consumers in 10 Regions of the Russian Federation in 2019 (% of the Overall Complaints Handled)



Source: Rospotrebnadzor

Apart from the clear leader in terms of complaints, the city of Moscow (360), in 2019, Novosibirsk Region (207) and Sverdlovsk Region (192) stood out for in terms of complaints concerning activities of MFOs. More than a hundred complaints in the stated category were also sent to Rospotrebnadzor by consumers who live in St. Petersburg (161), Rostov Region (150), Krasnodar Territory (141) and Moscow Region (120).

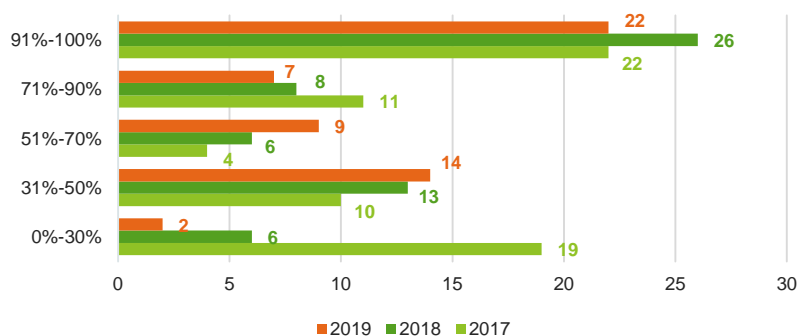
Most of complaints regarding paying agents' activities were handled by Rospotrebnadzor Departments in Kirov Region (61), Moscow (60) and St. Petersburg (52), the Republic of Khakassia (46). To compare, in 2018, Rospotrebnadzor Department in Kirov Region received only 11 complaints from consumers concerning paying agents' activities.

In total, throughout the Russian Federation, in 2019, 479 complaints (including 347 ones from consumers) gave the grounds for inspections, and 311 complaints (including 284 ones from consumers) gave the grounds for administrative investigations. Following their results, the facts of violations stated in the consumers' complaints were confirmed in 63.3% and 77.2% of cases respectively.

Most decisions on administrative response to complaints were issued in the following territorial bodies of Rospotrebnadzor: concerning inspections – in the Republic of Tatarstan (97), St. Petersburg (42), Volgograd Region (35), Chelyabinsk Region (33), Sverdlovsk Region (31), Irkutsk Region (23), Nizhny Novgorod Region (22), Perm Region (21), Krasnoyarsk Territory (20), Kemerovo Region – Kuzbass (16); concerning administrative investigations – in the Republic of Tatarstan (76), Sverdlovsk Region (47), Rostov Region (37), Kemerovo Region – Kuzbass (16), Khabarovsk Territory (16), Amur Region (16) and Stavropol Territory (15).

The distribution of the constituent entities of the Russian Federation by the share of confirmed complaints in the total number of complaints that gave the grounds for inspections and administrative investigations is shown in Figure 4.10⁶⁷³.

Figure 4.10. Dynamics of Number of the Constituent Entities of the Russian Federation by Share of Confirmed Complaints in 2017-2019



Source: Rospotrebnadzor



In 2019, the number of complaints filed by financial consumers with Rospotrebnadzor and its territorial bodies stayed approximately at the level of the last two years. Handling of citizens' complaints remains the most essential "feedback" tool for the authorized control and supervisory bodies that allows them to respond in due time to new threats to the interests of consumers.

⁶⁷³This distribution does not include the regions which have no identified complaints giving the grounds for an inspection or administrative investigation.

4.2. Practices of Informing and Advising Financial Consumers

In 2019, in the framework of the public informing and advising on consumer protection issues in 85 constituent entities of the Russian Federation and in the railway transport, 85 consultation centers and 474 consultation offices for consumers performed their activities. 710 employees are engaged in the activities of consultation centers and offices (in 2018, there were 551 consultation offices and 789 employees, in 2017 – 557 and 809, in 2016 – 564 and 795 respectively).

FOR REFERENCE

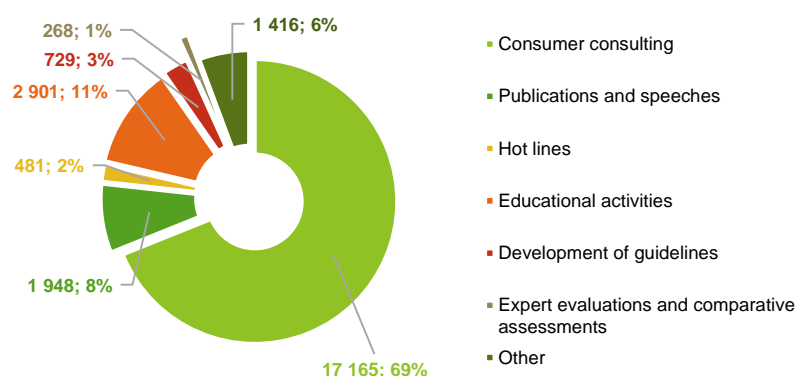
Consumer consultation centers in the federal budget-funded healthcare institutions⁶⁷⁴ are designed by Rospotrebnadzor to ensure implementing its educational function by providing financial consumers with necessary information and consultations.

Starting from 2019, MF Centers also provide citizens with advice on consumer protection issues.

In 2019, 24.9 thous. activities in financial services sector arranged by Rospotrebnadzor consultation centers and offices accounted for 5.4% of the total number of activities (in 2017 and 2018, 22.2 thous. activities were held, or 5%, in 2016 – 24.5 thous. activities, or 5.3%). There were 17.1 thous. consultations out of this number, including 1.9 thous. ones with the preparation of draft documents (complaints, claims, lawsuits, etc.), 729 ones – with developed methodological materials, and 268 ones – with expert opinions. At the same time, 1.9 thous. consultations were provided in course of publications, reports and educational activities, and 481 ones – during “hotline” calls.

The structure of activities (Figure 4.11) remained almost unchanged if compared to the previous period.

Figure 4.11. Structure of Activities in the Field of Financial Services Performed in Consultation Centers and Offices of Rospotrebnadzor in 2019



Source: Rospotrebnadzor/FBHI Federal Center for Hygiene and Epidemiology Under Rospotrebnadzor

As in the previous years, most of the activities were consultations. In 2019, their share was 69% of the total number of activities in the field of financial services (in 2018 – 70%, in 2017 – 74.4%, in 2016 – 81.7%). The Top-10 constituent entities of the Russian Federation in terms of consultations are shown in Table 4.1, they accounted for 42.3% of consultations (7.2 thous. out of 17.1 thous., to compare, in 2018 the share was 41%). The FBHI-based Consultation Centers in Sverdlovsk Region (1.7 thous.) and Krasnodar Territory (1.1 thous.) ranked the first with the number of consultations exceeding 1 thous., same as in the previous year. The Republic of Altai (588 consultations) replaced Altai Territory in the TOP while Khabarovsk Territory, Saratov Region, the Republic of Tatarstan and Novosibirsk Region managed to stay in the lead with more than 400 consultations. Tyumen Region and Chelyabinsk Region have also entered the Top-10 with 470 and 465 consultations respectively.

Table 4.1. Best Performance in Advice to Financial Consumers Among Regions in 2019

No.	Consultation center	Number of consultations on financial services	Share in total consultations of the institution	Share in total consultations on financial services throughout the Russian Federation
1	FBHI Center for Hygiene and Epidemiology in Sverdlovsk Region	1,725	9.6%	10%
2	FBHI Center for Hygiene and Epidemiology in Krasnodar Territory	1,136	5.9%	6.6%

⁶⁷⁴Order of Rospotrebnadzor No. 318 dated 06 April 2009 “On Improving the System for Consumer Informing and Consulting”.

No.	Consultation center	Number of consultations on financial services	Share in total consultations of the institution	Share in total consultations on financial services throughout the Russian Federation
3	FBHI Center for Hygiene and Epidemiology in Khabarovsk Territory	731	10.6%	4.3%
4	FBHI Center for Hygiene and Epidemiology in Saratov Region	666	11.1%	3.9%
5	FBHI Center for Hygiene and Epidemiology in the Republic of Altai	588	4.1%	3.4%
6	FBHI Center for Hygiene and Epidemiology in the Republic of Tatarstan (Tatarstan)	552	4.1%	3.2%
7	FBHI Center for Hygiene and Epidemiology in Novosibirsk Region	499	6.8%	2.9%
8	FBHI Center for Hygiene and Epidemiology in Tyumen Region	470	7.6%	2.7%
9	FBHI Center for Hygiene and Epidemiology in Chelyabinsk Region	465	5.5%	2.7
10	FBHI Center for Hygiene and Epidemiology in Tver Region	438	3.3%	2.6%

Throughout the country, 54.1% of consultations were provided by consultation centers, and 49.9% – consultation offices.

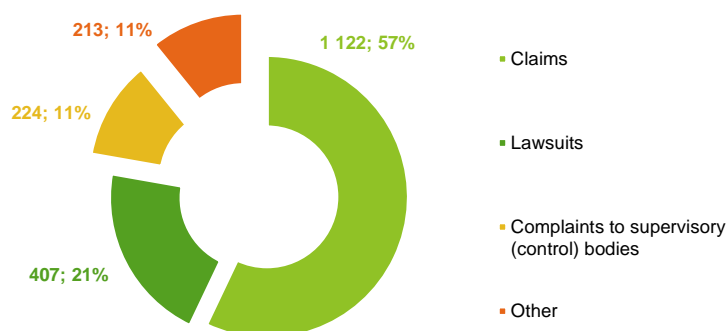
7.7 thous. consultations were face-to-face sessions, among them 47.9% involving the specialists of consultation centers, and 52.1% – consultation offices. 8.6 thous. consultations were provided by phone, including 57.9% – by the specialists of consultation centers, and 42.1% – consultation offices. 693 consultations were provided with the use of electronic communications, including 71% by the specialists of consultation centers, and 29% – consultation offices.

FOR REFERENCE

On 05 December 2019, E. Belousova, Head of Kirov Region Department of Pospotrebnadzor, arranged personal appointments for citizens in the reception room of the President of the Russian Federation in Kirov Region. During the appointments, 6 inquiries were received from the Region's residents on compliance with the mandatory requirements of health legislation and consumer protection. Verbal detailed clarifications were provided on each inquiry to settle controversial situations. Head of Kirov Region Department of Pospotrebnadzor assumed personal control over settlement of the most problematic issue⁶⁷⁵.

In 2019, financial consumers were offered 1.9 thous. consultations, which included drafting legally significant documents on the respective subject. 49.3% of them were prepared by the specialists of consultation centers, and 50.7% – consultation offices, i.e. the proportion of the previous years (approximately 50/50) remained unchanged. The structure of the documents prepared during the consultations (Figure 4.12.) did not change a lot if compared to the previous reporting periods.

Figure 4.12. Structure of Documents Prepared by Experts of Consultation Centers and Offices of Rospotrebnadzor in 2019



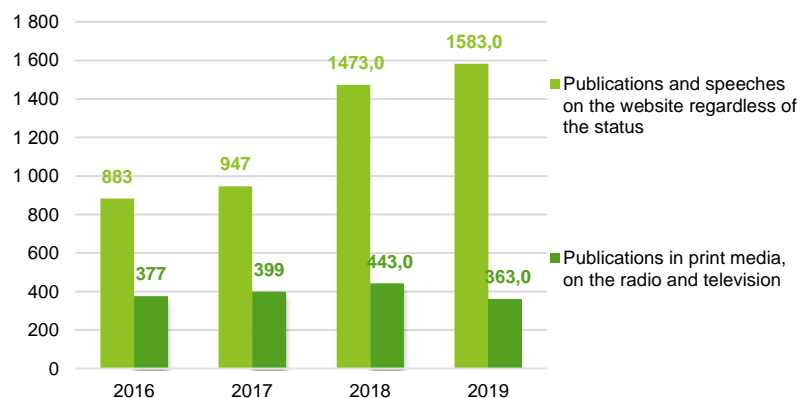
Source: Rospotrebnadzor/FBHI Federal Center for Hygiene and Epidemiology Under Rospotrebnadzor

In 2019, 1.9 thous. public events included 1.6 thous. ones implemented through the Internet publications (on websites),

⁶⁷⁵On Results of Personal Appointments for Individuals Held by Head of Kirov Region Department of Pospotrebnadzor in the Reception Room of the President of the Russian Federation in Kirov Region // Kirov Region Department of Pospotrebnadzor rpnkirov.ru/news/detail.php?ID=8834.

or 81.3%; 363 events, or 18.7% were held in print media, on the radio and television (Figure 4.13). The popularity of publications on the websites of territorial bodies and organizations of Rospotrebnadzor continues to grow for obvious reasons: convenient content management and storage as well as promotion and coverage of the activities of the government bodies in the social environment. Conventional media (radio, television, print media, etc.) still remain efficient. A slight decrease in the number of publications in the latter category may be due to the trend of many print media switching solely to the “digital” format (that is, to the form of an Internet media channel, website, blog in the social networks).

Figure 4.13. Dynamics of Publications and Reports on Issues of Financial Consumer Protection Prepared by Specialists of Consultation Centers and Offices of Rospotrebnadzor in 2016-2019



Source: Rospotrebnadzor/FBHI Federal Center for Hygiene and Epidemiology Under Rospotrebnadzor

In 2019, 481 hotlines were arranged, including 67.6% – in the consultation offices (in 2018 – 68.2%, in 2017 – 68%, in 2016 – 64.2%).

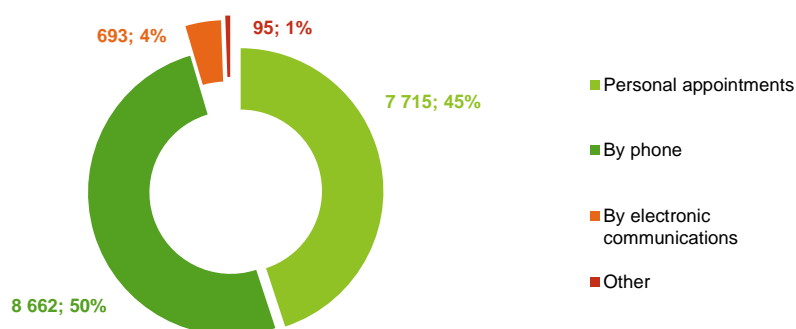
Thus, “situational” activities (including those of “hotline” type) are efficient within the “walking distance to the consumer”, while at the regional and federal levels, the activities are more systematic and analytical. At the local level, it is easier for the consumers to get the answers to their questions (it is often easier to reach by phone, etc.), that is, a request goes from the consumer to the state and then an answer goes back. At other levels, directions of providing information are opposite – from the state to consumers, with the possibility of feedback from the public. This is important in case of large-scale incidents, for example, when advising consumers on special features of remote purchase of goods, works, services amidst the COVID-19 pandemic and related quarantine, as it happened at the beginning of 2020.

The number of events held in the framework of educational activities throughout the Russian Federation amounted to 2.9 thous. (if compared to 2018, it was 2.1 thous.). These events are interesting since they combine several targets. This is work with young people aimed at raising their level of knowledge in the field of consumer protection and financial literacy as well as coverage of the activities of Rospotrebnadzor being essential in terms of training and developing the volunteer movement. Together with this, the work format under consideration is compatible with the scientific- and teaching activities permitted for public sector employees and allows for improving the level of specialists of Rospotrebnadzor and subordinate organizations. An equally important factor is that educational institutions often become platforms for interdepartmental interaction and various public events.

In 2019, consultation centers and offices prepared 729 guidelines and carried out 268 expert evaluations. It is typical for both categories that the majority of materials and evaluations were prepared in the consultation offices – 66.8% and 73.1% respectively. Also, a common characteristic is that this work is meticulous and cannot be large-scale. However, the number of guidelines and expert evaluations show the positive dynamics.

The structure of the consultations given to consumers on provision of financial services using different types of communication did not change substantially if compared to the previous years (Figure 4.14).

Figure 4.14. Structure of Consultations on Financial Services Provision Given in Consultation Centers and Offices of Rospotrebnadzor in 2019 by Types of Communication with Consumers



Source: Rospotrebnadzor/FBHI Federal Center for Hygiene and Epidemiology Under Rospotrebnadzor

Types of communication which are still the most popular among consumers are personal appointments and telephone consultations since they have their own specific features: personal contact, the possibility of prompt consultation with a change in the question essence directly during the consultation, etc. “Electronic” consultation, in turn, requires the consumer to develop questions properly.

The main performance results of consultation centers and offices in the constituent entities of the Russian Federation on working with financial consumers broken down by separate areas of informing and advising are shown in Table 4.2.

Table 4.2. Educational Activities by Consultation Centers and Offices in the Constituent Entities of the Russian Federation Broken down by Areas in 2019⁶⁷⁶

Focus areas of educational activities	Comment
Consultations for financial consumers	Sverdlovsk Region (18,725 consultations) and Krasnodar Territory (1,136 consultations) still rank the first in terms of the number of consultations on financial services. Khabarovsk Territory ranked the third with 731 consultations. Saratov and Novosibirsk Regions also stand out having 147 and 141 consultations provided using electronic communications.
Documents drafted in scope of the consultations for financial consumers	Most of the documents were prepared in Sverdlovsk Region (248), Krasnodar Territory (147), Khabarovsk Territory (142) and the Republic of Tatarstan (100). Top-4 in terms of claims: Sverdlovsk Region (153), the Republic of Tatarstan (86), the Republic of Buryatia (78) and Altai (77). Top-3 in terms of draft lawsuits: Sverdlovsk Region (52), Khabarovsk Territory (49), Krasnodar Territory (21).
Publications and reports on financial services	In 2019, over 100 publications of consultation centers and offices on financial consumer protection issues were recorded in the Chuvash Republic (154), Tver Region (140), Moscow Region (131), Krasnodar Territory (117), Sverdlovsk Region (108), Krasnoyarsk Territory (106). In the category of the website publications FBHIs in the Chuvash Republic (136 publications) and Moscow Region (119) were the most active parties. Tver Region is the clear leader (60) in terms of the number of publications/reports in print media, on the radio and television.
Arrangement of “hotlines”	Top-3 in this category: Saratov, Orenburg, and Tver Regions with 80, 52, and 49 “hotlines” arranged respectively. It can be mentioned that three leaders have not changed since the previous year, although the number of “hotlines” has slightly decreased in all three regions listed above.
Educational activities (roundtables, conferences, seminars and other educational formats)	Republic of Adygea and Saratov Region look prominent with 495 and 415 activities in this category. Krasnodar Territory (175 activities), Orenburg Region (142) and Vladimir Region (138) also showed noteworthy results. The highest numbers of roundtables, conferences, public activities were arranged in Belgorod Region (53) and the Republic of Buryatia (51). In 2019, Krasnodar Territory, Saratov Region and Ulyanovsk Region arranged 39 roundtables each. Saratov Region (376), Vladimir Region (138) and Krasnodar Territory (133) took the lead consistently in holding seminars and other educational activities. One should also mention Orenburg Region with 123 activities of this type.
Development of methodological materials	In 2019, the Republic of Adygea (120 materials), Saratov Region (75) and Orenburg Region (51) were the most active developers of methodological materials.

⁶⁷⁶According to Coordination and Guidance Center for Consumer Consultation Centers // FBHI Federal Center for Hygiene and Epidemiology Under Rospotrebnadzor <http://fcgie.ru/>.

Focus areas of educational activities	Comment
Expert examinations and comparative assessment of financial services	The practice of conducting expert examinations and comparative assessments remains exceptional. This activity was performed in 2019 in Sverdlovsk Region (180), Orenburg Region (30), Krasnoyarsk Territory (18), Kamchatka Territory (14), the Republic of Adygea (11), Tver Region (9) and Zabaikalye Territory (3). Including expert examinations (assessments) performed by consultation centers: Sverdlovsk Region – 23, Kamchatka Territory – 14, the Republic of Adygea – 11, Orenburg Region – 11, Tver Region – 9, Zabaikalye Territory – 2, Krasnoyarsk Territory – 2. The rest expert examinations were performed by the consultation offices.



In 2019, consumer consultation centers and offices subordinated to Rospotrebnadzor traditionally participated actively in providing information to financial consumers and performing educational activities. These activities are aimed at raising financial literacy and providing support to consumers in the pre-trial settlement of emerging problems by preparing drafts of legally significant documents on the essence of the consulting subject. Consultations during personal appointments and by phone are still the most popular ones among consumers. At the same time, the number of consultations via electronic means of communication is growing. Work with financial consumers via MF Centers was carried out in the experimental mode and will continue in the future.

4.3. Departmental Standards for Consulting Financial Consumers

Drafts of the Unified Methodology for Consulting Financial Consumers and departmental standards for consulting financial consumers are developed by Rospotrebnadzor together with FBK Grant Thornton specialists in the framework of the Project implementation.

As a result, by 2015, the Unified Methodology containing rules and procedures for the provision of consultations by specialists as well as 13 departmental standards in 40 areas of consulting were developed and implemented into the activities of consultation centers of Rospotrebnadzor. Furthermore, a single standard “Restoration of Violated Rights, Freedoms and Legitimate Interests of Financial Consumers” was developed and implemented containing information on the procedure of applying to Rospotrebnadzor bodies and consultation centers, the Bank of Russia, the Financial Ombudsman, other bodies and organizations as well as other necessary information including data on the judicial and extrajudicial procedures for consumer protection.

In 2016-2018, on the basis of requests from consultation centers, two additional departmental standards were developed, “Bankruptcy of Individuals Except for Individual Entrepreneurs” and “Mortgage Crediting”.

In 2019, further improvement of methodologies for consulting financial consumers continued. Taking into account the opinion of the consultation centers, two more departmental standards were developed, “Special Aspects of Interaction Between Consumers and Creditors when Repaying Overdue Debts” and “Collective Credit Life Insurance Programs”. In addition, the section “Applying to the Financial Ombudsman” of the departmental standard “Restoration of Violated Rights, Freedoms and Legitimate Interests of Financial Consumers” was substantially revised and supplemented due to beginning of the activities of the Financial Ombudsman.

Annually, the Unified Methodology and departmental standards are tested in consultation centers of Rospotrebnadzor, and their subsequent revision and update are performed on the basis of the testing results.

Thus, by 2019, many years of work in close connection with consultation centers of Rospotrebnadzor have resulted in the unified comprehensive consulting system consisting of the Unified Methodology and 18 departmental standards:

1. Restoration of Violated Rights, Freedoms and Legitimate Interests of Financial Consumers;
2. Conclusion of a Credit Agreement Subject to Compulsory Life and Health Insurance;
3. Charging Loan Account Maintenance Fees;
4. Inclusion in the Agreement of Provisions Entitling the Bank to Unilaterally Amend the Credit Agreement Terms;
5. Credit Fee Charged by the Bank;
6. Charging Early Repayment Fees or Penalty by the Bank;
7. Bank Deposit Agreement;
8. Car Insurance;
9. MFO Loan Agreement;
10. Retail Credits by Pawnshops;
11. Special Features of Payroll Cards;
12. Special Features of Bank Credit Cards;
13. Using a Bank Card;
14. Opening and Settling Bank Accounts;
15. Bankruptcy of Individuals Except for Individual Entrepreneurs;

16. Mortgage Crediting;
17. Collective Credit Life Insurance Programs;
18. Special Aspects of Interaction Between Consumers and Creditors when Repaying Overdue Debts.

In fact, each standard offers the specialists of Rospotrebnadzor consultation centers a set of ready-to-use standard solutions for solving specific consumer problems, or contains a set of information that allows the consultant to develop such solutions independently. At the same time, the departmental standard “Restoration of Violated Rights, Freedoms and Legitimate Interests of Financial Consumers” also includes forms of basic legal documents necessary for consumer protection, i.e. complaints, statements of claim and consumer demands.

The system of departmental standards built in such way allows for applying the unified approach while providing consulting services. Furthermore, this system is practical and easy to use by consultants while at the same time, it provides for the holistic approach and deep dive in the most topical issues of financial consumers protection.

Feedback from consultation centers and territorial departments of Rospotrebnadzor received upon the results of 2019 once again showed their high interest in maintaining and developing the departmental standard system which constitutes the methodological framework for consulting financial consumers and provides for the unified approach to determining ways to protect and restore their violated rights. The feedback of consultation centers highlighted the applicability of the standards in their current activities, and their usefulness in solving immediate consumer problems and training the center staff.

At the beginning of 2020, consultation centers and territorial departments of Rospotrebnadzor forwarded to FBK Grant Thornton their proposals on further update of the departmental standard system and development of additional standards on the most topical issues:

- Borrower Credit History;
- Voluntary Pension Savings;
- Electronic Wallet;
- Protection of Electronic Payments;
- Types of Fraud in the Financial Markets and Ways to Protect Against Fraud;
- Activities of Agents Providing Payment Services.

FOR REFERENCE

In spite of the fact that departmental standards were developed for use by specialists of consultation centers, their simplicity and comprehensiveness allow consumers to efficiently use them by their own while protecting their rights. This is especially the case when it comes to the most unprotected and vulnerable groups of the population – minors, pensioners, people with reduced mobility who are unable to contact directly a consultation center of Rospotrebnadzor for any reason but have the Internet access.

In 2019, draft departmental standards were published on the websites of the vashifinancy.ru Project and khochumoguznayu.rf for their study and use by consumers.

Information on the achieved positive results of the development and implementation of the departmental standard system was also presented by FBK Grant Thornton to a wide audience of Russian and international experts during the international conference of Rospotrebnadzor “Financial Consumer Protection: Focus on Socially Vulnerable Population Groups” held on 30 October 2020⁶⁷⁷.

Taking into account positive experience and the existing demand from consultation centers and territorial departments of Rospotrebnadzor, it seems extremely important to ensure the sustainable operation and further development of the departmental standard system for consulting. The following areas may become main directions of such development:

- Formalization of the departmental standard system in the corresponding order of Rospotrebnadzor and its implementation as a mandatory methodological guideline when providing advice to consumers. This will allow for reinforcing the positive practice of applying standards by consultation centers and to improve quality and efficiency of their activities in the long term.
- Constant update and addition of the Unified Methodology and departmental standards taking into account changes in the legislation of the Russian Federation and occurrence of new risks for financial consumers. At the same time, based on the opinion of consultation centers, it is also possible to develop new standards regarding the most challenging issues in terms of financial consumer protection.
- Extension of the departmental standard system not only to financial consumers, but to other groups of consumers as well. This is especially the case when it comes to socially vulnerable groups of citizens as well as their associations (including societies for the protection of rights of people with reduced mobility and other socially vulnerable groups).
- Further development of public access to the standards. The standards can be posted on additional Internet platforms to provide consumers from different groups of the population with wider access to them. Furthermore, when developing standards, not only the opinions of practitioners of Rospotrebnadzor, but also those of public associations (including consumer societies and socially vulnerable groups of citizens) should be taken into account.

⁶⁷⁷ Rospotrebnadzor and FBK Present a Report on Financial Consumer Protection, 30 October 2019 // FBK Grant Thornton fbk.ru/press-center/news/rospotrebnadzor-i-fbk-predstavili-doklad-o-zashchite-prav-potrebitelny-v-finansovoy-sfere/.



Upon the results of application in 2019, the Unified Methodology and departmental standards for financial consumers consulting have formed an integral part of a single system for informing and consulting consumers in consultation centers and offices of Rospotrebnadzor. At the same time, maintaining the efficiency of the departmental standard system for consulting is possible only if the approaches to its development accumulated for a long time are kept, including those relating to constant update and supplementing, taking into account practical use as well as feedback and proposals from consultation centers.

4.4. Control Activities

Main results of supervisory activities of Rospotrebnadzor in the area of financial consumer protection are shown in Table 4.3.

Table 4.3. Dynamics of Main Results of Supervisory Activities of Rospotrebnadzor in 2015-2019

Indicator	2015	2016	2017	2018	2019
Control activities completed	1,461	1,666	1,000	573	466
Violations revealed during inspections	5,420	7,083	6,443	3,306	2,311
Number of administrative investigations	550	433	536	465	374
Administrative offense reports drawn up	1,866	2,040	2,470	1,812	1,539
Including those upon the results of administrative investigations	498	360	501	436	294
Rulings on imposition of administrative sanctions issued	1,999	2,271	2,217	1,580	1,379

Source: Rospotrebnadzor

In 2019, Rospotrebnadzor carried out 466 control (supervisory) activities with respect to compliance with the consumer protection legislation in the financial services sector, which is 18.7% less in comparison with the previous year and substantially less than in 2015 (more than 3 times).

As a consequence, the related indicators decreased as well. For example, there were 2.3 thous. facts of violations of the mandatory requirements of the consumer protection legislation established upon the results of inspections in the reporting year, or 70% comparing to the level of the previous year (this indicator being more than half that in 2015).

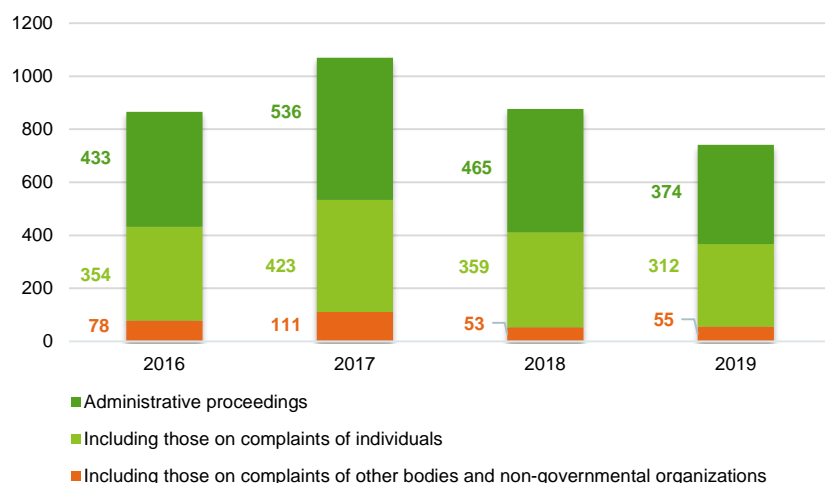
At the same time, the dynamics of the facts of imposition of administrative sanctions looks smoother: in 2019, 1.5 thous. administrative offense reports were drawn up and 1.4 thous. rulings on imposition of administrative penalty were issued (in 2018, 1.8 thous. and 1.6 thous., in 2015, 1.8 thous. and 2 thous. respectively).

Such administrative and supervisory performance of Rospotrebnadzor confirms the conclusion that upon introduction in 2016 of legislative changes in the procedure for implementation of the federal state supervision in the field of consumer protection, the law enforcement practice has seen the final separation of federal supervision itself (in the form of inspections) and application of the legislation on administrative offenses⁶⁷⁸.

Over the past two years, almost all administrative investigations have been carried out on the grounds not related to inspections (Figures 4.15, 4.16). In 2019, a single administrative investigation was carried out concerning the facts of violations revealed during the inspection.

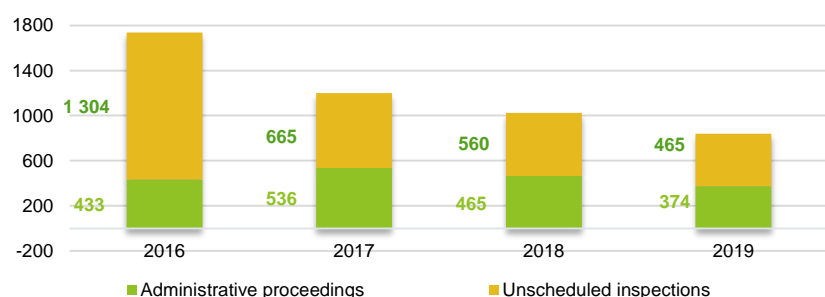
⁶⁷⁸See Report of Rospotrebnadzor "On State of Consumer Protection in the Financial Sector in 2018", Report "On State of Consumer Protection in the Financial Sector in 2017".

Figure 4.15. Structure of Administrative Investigations Conducted by Rospotrebnadzor in 2016-2019, by Sources



Source: Rospotrebnadzor

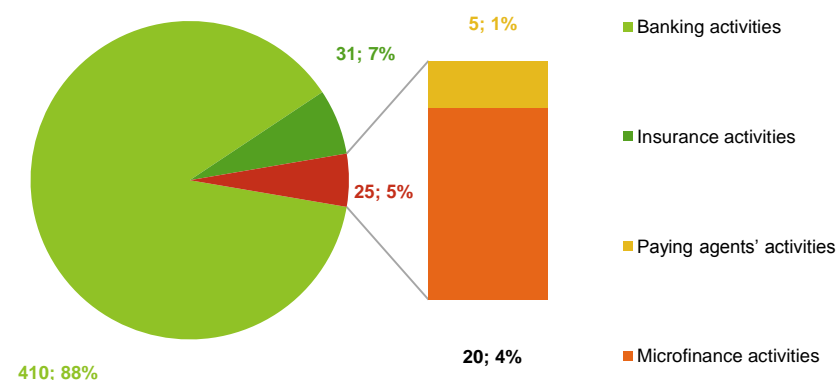
Figure 4.16. Structure of Rospotrebnadzor Activities in Consumer Financial Services Sector in 2016-2019, by Types of Response



Source: Rospotrebnadzor

The structure of inspections by type of activities of the entities has remained almost unchanged for several years (Figure 4.17). The largest number of control measures involve banks. Given that the absolute majority of the inspections are unscheduled, such dynamics should correlate with the citizens' complaints. Indeed, such a relationship can be observed based on the relevant data presented in Subsection 4.1 of this Report "Consideration of Complaints and Statements from Consumers". The number of complaints of financial consumers has shown weak dynamics over the past three years.

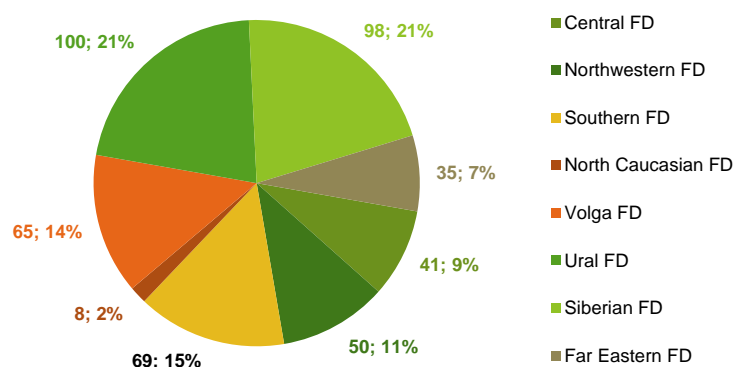
Figure 4.17. Structure of Rospotrebnadzor Inspections of Financial Sector Organizations in 2019, by Types of Financial Services



Source: Rospotrebnadzor

The structure of inspections in the regional context in 2019 also does not differ much from 2018. Most of the inspections were performed in the Ural and Siberian Federal Districts (Figure 4.18).

Figure 4.18. Structure of Rospotrebnadzor Inspections of Financial Sector Organizations in 2019, by Federal Districts



Source: Rospotrebnadzor

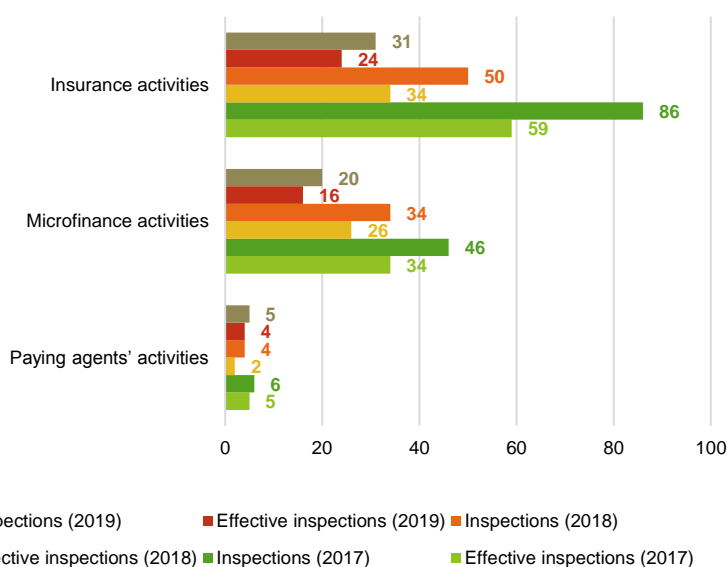
Following the results of inspections carried out in 2019 in the consumer financial services market, 2.3 thous. violations were revealed, that is 70% if compared to the previous year (3.3 thous. violations).

The effectiveness of the inspections (the ratio of the number of inspections that revealed violations of binding requirements to the total number of inspections) reached 67% (75% in 2018, 71.8% in 2017, 59.3% in 2016). In 2019, the following violations were found as per separate activities of financial organizations subject to inspection: banking – 270 out of 410 inspections (65.8%), insurance – 24 out of 31 inspections (77.4%), microfinance activities – 16 out of 20 inspections (80%), paying agents' activities – 4 out of 5 inspections (80%). The dynamics of the inspection effectiveness for the last three reporting periods broken down by individual financial activities of the entities subject to inspection is shown in Figure 4.19.

Most of the violations of financial consumer rights fell under Articles 8-10 and 12 of the Consumer Protection Law (right of consumers to information) and Article 16 of the same Law (free choice of goods, works, services), and 2019 was not an exception.

In total, in 2019, 1.4 thous. violations, or 61.3% (60% in 2018, 57.5% in 2017, 54% in 2016) were associated with non-observances of the requirements of the Consumer Protection Law. The remaining 894 findings were associated with violation of binding requirements set forth by other regulations of the Russian Federation governing the consumer relations.

Figure 4.19. Dynamics of Violations Revealed During Inspections by Rospotrebnadzor in 2016-2019, by Certain Types of Financial Activities of Entities Subject to Inspection



Source: Rospotrebnadzor

The inspection effectiveness (the number of revealed violations of binding requirements per one inspection) reached 5 violations per 1 inspection in 2019 (to compare, the average inspection effectiveness throughout the entire consumer market was 2.5 violations per 1 inspection⁶⁷⁹). The effectiveness by types of activities of financial organizations subject to inspection in 2019 was as follows: banking and insurance – 4.9 violations per one inspection, microfinance activities – 8, paying agents' activities – 1.4.

⁶⁷⁹ According to Rospotrebnadzor (Form of Industry Statistical Observation No. 1-19).

In general, evaluating the listed results of the supervisory activities of Rospotrebnadzor and taking into account the multidirectional dynamics of certain indicators together with a general trend towards decrease of the planned control activities in the context of growing instability of the financial market, it is difficult to draw any definite conclusions. However, at the same time, it is obvious that due to long-standing efforts by Rospotrebnadzor, the Bank of Russia and the SC RF (see Subsection 4.5 of this Report "Judicial Practice"), other government bodies involved, the consumer financial services sector was properly arranged, main violators of consumer rights either were punished, or left this field of activity. On the other hand, when consumers seek for services of financial organizations, they already have a general idea of problems they may face, and they take this risk consciously. The improvement of the legal framework of the considered area of public relations has also played an important role in all that was mentioned above. Among other things, new regulations were developed as a result of the analysis of the emerged law enforcement practice of the control and supervisory bodies.

Conclusions about such landscape of the financial services market were also reflected in the dynamics of the performance results of Rospotrebnadzor concerning application of the AOC RF (Table 4.4).

Table 4.4. Dynamics of Administrative Investigations by Rospotrebnadzor in 2015-2019 in Respect of Financial Organizations, by Types of Activities

Type of activity of the liable entity	Completed administrative investigations				
	2015	2016	2017	2018	2019
Banking activities	418	344	366	379	268
Insurance activities	85	28	38	41	22
Microfinance activities	40	53	121	42	56
Paying agents' activities	2	4	3	4	2

Source: Rospotrebnadzor

In 2019, the share of investigations resulting in determined violations was 73.8% (85.6% in 2018, 89.7% in 2017 and 79.2% in 2016 and 2015). Territorial bodies of Rospotrebnadzor drew up 294 administrative offense reports upon termination of administrative investigation concerning financial organizations, amounting to about 6% of the total number of administrative offense reports.

To compare, the latter figure was 24% in 2018, 20.3% in 2017. The reason for a drastic change of the indicator in question is the unusually extensive application of administrative investigations in other sectors of the consumer market in 2019, which influenced the relative values of the statistics.

In total, in 2019, the territorial bodies of Rospotrebnadzor drew up 1.5 thous. administrative offense reports relating to financial violations, including 1.2 thous. ones relating to banking entities, 80 – insurance organizations, 220 – MFOs and 8 – paying agents.

In 2019, 1.4 thous. administrative penalty rulings were issued against financial organizations as per the violations revealed, including 1.1 thous. administrative fines totalling RUB 21 mln and 231 warnings. At the same time, in such financial areas as banking, insurance, microfinance activities and paying agents' activities, administrative penalties were charged against 963, 65, 318, and 6 entities respectively.

As shown by the administrative offense cases in the financial services market considered in 2019, Rospotrebnadzor delivered 520 pleas on elimination of causes and terms facilitating the administrative offense, with 394 ones addressed to banking organizations, 28 – insurance organizations, 86 – MFOs and 3 – paying agents. As in the previous reporting period, rulings on imposition of administrative sanctions were issued on 10 sets of formal elements of administrative offenses. The composition of the most frequently applied Articles of the AOC RF also remained unchanged: Part 1 Article 14.4, Parts 1, 2 Article 14.7, Parts 1, 2 Article 14.8 of the AOC RF (Table 4.5).

Table 4.5. Certain Sets of Formal Elements of Administrative Offenses Applied by Rospotrebnadzor Against Financial Organizations in 2019, by Types of Activities

Administrative penalty rulings issued	Including under the Articles of the AOC RF				
	14.4 Part 1	14.7 Part 1	14.7 Part 2	14.8 Part 1	14.8 Part 2
Total	29	41	77	220	771
Including types of activities of the liable entities					
Banking activities	25	37	72	152	617
Insurance activities	3	2	4	19	23
Microfinance activities	1	2	1	48	113

Administrative penalty rulings issued	Including under the Articles of the AOC RF				
	14.4 Part 1	14.7 Part 1	14.7 Part 2	14.8 Part 1	14.8 Part 2
Paying agents' activities	0	0	0	2	1

Source: Rospotrebnadzor

Hence, one can find the following types of violations of financial consumer rights more often than others: violation of consumer rights to information and inclusion in the agreements of terms that infringe on legitimate rights of consumers.

Rospotrebnadzor analyzes recorded cases of violations of consumer rights, including those of financial consumers. The analysis results are included in draft departmental standards for consulting financial consumers. The standards list the actions of financial organizations that contradict the requirements of the consumer legislation, including agreement terms that infringe on consumer rights (Table 4.6).

Table 4.6. Typical Actions of Financial Organizations Violating Consumer Rights Included in Draft Departmental Standards for Consulting Financial Consumers

Departmental standard	Typical actions of financial organizations violating consumer rights
Bank Deposit Agreement	The bank does not provide the consumer with information on its financial position and DIS membership
	The bank refuses to issue a standard contract form
	The bank provides incomplete/inaccurate information on the deposit terms
	The bank incorporates into the agreement a clause allowing it to reduce the interest on the deposit unilaterally
	The bank incorporates into the bank deposit agreement a clause on a penalty for early termination of the agreement
Credit Fee Charged by the Bank	The bank charges a credit fee
Conclusion of a Credit Agreement Subject to Compulsory Life and Health Insurance	A credit agreement is concluded subject to compulsory life and health insurance
Special Features of Credit Cards	The bank charges a fee for the credit card reissue
	The bank does not provide information how to "close" a credit card
	The bank changes the agreement terms without notifying the consumer (grace period duration, interest rate, credit limit amount)
	The bank charges interest on an unactivated card
	The bank provides incomplete/inaccurate information on the grace period and the interest calculation procedure
	The bank sends a credit card by mail without the consumer's consent
Charging Early Repayment Fees or Penalty by the Bank	The bank charges an early repayment fee or penalty
Inclusion in the Agreement of Provisions Entitling the Bank to Unilaterally Amend the Credit Agreement Terms	Provisions entitling the bank to unilaterally amend the credit agreement terms are incorporated into the agreement
Opening and Settling Bank Accounts	The bank carries out direct debiting of funds without the consumer's/client's order (for example, to repay the loan debt)
	The bank refuses to conclude a bank account agreement
Charging Loan Account Maintenance Fees	Loan account maintenance fees are charged
Collective Credit Life Insurance Programs	The bank forces the consumer to conclude a collective credit life insurance agreement or makes the credit or another financial product granting conditional upon conclusion thereof
	The bank charges a fee for collective insurance services
Retail Credits by Pawnshops	The pawnshop issues a claim against the pledgor (debtor) exceeding the amount of the pledged property after the sale thereof in order to discharge the obligation

Departmental standard	Typical actions of financial organizations violating consumer rights
	The pawnshop states incomplete information in the pawn ticket and the custody receipt
	The pawnshop underestimates the value of the appraised property
	The pawnshop provides incomplete/inaccurate information on its right to perform the relevant activity
	The pawnshop requires to pay a penalty for untimely debt repayment upon the loan redemption and interest payment
	The borrower or depositor is forced to insure the item taken for pledge or storage

Source: Rospotrebnadzor

Specific cases from the judicial practice of Rospotrebnadzor illustrating the conclusions of this subsection are shown in Table 4.7.

Table 4.7. Consumer Right Violations Being the Grounds for Court Decisions in Favor of Financial Consumers in Scope of Challenged Administrative Actions of Rospotrebnadzor Territorial Bodies in 2019

Case category	Legal precedents
On cancelling the ruling to hold liable for incorporation into the agreement of provisions that infringe on the statutory consumer rights as per Part 2 Article 14.8 of the AOC RF.	Decision of the SC RF No. 301-ES19-22249 dated 09 December 2019 on Case No. A38-2398/2019 Claim: On review in cassation proceedings of court orders in a case over invalidating and cancelling the ruling to hold liable under Article 14.8 of the AOC RF. Decision: To decline transfer of the case to the Judicial Board for Economic Disputes of the SC RF as the courts came to the correct conclusion on the presence of a set of administrative offense formal elements in the applicant's actions.
	Decision of the SC RF No. 304-ES19-12052 dated 02 August 2019 on Case No. A46-18966/2018 Claim: On review in cassation proceedings of court orders in a case over invalidating and cancelling the ruling. Decision: To decline transfer of the case to the Judicial Board for Economic Disputes of the SC RF as the courts resolved that the actions of the bank contained a set of formal elements of the offense subject to liability under Part 2 Article 14.8 of the AOC RF.
	Decision of the SC RF No. 304-ES19-11714 dated 31 July 2019 on Case No. A46-19995/2018 Claim: On review in cassation proceedings of court orders in a case under an application for invalidating and cancelling the ruling on imposition of the administrative sanctions under Part 2 Article 14.8 of the AOC RF, and the plea on elimination of causes and terms facilitating the administrative offense. Decision: To decline transfer of the case to the Judicial Board for Economic Disputes of the SC RF as the courts resolved that the actions of the bank contained a set of offense formal elements and assumed the lack of evidence that the nature of the disputed services creates additional benefits for the consumer, and that the bank performed additional actions not being an obligatory component of the agreement concluded with the consumer.
	Decision of the SC RF No. 303-ES19-7339 dated 29 July 2019 on Case No. A04-6524/2018 Claim: On review in cassation proceedings of court orders in a case under an application for invalidating and cancelling the ruling of the administrative body on imposition of administrative sanctions for the offense under Part 2 Article 14.8 of the AOC RF in the form of a fine, and the plea on elimination of causes and terms facilitating the administrative offense. Decision: To decline transfer of the case to the Judicial Board for Economic Disputes of the SC RF as the courts resolved that the ruling of the administrative body was illegal due to expiry of the statute of limitations, and that the plea of the administrative body was legal.

Case category	Legal precedents
	<p>Decision of the SC RF No. 309-ES19-11202 dated 17 July 2019 on Case No. A76-41569/2018</p> <p>Claim: On review in cassation proceedings of court orders in a case over invalidating and cancelling the ruling on imposition of administrative sanctions.</p> <p>Decision: To decline transfer of the case to the Judicial Board for Economic Disputes of the SC RF as the courts came to the correct conclusion on the presence of a set of offense formal elements in the applicant's actions.</p>
	<p>Decision of the SC RF No. 310-ES19-15298 dated 20 September 2019 on Case No. A14-1468/2019</p> <p>Claim: On review in cassation proceedings of court orders in a case under an application for imposition of the administrative sanctions under Part 2 Article 14.8 of the AOC RF and a penalty in the form of a fine.</p> <p>Decision: To decline transfer of the case to the Judicial Board for Economic Disputes of the SC RF as the courts resolved that the actions of the bank contained a set of formal elements of the charged administrative offense.</p>
	<p>Decision of the SC RF No. 306-ES19-14540 dated 06 September 2019 on Case No. A72-17462/2018</p> <p>Claim: On review in cassation proceedings of court orders in a case over invalidating and cancelling the ruling on imposition of the administrative sanctions under Part 2 Article 14.8 of the AOC RF, and holding the plea invalid.</p> <p>Decision: To decline transfer of the case to the Judicial Board for Economic Disputes of the SC RF as the courts came to the correct conclusion on the presence of a set of administrative offense formal elements in the applicant's actions.</p>
	<p>Decision of the SC RF No. 308-ES19-14246 dated 06 September 2019 on Case No. A53-1154/2019</p> <p>Claim: On review in cassation proceedings of court orders in a case over invalidating and cancelling the ruling.</p> <p>Decision: 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 entity contained formal elements of the administrative offense stipulated by Part 2 Article 14.8 of the AOC RF.</p>
	<p>Decision of the SC RF No. 309-AD18-26436 dated 28 February 2019 on Case No. A60-64211/2017</p> <p>Claim: On review in cassation proceedings of court orders in a case over invalidating and cancelling the ruling.</p> <p>Decision: To decline transfer of the case to the Judicial Board for Economic Disputes of the SC RF as the courts resolved that the actions of the company contained formal elements of the administrative offense subject to liability under Part 2 Article 14.8 of the AOC RF.</p>
	<p>Decision of the SC RF No. 309-AD18-26436 dated 28 February 2019 on Case No. A60-64211/2017</p> <p>Claim: On review in cassation proceedings of court orders in a case over invalidating and cancelling the ruling.</p> <p>Decision: To decline transfer of the case to the Judicial Board for Economic Disputes of the SC RF as the courts resolved that the actions of the company contained formal elements of the administrative offense subject to liability under Part 2 Article 14.8 of the AOC RF.</p>
On cancelling the ruling to hold liable under Part 1 Article 14.8 of the AOC RF for violating consumer right to access to the necessary and true information on the goods (work, service) being sold, manufacturer, seller, contractor, and their business hours.	<p>Decision of the SC RF No. 305-ES19-25516 dated 03 March 2020 on Case No. A40-84722/2019</p> <p>Claim: On review in cassation proceedings of court orders in a case over invalidating and cancelling the ruling to hold liable under Article 14.8 of the AOC RF.</p> <p>Decision: To decline transfer of the case to the Judicial Board for Economic Disputes of the SC RF as the courts came to the correct conclusion on the presence of a set of administrative offense formal elements in the actions of the insurance company.</p>

Case category	Legal precedents
	<p>Decision of the SC RF No. 302-ES19-20981 dated 07 February 2020 on Case No. A33-5480/2019</p> <p>Claim: On review in cassation proceedings of court orders in a case over invalidating and cancelling the ruling on imposition of the administrative sanctions under Part 1 Article 14.5 of the AOC RF, and the plea on elimination of causes and terms facilitating the administrative offense (the dispute on correct qualification of the bank's actions under Part 1 Article 14.5 of the AOC RF and Part 1 Article 14.8 of the AOC RF).</p> <p>Decision: The case was transferred to the Judicial Board for Economic Disputes of the SC RF because the applicant's argument deserves attention that the bank provided the consumer with a service by granting a credit on the basis of the agreement in the absence of complete and reliable information on full cost of this service, while the obligation to provide such information is stipulated by the legislation of the Russian Federation, and these actions of the bank constitute a set of offense formal elements.</p> <hr/> <p>Decision of the SC RF No. 305-ES19-24036 dated 17 December 2019 on Case No. A40-84725/2019</p> <p>Claim: On review in cassation proceedings of court orders in a case over invalidating and cancelling the ruling to hold liable under Article 14.8 of the AOC RF.</p> <p>Decision: To decline transfer of the case to the Judicial Board for Economic Disputes of the SC RF as the courts came to the correct conclusion on the presence of a set of formal elements of the charged administrative offense in the applicant's actions.</p> <hr/> <p>Decision of the SC RF No. 304-ES19-12151 dated 12 August 2019 on Case No. A46-18964/2018</p> <p>Claim: On review in cassation proceedings of court orders in a case under an application for contesting the ruling and the plea.</p> <p>Decision: To decline transfer of the case to the Judicial Board for Economic Disputes of the SC RF as the courts upon evaluation of the evidence presented in the case materials in their totality and interrelation came to the conclusion on the presence of a set of formal elements of the offense subject to liability under Part 1 Article 14.8 of the AOC RF.</p> <hr/> <p>Decision of the SC RF No. 305-AD18-25407 dated 18 February 2019 on Case No. A40-15781/2018</p> <p>Claim: On review in cassation proceedings of court orders in a case over imposition of the administrative sanctions on the grounds of Part 1 and Part 2 Article 14.8 of the AOC RF.</p> <p>Decision: To decline transfer of the cassation appeal to the Judicial Board for Economic Disputes of the SC RF for consideration in a court session as the courts came to the conclusion that there were formal elements of administrative offenses in the company's actions consisting in the incorporation into the credit agreement of terms entitling the company to write off funds from the borrower's accounts without the borrower's order, charge of a commission from the borrower when performing a service agreement under the Voluntary Insurance Program "Borrower Protection", failure to communicate necessary and true information about the service to the consumer.</p> <hr/> <p>Decision of the SC RF No. 304-KG18-25164 dated 06 February 2019 on Case No. A27-4215/2017</p> <p>Claim: On review in cassation proceedings of court orders in a case over holding the plea invalid.</p> <p>Decision: To decline transfer of the case to the Judicial Board for Economic Disputes of the SC RF as the courts proceeded from the fact that the actions of the bank that made credit obtaining conditional on provision of additional services violate the law and consumer rights, and the failure of the bank activities does not discharge it from liability for improper provision of services.</p> <hr/> <p>On cancelling the ruling to hold liable for misleading consumers with respect to the</p> <p>Decision of the SC RF No. 305-ES19-25207 dated 16 January 2020 on Case No. A40-59406/2019</p>

Case category	Legal precedents
usefulness/quality of goods (work, service) in the manufacture of goods for sale, or during the sale of such goods (work, service) under Part 2 Article 14.7 of the AOC RF.	<p>Claim: On review in cassation proceedings of court orders in a case over invalidating and cancelling the ruling.</p> <p>Decision: To decline transfer of the case to the Judicial Board for Economic Disputes of the SC RF as the courts resolved that the actions of the bank contained a set of formal elements of the administrative offense subject to liability under Part 2 Article 14.7, Part 1 Article 14.8 of the AOC RF.</p>
	<p>Decision of the SC RF No. 306-ES19-10888 dated 15 July 2019 on Case No. A12-21424/2018</p> <p>Claim: On review in cassation proceedings of court orders in a case over invalidating and cancelling the ruling on imposition of the administrative sanctions, and the plea on elimination of causes and terms facilitating the administrative offense.</p> <p>Decision: To decline transfer of the case to the Judicial Board for Economic Disputes of the SC RF as the courts came to the correct conclusion on the presence of sets of administrative offense formal elements in the applicant's actions.</p>
	<p>Decision of the SC RF No. 308-ES19-9542 dated 06 June 2019 on Case No. A53-26369/2018</p> <p>Claim: On review in cassation proceedings of court orders in a case over invalidating and cancelling the ruling on imposition of administrative sanctions.</p> <p>Decision: To decline transfer of the case to the Judicial Board for Economic Disputes of the SC RF as the courts came to the correct conclusion on the presence of a set of offense formal elements in the applicant's actions.</p>

The legal precedents given above as well as the infographics of Rospotrebnadzor's judicial practice dynamics in the field of administrative decisions in the market of financial services provided to consumers (Figure 4.20) confirm the conclusion that currently, most actions of financial organizations have been given a legal evaluation by authorized state bodies (Rospotrebnadzor, the Bank of Russia, the SC RF and others).

As a result of the systemic rehabilitation of the financial market sector under consideration, the indicators of administrative response decreased, and the stability of court decisions made in favor of financial consumers increased.

According to Rospotrebnadzor,⁶⁸⁰ in 2019, credit institutions appealed against 265 out of 1.4 thous. rulings on imposition of administrative penalties issued by Rospotrebnadzor territorial bodies in respect to financial organizations, or 19.2% (to compare, in 2018, 2017, 2016 banks appealed against 28.5%, 25.8%, 26.2% of the rulings respectively).

The court of first instance cancelled 12 rulings on imposition of administrative penalties on credit institutions, or 4.5% (in 2018, 2017, 2016 – 7.3%, 13.8% and 10.2% of the rulings were cancelled respectively).

⁶⁸⁰ According to the internal departmental statistics (Letter of Rospotrebnadzor No. 01/12725-8-32 dated 10 November 2008 "On Practice of Applying by Courts of the Consumer Protection Legislation (in Cases Involving Rospotrebnadzor Territorial Bodies)").

Figure 4.20. Dynamics of Certain Indicators of Administrative Activities of Rospotrebnadzor in the Area of Financial Consumer Protection



Source: Rospotrebnadzor

The court ruled in favor of Rospotrebnadzor 89 times (92.7%) with respect to 96 petitions of appeal (compared to 82.7%, 64.2% and 85.8% in 2018, 2017, 2016 respectively). The court ruled in favor of Rospotrebnadzor 9 times, or 47.4% with respect to 19 cassation appeals (96.1%, 51.7%, 68.6% in 2018, 2017, 2016 respectively). There was 1 decision in favor of Rospotrebnadzor per 4 supervisory appeals.



Due to many years of systematic efforts of the authorized state bodies, primarily Rospotrebnadzor, the Bank of Russia, the SC RF, the FAS of Russia, the consumer financial services sector has passed rehabilitation. The improvement of the regulatory framework has played a pivotal role. Among other things, new regulations were developed as a result of the analysis of the emerged law enforcement practice of the control and supervisory bodies.

On the other hand, raising financial literacy leads to a more conscious addressing to financial organizations by consumers. As a result, there is a decrease in the indicators of administrative response and growing sustainability of judicial and administrative decisions for the benefit of financial consumers.

4.5. Judicial Practice

Class-action lawsuits are intended to address homogenous (similar) claims of a large group of plaintiffs within a single court case, for example, claims of consumers in the event of massive violation of their rights. A class-action lawsuit as a new form of consumer protection in Russia has appeared in connection with adoption of Federal Law No. 191-FZ dated

18 July 2019 “On Amendments to Certain Legal Acts of the Russian Federation” effective from 01 October 2019⁶⁸¹.

The adoption of the stated law was another important result of practical implementation of the Instructions of the President of the Russian Federation Issued Following the Meeting of the Presidium of the State Council of the Russian Federation on the Development of the National Consumer Protection System Held on 18 April 2017⁶⁸².

It is significant that the first Article of Federal Law No. 191-FZ introduces amendments to the Consumer Protection Law. Indeed, consumer protection in the global practice is the sphere of public relations where class-action lawsuits are most in demand.

The introduced change concerns, inter alia, the powers of Rospotrebnadzor to file claims with the court for the benefit of consumers.

New Chapter 22.3 “Consideration of Cases on Protection of Rights and Legitimate Interests of a Group of Persons” has been introduced into the CPC RF.

The key features of a class-action lawsuit are established by legal provisions of Part 1 Article 244.20 of the CPC RF. A citizen or an organization has the right to apply to court to protect rights and legitimate interests of a group of persons if there is a combination of the following terms:

- There is a common defendant in relation to each member of the group of persons;
- The subject-matter of the dispute is general or homogeneous rights and legitimate interests of members of the group of persons;
- Rights of the members of the group of persons and the defendant’s obligations are based on similar factual circumstances;
- Use by all members of the group of persons of the same way to protect their rights.

To consider the lawsuit, the group must be at least 20 people (Part 5 Article 244.20 of the CPC RF. A member of the group of persons may join the claim on protection of rights and legitimate interests of this group of persons by submitting a written application on joining the claim on protection of rights and legitimate interests of the group of persons (Part 6 Article 244.20 of the CPC RF).

The requirements to the lawsuit are standard (Article 131 of the CPC RF). Lawsuits on protection of rights and legitimate interests of a group of persons (including consumer rights) are filed only at the address of the defendant (Part 4 Article 30 of the CPC RF).

A statement of claim filed to protect the rights and legitimate interests of a group of persons must indicate the person who is entrusted with conducting the relevant civil case for the benefit of the group of persons (Part 1 Article 244.22 of the CPC RF). Finally, the question has been resolved – a special power of attorney is not required when representing in cases of this kind. However, the person who conducts the case for the benefit of a group of persons must be a member of this group of persons. In some cases determined by the law, a body, an organization and a citizen not being members of this group of persons (Part 4 Article 244.20 of the CPC RF) can also bring a claim to protect the rights and legitimate interests of the group of persons – these are the cases determined by the Consumer Protection Law in relation to procedural rights of Rospotrebnadzor, its territorial bodies and public associations of consumers.

The systemic protection against abuse by the representative is well thought-out. The court is vested with broad powers to suppress such abuses, including on the initiative of other members of the group (Parts 3, 4 Article 244.22 of the CPC RF). The representative can also be replaced (Article 244.24 of the CPC RF).

Moreover, termination of proceedings in case over protection of rights and legitimate interests of a group of persons does not deprive the persons of this group of the right to apply to the court for protection of their violated or disputed rights and legitimate interests in the manner established by the CPC RF (Part 7 Article 244.24 of the CPC RF).

The case over protection of the rights and legitimate interests of a group of persons is considered by the court within a period not exceeding eight months from the date of the ruling on acceptance of the statement of claim for the court proceedings (Part 2 Article 244.25 of the CPC RF).

The proposal to join the claim for protection of the rights and legitimate interests of a group of persons must be made in the public form by publishing a message in the mass media (Part 3 Article 244.26 of the CPC RF).

The law regulates in detail the procedure for accepting, considering and making a decision on a class-action lawsuit, including the distribution of legal costs (if an agreement is concluded concerning the costs, it shall be notarized at all times).

A court decision on a class-action lawsuit (Article 244.28 of the CPC RF) is similar to decisions on lawsuits for protection of rights and legitimate interests of consumers at large (Article 46 of the Consumer Protection Law). However, it seems very important that now these legal provisions are established directly by the principal procedural code (for civil cases) – the CPC RF.

For instance, a court decision on a class-action lawsuits has res judicata effect: the circumstances established by the court decision entered into legal force on a previously considered case over protection of the rights and legitimate interests of a group of persons need not be proven again when the court considers another case upon application of a member of this group of persons who previously did not join or refused to join the claim for protection of the rights and legitimate interests of the group of persons filed against the same defendant, about the same subject, unless the specified circumstances are disputed by this member of the group of persons (Part 2 Article 244.28 of the CPC RF).

⁶⁸¹ See also Section 1.1 of the Report.

⁶⁸² Consumer Protection Class-Action Lawsuits Become Reality, 19 July 2019 // Rospotrebnadzor rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=12304.

In the decision in the case over protection of the rights and legitimate interests of a group of persons delivered in favor of the group of persons, the court may stipulate the defendant's obligation to bring information about the decision delivered to the attention of all members of the group of persons within the timeframe established by the court through mass media or otherwise (Part 3 Article 244.28 of the CPC RF).

Unlike lawsuits and decisions for protection of consumers at large, class-action lawsuits can be material in nature, therefore, the operative part of the decision in the case over protection of the rights and legitimate interests of a group of persons should contain conclusions in relation to each member of the group having joined the claim for protection of the rights and legitimate interests of the group of persons (Part 4 Article 244.28 of the CPC RF).

In 2019, Rospotrebnadzor has already filed 2 lawsuits for protection of the rights and legitimate interests of a group of persons, despite the fact that preparation of documents and collection of information about the persons affected is usually time-consuming.

According to the statistical reports of the SC RF on civil cases in the category "Consumer Protection" (based on the agreements with financial and credit institutions) (Table 4.8), in 2019, 66.9 thous. civil cases concerning protection of financial consumers were submitted to the courts of general jurisdiction, which is 23% of the total number of civil cases (291.1 thous.). Among them 24.6 thous. civil cases were instituted under lawsuits of legal entities, including state bodies (36.8% of civil cases in the category "Financial Services" in question), 90 civil cases – on the basis of the prosecutor's inquiry.

Therefore, after the "burst", the respective activity of the public prosecution authorities returned to the level of 2015 (99 civil cases), and this may be associated with the supervisory and regulatory efforts of Rospotrebnadzor and the Bank of Russia (being especially true for the Bank of Russia).

In 2019, 23.9 thous. civil cases of this category were considered with delivery of a decision (court order), which is significantly less than in the previous years (in 2017, there were 60.4 thous. civil cases ended with the court order, in 2015 – 121.3 thous. cases). Thus, the practice of uncontested debt recovery through a court order and bailiff actions has declined abruptly.

It is doubtful that this situation may be due to the raised financial literacy of the borrowers (the court order is cancelled when the defendant states that there is a dispute over the debt). It would be of interest to investigate how negative dynamics of court orders in the credit sector correlates with the positive dynamics of the number of citizens – potential bankrupts (or those already in the process of bankruptcy), however, no such data are currently available.

In total, in 2019, 45,803 civil cases in the financial sector (or 74.1% of the cases considered) ended with the claim satisfaction (to compare, in 2017, 36.5 thous. lawsuits, or 60.5% were satisfied, in 2015 – 67.4 thous. lawsuits, or 55.6%).

Total amount of funds, including compensation for moral harm awarded under satisfied lawsuits was RUB 6,365.74 mln (to compare, in 2017, the amounts awarded in the financial sector was RUB 4,062.73 mln, in 2015 – RUB 7,205.6 mln). It should be noted that in the SC RF statistics, this figure includes both the amounts awarded in favor of both plaintiffs-consumers and plaintiffs-financial organizations.

However, in any case, disputes in the financial sector are quite considerable – they account for 20.6%, or almost 1/5 of the total amount awarded by the court for recovery under the category "Consumer Protection".

As before, the most frequent are the disputes within the jurisdiction of magistrate courts with the amount of claims up to RUB 50 thous. (Table 4.9). In 2019, 21.9 thous. such civil cases in total were considered in the financial services sector (in 2017 – 60 thous.). Herewith, most disputes considered by magistrate judges are disputes of consumers with credit institutions – 13.3 thous. cases, or 60.5% (in 2017 – 41.3 thous. cases, or 68.9%).

Therefore, the dynamics of recent years in court proceedings between consumers and providers of financial services is multidirectional, probably, due to the response to the unstable situation in the financial market as a whole. The use of mediation procedures in the field of consumer legal relations is consistently exceptional and presented with a few cases.

It is mentioned in the previous Report⁶⁸³ that documents adopted by the SC RF, namely, resolutions of the Plenum of the SC RF, reviews of legal precedents prepared by the SC RF and other track records of the SC RF play a key role in the accurate classification of violations and other social conventions in the consumer market.

⁶⁸³See the Report of Rospotrebnadzor "On State of Consumer Protection in the Financial Sector in 2018", page 330.

Table 4.8. Results of Consideration by Courts of General Jurisdiction of Civil Cases of the Category "Consumer Protection" (Based on Agreements with Financial and Credit Institutions) for 2019

Category of cases	Total cases received in the reporting period			Cases considered in the reporting period (with the delivery of a court decision or order)					Special rulings issued	Amounts awarded for collection on satisfied lawsuits, including compensation for moral harm, RUB mln
	Total	Under the lawsuits (applications) of legal entities, including state bodies	On the basis of the prosecutor's inquiry	Total	From the group "Total" with the claim satisfaction	Share of satisfied lawsuits	From the group "with the claim satisfaction" with the delivery of the court order	From the group "Total" with refusal in the claim satisfaction		
Total⁶⁸⁴	291,120	39,562	684	245,067	198,804	81.1%	35,093	46,253	539	30,835.14
Including based on agreements in the field of:										
Services of credit institutions	40,792	12,526	83	37,500	25,983	69.3%	12,293	11,630	23	4,851.42
Financial services (excluding credit institutions)	2,550	128	1	2,149	1,393	64.8%	96	752	4	390.3
Other agreements with financial and credit institutions	23,533	11,948	6	22,137	18,427	83.2%	11,470	3,742	50	1,123.97
Total	66,875	24,602	90	61,786	45,803	74.1%	23,859	16,124	77	6,365.74

Source: SC RF

⁶⁸⁴For reference.

Table 4.9. Some Results of Consideration by Courts of General Jurisdiction of Civil Cases in the Category “Consumer Protection” (Based on Agreements with Financial and Credit Institutions) for 2019

Category of cases	Disputes settled through mediation	Amount of asserted claims (according to the number of cases completed)						Legal expenses, RUB mln	
		Below RUB 50 thous.	RUB 50-100 thous.	RUB 100-300 thous.	RUB 300-500 thous.	RUB 500 thous. -1 mln	Over RUB 1 mln	Legal costs	State duty
Total ⁶⁸⁵	105	97,226	40,561	38,397	10,563	10,218	7,109	533	n/a
Including based on agreements in the field of:									
Services of credit institutions	1	13,277	6,418	5,327	1,066	834	651	23.9	33.8
Financial services (excluding credit institutions)	0	614	359	407	109	143	140	3.3	3.6
Other agreements with financial and credit institutions	0	8,060	7,772	2,332	507	331	387	10.6	18
Total	1	21,951	14,549	8,066	1,682	1,308	1,178	37.8	55.4

Source: SC RF

In 2019, the SC RF surveyed and summarized the practice of considering disputes related to consumer protection on the following issues:

- Inadmissibility of establishing a special commission as a measure of anti-money laundering⁶⁸⁶;
- The right of access of the management company (other utility contractor), emergency service workers, representatives of state control and supervision bodies to the occupied living accommodations for inspection of the technical and sanitary condition of the intra-apartment equipment within the timeframes previously agreed with the contractor, however, not more frequently than once every 3 months for checking the elimination of public utilities deficiencies and performance of necessary repair works – as needed, and to eliminate accidents – at any time⁶⁸⁷;
- Personal bankruptcy⁶⁸⁸;
- Possibility of application of the national consumer protection legislation to shopping in the foreign online shops⁶⁸⁹;
- Conclusion of a personal insurance agreement when granting a consumer credit⁶⁹⁰.

The Judicial Review of Disputes Arising from Relations Under Voluntary Personal Insurance Related to Granting Consumer Credits approved by the Presidium of the SC RF on 05 June 2019⁶⁹¹ (hereinafter referred to as the “Review”) stipulates that certain legal positions on various issues of relations between consumers and providers of financial services were stated in the periodic reviews of the SC RF. However, in 2019, there was a substantial number of legal precedents accumulated by courts concerning legal provisions governing voluntary personal insurance related to granting of consumer credits, and for the purposes of ensuring efficient protection of infringed rights and legitimate interests of insureds, beneficiaries and insurers, correct and consistent application of laws when considering cases of the corresponding category, a special review was prepared.

In the context of the subject under consideration, the most interesting is the judicial precedent described in the Review where the SC RF defended the interests of financial consumers forced to participate in banking schemes of the so-called “collective insurance”.

In doing so, the SC RF expressed the position that “due to joining the insurance program with the appropriate fee paid by the borrower, the property interest of the borrower is the insured item, and, consequently, the borrower himself/herself is the insurer under this agreement”.

It is equally important that the approval of the stated review was followed by adoption of Federal Law No. 483-FZ dated 27 December 2019 “On Amendments to Articles 7 and 11 of the Federal Law “On Consumer Credit (Loan)” and Article 9.1 of the Federal Law “On Mortgage (Pledge of Immovable Property)” effective from 01 September 2020 (hereinafter referred to as “Law No. 483-FZ”).

⁶⁸⁵For reference.

⁶⁸⁶ Clause 2 of Review of Judicial Practice of the SC RF No. 4 (2019) (approved by the Presidium of the SC RF on 25 December 2019).

⁶⁸⁷ Ibid, Clause 11.

⁶⁸⁸ Review of Judicial Practice of the SC RF No. 3 (2019) (approved by the Presidium of the SC RF on 27 November 2019).

⁶⁸⁹Resolution of the Plenum of the SC RF No. 24 dated 09 July 2019 “On Application of Norms of Private International Law by Courts of the Russian Federation”.

⁶⁹⁰Judicial Review of Disputes Arising from Relations Under Voluntary Personal Insurance Related to Granting Consumer Credits approved by the Presidium of the SC RF on 05 June 2019.

⁶⁹¹ Approved by the Presidium of the SC RF on 05 June 2019.

Law No. 483-FZ removed from the agenda the issue of non-compliance of the actual banking practice of “collective insurance” of borrowers with the basic rules of contract law. At present, according to the legislation of the Russian Federation and the logic expressed in the Review, the borrower upon joining the “collective insurance” program becomes a party to the agreement originally concluded by the bank-insurant and the insurer, and, consequently, the borrower can bear obligations under this agreement.

At the same time, Law No. 483-FZ did not eliminate another systemic problem that until recently hindered the institutionalization of the “collective insurance” in the credit insurance: the insurance premium shall be paid solely by the insurant (Clause 1 Article 11 of Law of the Russian Federation No. 4015-1 dated 27 November 1992 “On Insurance Business Organization in the Russian Federation”). A borrower having solely an insured person status in the “collective insurance” scheme cannot bear the burden of the insurance premium payment even after the adoption of Law No. 483-FZ due to absence of the insurant status.

The following should be noted with regard to other regular reviews and summaries of legal precedents on consumer protection (including cases concerning financial services) performed by the SC RF in 2019.

In Review of Judicial Practice of the SC RF No. 3 (2019)⁶⁹² general conclusions were made on the example of a specific case (Decision of the Judicial Board for Economic Disputes of the SC RF No. 305-ES18-26429 dated 03 June 2019 on Case No. A41-20557/2016) regarding protection of interests of a borrower being an individual forced to file a bankruptcy petition due to numerous credit obligations.

Thus, the Review indicates that the consumer bankruptcy institution is mainly aimed at social rehabilitation of a person, i.e. providing him/her with an opportunity to rebuild economic relations and avoid liability for his/her prior obligations on legal grounds. This situation prejudices to a certain extent the rights of the debtor's creditors. Therefore, the law imposes higher requirements on an individual debtor with regard to his/her acting bona fide, which means, inter alia, honest cooperation with the financial manager and creditors, and open communication with the court.

Banks being professional participants of the credit market have wide opportunities for evaluating creditworthiness of a person, including developing standard questionnaires – credit applications to be filled in by a potential borrower at the stage of applying for a credit, which includes specifying information on the applicant's property and social status, liquidity of the security proposed, etc. as well as verifying the package of necessary documents presented by the applicant to obtain a credit. At the same time, the banks are entitled to request the credit history of an applicant from the respective bureaus. Upon the results of checks, the credit institution shall take a decision on the funds issue on a case-by-case basis.

If the bank has approved the credit based on reliable information provided by the person, then the bank's subsequent invoking irrational actions of the borrower who has assumed excessive obligations in the absence of the appropriate credit repayment source should not be taken into account as a ground for denial of the person's discharge in bankruptcy.

At the same time, consistent accrual by a person of accounts payable by raising funds from various credit institutions can be qualified as unfair conduct entailing the denial of the person's discharge from obligations only if such person conceals the necessary information (income, place of work, credit obligations against other credit institutions, etc.) or provides fraudulent information.

In the Review of Judicial Practice of the SC RF No. 4 (2019)⁶⁹³, a number of issues is considered which relate to consumer protection as well as single issues of private bankruptcy. The most interesting is the conclusion based on a specific case (Decision of the Judicial Board on Civil Cases of the SC RF No. 16-KG18-57 dated 02 April 2019): an agreement on the possibility to change the bank servicing terms, including introduction of other bank fees or new ones, shall be reached before providing a client (individual) with a financial service in the form which allows for unambiguous establishing of the client's consent to being served on such terms and voluntary choice by the client of the volume of the services provided. The current legislation does not stipulate the right of the banks to establish a special fee as a measure of anti-money laundering.

As for the issue of the possibility of applying the national legislation on consumer protection to shopping in the foreign Internet shops, it should be mentioned that previously, Rospotrebnadzor has repeatedly highlighted in its clarifications that in a controversial situation relating to the individuals' entering into legal relations on acquisition of goods (services) from a person domiciled in the territory of a foreign state, the resolution of the stated situation would suppose preliminary reliable establishment of the law to be applied to the respective contract.

Therefore, if there are any indications of performance by the foreign seller of its activities in the territory of the Russian Federation, i.e. in the country of residence of the consumer (a Russian citizen), or any circumstances confirming that the seller in whatever form orients its activities towards the territory of the Russian Federation (along with territories of other countries), then relations involving consumers shall be subject to the legislation of the Russian Federation (Clause 1 Article 1212 of the CC RF).

The criteria of orientation of the foreign entity's activities towards the territory of the Russian Federation are not currently defined in detail, however, the activities of a seller (contractor) may be considered oriented towards Russia if:

- The seller (contractor) uses a Russian-language version of the website, or on the basis of the website content it can be assumed that the information on goods (services) is intended for users who know Russian or any language of the peoples of the Russian Federation;
- The seller (contractor) uses a domain name of the website associated with Russia or the constituent entities of the Russian Federation (for example, .ru, .рф, .su, .москва, .moscow, etc.);

⁶⁹² Review of Judicial Practice of the SC RF No. 3 (2019) (approved by the Presidium of the SC RF on 27 November 2019).

⁶⁹³ Review of Judicial Practice of the SC RF No. 4 (2019) (approved by the Presidium of the SC RF on 25 December 2019).

- There is a possibility to make settlements in Russian Rubles or using payment instruments available solely to Russian consumers;
- Acquiring for the seller (contractor) is provided for by a Russian bank or a non-bank credit institution;
- There is a possibility of performance of the contract concluded on the seller's (contractor's) website in the territory of Russia (delivery of goods, provision of services or usage of digital content in the territory of Russia);
- Russian-language advertising is posted referring to the respective website of the seller;
- There are other circumstances evidencing the seller's intent to conclude a sale and purchase agreement (a fee-based service contract) with a Russian consumer.

Resolution of the Plenum of the SC RF No. 24 dated 09 July 2019 "On Application of Norms of Private International Law by Courts of the Russian Federation" was published on 10 July 2019 on the website of the SC RF. This document concerns, inter alia, consequences of the Internet shopping by Russian citizens in foreign jurisdictions.

The SC RF clarified that in such cases, norms of the Russian law on consumer protection could be applied. This means, for example, that the consumer in the Russian court is exempt from the state duty (for lawsuits for up to RUB 1 mln), and the seller can be charged a fine for failure to comply voluntarily with the buyer's legitimate claims (the court will charge other 50% in excess of the lawsuit amount according to Clause 6 Article 13 of the Consumer Protection Law).

A website can be considered oriented towards Russian consumers if one of its language versions is a Russian version, prices are given in Russian Rubles, contact phones have Russian codes, or there is other similar evidence (for instance, the website owner applied for services aimed at higher citation index of the website among Russian users of the Internet).

Importantly, the said Resolution of the Plenum of the SC RF states that the court considering the case is entitled, on its own initiative, to ensure consumer protection provided for by mandatory norms of the law applicable in the consumer's country of residence.

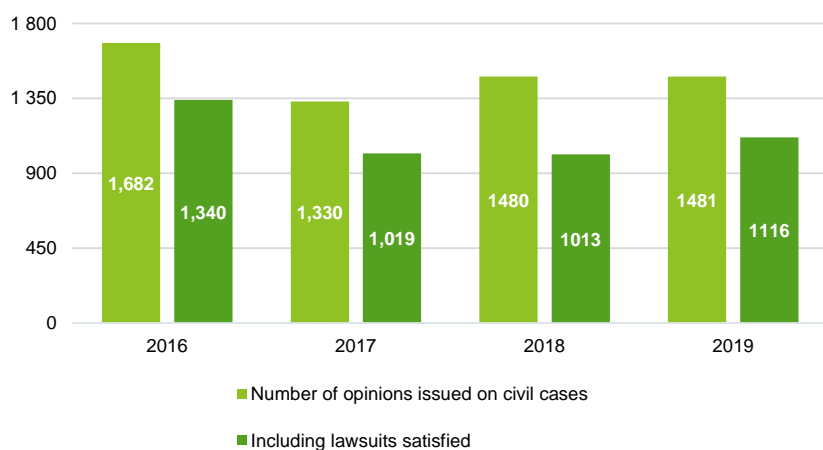
The Resolution gives detailed explanations to the lower courts what aspects shall be taken into account when considering cases where Russian consumers file a lawsuit against a foreign Internet shop or online resource used to provide cross-border services.

Analytical reviews and clarifications given by the SC RF are of practical importance not only for consumers but for Rospotrebnadzor as well, since it is the position of the highest judicial body that determines the final of administrative disputes between Rospotrebnadzor territorial bodies and providers of consumer financial services.

In turn, legal position of Rospotrebnadzor and its territorial bodies on some issues of financial consumer protection often determines regional trends in the judicial practice, usually through the system of opinions issued with regard to consumer protection cases.

For instance, in 2019, Rospotrebnadzor issued 1.5 thous. opinions on civil cases in order to protect financial consumers, which is equivalent to the previous year level. The share of court rulings in favor of financial consumers in the cases where Rospotrebnadzor issued its opinion reached 75.35% in 2019 (68.4% in 2018, 76.6% in 2017) (Figure 4.21).

Figure 4.21. Dynamics of Total Number of Opinions Issued in the Courts by Rospotrebnadzor Territorial Bodies in Order to Protect Financial Consumers in 2016-2019

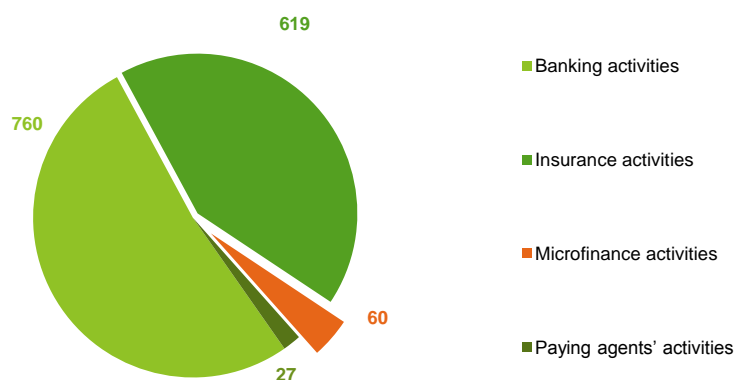


Source: Rospotrebnadzor

One can also make a conclusion that the majority of opinions of Rospotrebnadzor territorial bodies under consumer protection cases in 2019 and earlier was issued in the proceedings involving banks and insurance companies. Together with this, the number of litigations with banks where Rospotrebnadzor issued an opinion for consumer protection decreased slightly in absolute terms, and the number of respective cases against insurance companies, MFOs and payment agents increased (see Figures 4.22, 4.23).

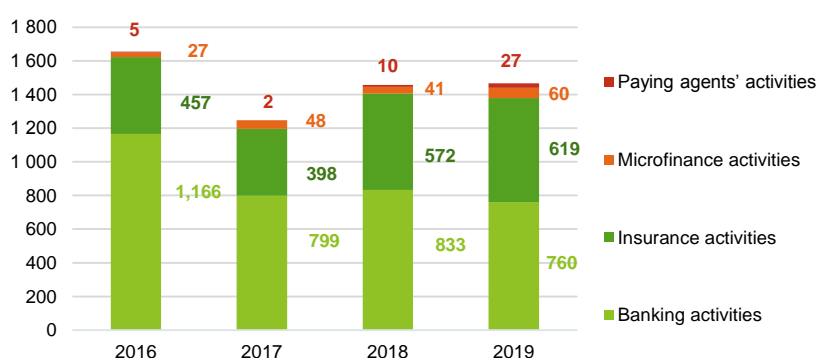
For instance, in the reporting year, the number of opinions for consumer protection issued by Rospotrebnadzor territorial bodies under certain cases against financial organizations was as follows: banks – 760 opinions as compared to 833 opinions in the previous year (-9%); insurance companies – 619 opinions versus 572 opinions (+8%); MFOs – 60 opinions versus 41 opinions (+146%); payment agents – 27 opinions versus 10 opinions (+270%).

Figure 4.22. Breakdown of Opinions by Rospotrebnadzor Territorial Bodies in Courts Under Consumer Protection Cases in 2019 by Types of Financial Activities of the Litigation Participants



Source: Rospotrebnadzor

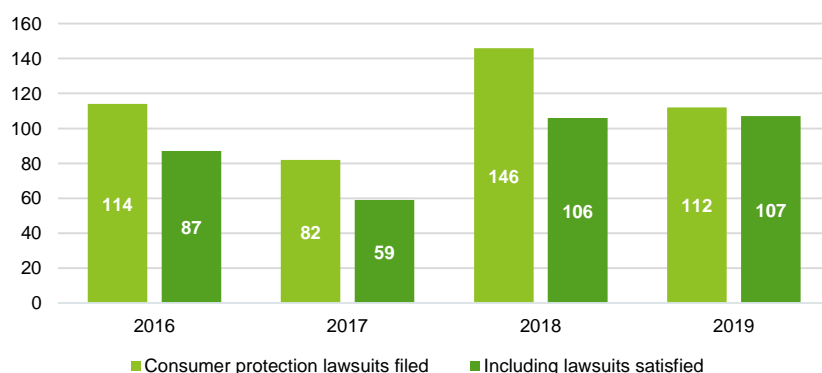
Figure 4.23. Dynamics of the Breakdown of Opinions by Rospotrebnadzor Territorial Bodies in Courts Under Consumer Protection Cases in 2016-2019 by Types of Financial Activities of the Litigation Participants



Source: Rospotrebnadzor

In 2019, Rospotrebnadzor territorial bodies filed with the courts 112 lawsuits to protect individual financial consumers, and this figure is slightly less than in 2018 (146 lawsuits). Among them 107 lawsuits (95.5%) were satisfied by courts in whole or in part (in 2018 – 72.6%) (Figure 4.24).

Figure 4.24. Dynamics of Rospotrebnadzor Performance with Regard to Filing Lawsuits for Financial Consumer Protection in 2016-2019



Source: Rospotrebnadzor

In the civil cases on financial consumer protection involving Rospotrebnadzor territorial bodies heard in 2019, consumers were awarded over RUB 109 mln, including RUB 2.9 mln as compensation for moral harm.

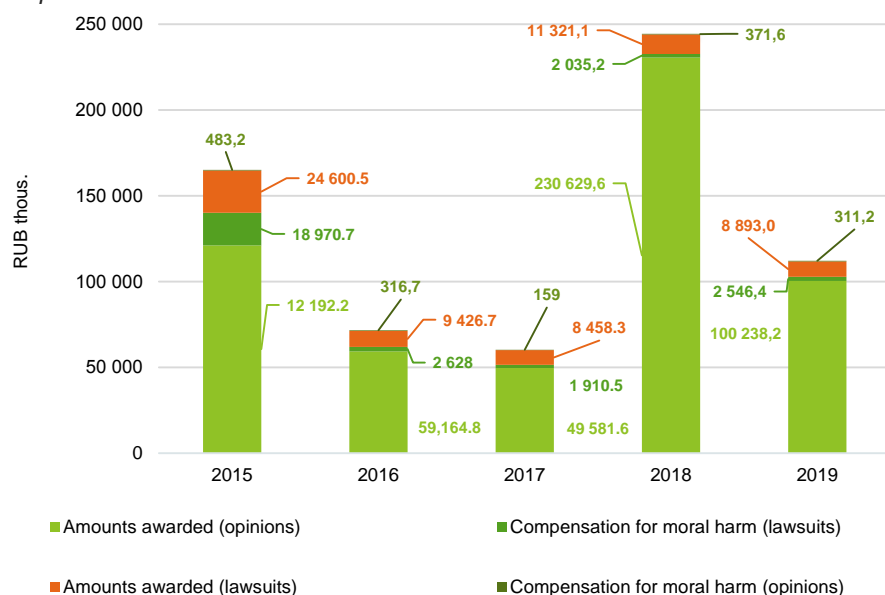
Together with this, dynamics of law enforcement performance of Rospotrebnadzor in the general jurisdiction courts was characterized by variety of trends, however, complying in general with the performance of the SC RF (Figures 4.25 and 4.26).

Such ambiguous dynamics makes it impossible to draw conclusions on any systemic trends in the social relations area in question. It is evident that figures of judicial practice concerning financial consumer protection are reactive and follow complex volatility of the financial market.

FOR REFERENCE

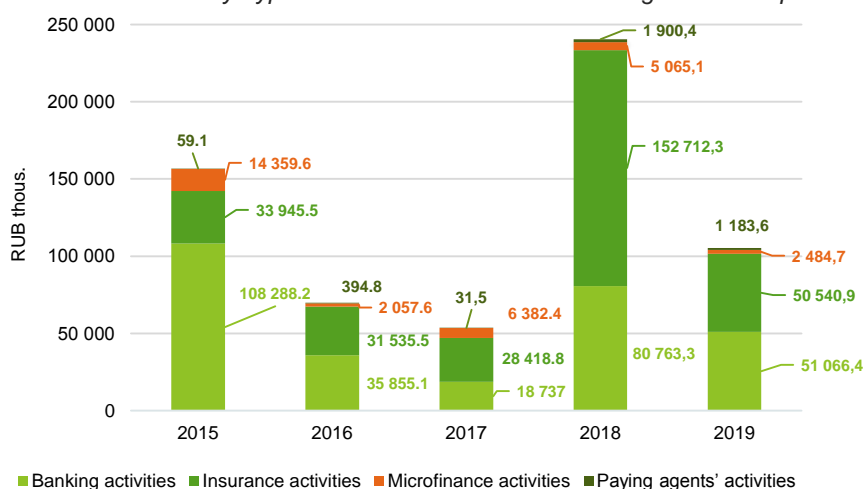
The judicial practice under consumer right protection cases, including proceedings involving Rospotrebnadzor (its territorial bodies) in all participation forms stipulated by the law is published on the State Information Resource for Consumer Protection (SIRCP) in the "Judicial Practice" section⁶⁹⁴.

Figure 4.25. Breakdown of Amounts Awarded to Financial Consumers in 2015-2019 by Forms of Involvement of Rospotrebnadzor



Source: Rospotrebnadzor

Figure 4.26. Distribution of Amounts Awarded in Favor of Consumers with the Participation of Rospotrebnadzor in 2015-2019 Broken down by Types of Financial Activities of the Litigation Participants

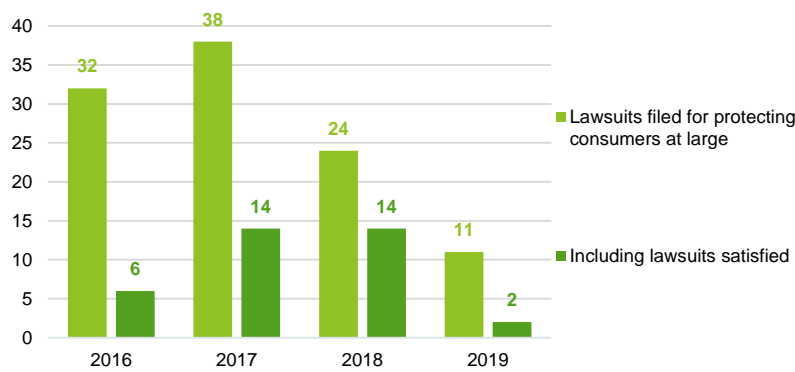


Source: Rospotrebnadzor

In 2019, Rospotrebnadzor territorial bodies filed 11 lawsuits with courts to protect the rights and legitimate interests of financial consumers at large (24 claims were filed in 2018, 38 in 2017, 32 in 2016), with only 2 (18.2%) of them satisfied by the court (58.3% in 2018, 36.8% in 2017, 18.8% in 2016) (Figure 4.27).

⁶⁹⁴See zpp.rospotrebnadzor.ru/adjudications/federal.

Figure 4.27. Dynamics of Rospotrebnadzor Filing Consumer Lawsuits in 2016-2019



Source: Rospotrebnadzor



In 2019, judicial practice concerning financial consumer protection was characterized by a variety of trends. In this context, it should be recognized that efforts of Rospotrebnadzor to maintain the adequate level of legal protection of consumer interests in courts were successful.

In the reporting year, systemic decisions and regulations were adopted with the participation of the SC RF as well, which will affect significantly the law enforcement practice of judicial consumer protection in the nearest future. It is expected that legalization of the institution of class-action lawsuits will take protection of rights and legitimate interests of consumers to a principally new level.

5. Raising the Level of Public Financial Literacy

5.1. Main Results of Implementation of the Joint Project of the Russian Federation and the International Bank for Reconstruction and Development

The results of implementation of the Project in 2019 show positive dynamics in the core areas: the number of educational activities is increasing as well as geographical outreach thereof, new educational technologies are being implemented, the number of users of the information resources dedicated to financial literacy issues (including vashifinancy.ru Portal) is growing.

In 2019, one of the milestones of the Project was presentation of the first **rating of financial literacy among the regions** at the session “Financial Literacy as the Basis for Financial Stability” within the framework of the Russian Investment Forum held in Sochi in February 2019.

The survey involved 85,000 respondents in all constituent entities of the Russian Federation. To evaluate the common level of financial literacy, the Financial Literacy Index was used showing the ability of a person to make competent decisions about personal finance. The methodology for measuring the Financial Literacy Index is developed by the OECD. The survey results show that pilot regions participating in the Project have higher values of key measurement indicators of the financial literacy level.

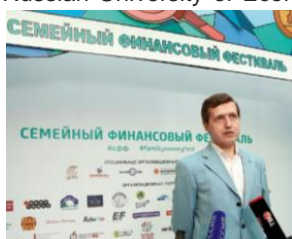
For instance, the index of understanding the “risk/return” ratio when choosing a financial product amounts to 72 points in these regions while it is only 63 points throughout Russia. In the pilot regions, 74% of respondents understand the necessity of comparing financial services before buying them. Outside these regions, this figure is only 59%. The detailed survey results are provided on vashifinancy.ru Portal⁶⁹⁵.

In April 2019, the ceremony of opening the jubilee **V All-Russian Week of Financial Literacy for Children and Young People** took place in Moscow. It hosted over 41,000 events throughout all Russian regions. Almost two million residents were involved in various activities of the Week. Most events took place in Bashkortostan, Volgograd Region, and Stavropol Territory.

Within the framework of the V Week of Financial Literacy for Children and Young People, new episodes of “Smeshariki 2D. The ABCs of Financial Literacy” series were presented. Production of the episodes was financed through a special vehicle of the Project, the Contest for Supporting Financial Literacy Improvement and Consumer Protection Initiatives (Good Ideas Foundation). In the new episodes, the characters explain the main financial concepts in a clear way, promote the idea of balancing income and expenses from a young age.



The closing event of the All-Russian Week of Financial Literacy was the V Family Financial Festival hosted by Plekhanov Russian University of Economics. On the festival site, a city of financial literacy was organized having its own currency (festics), TV and infrastructure facilities: bank, library, playground, school, university, public garden, pavilion, museum, office and many other locations. Over 2,500 festival participants had a chance to visit new educational and thematic locations – the airport, mathematical game room and space port.



Andrey Bokarev, Director of International Financial Relations Department of the Ministry of Finance of Russia, Manager of the Project, said: “The Family Financial Festival delivers real benefit to schoolchildren and young people, and we continue to pursue financial literacy growth in our country and hold such events”⁶⁹⁶.

FOR REFERENCE

Due to dissemination of COVID-19 and recommendations to reduce the number of public events in order to protect health of Russian citizens, it is resolved to postpone the events of the VI All-Russian Week of Financial Literacy for Children and Young People from March-April 2020 to the second half of the year.

Together with this, online educational activities of the Project devoted to financial literacy with remote participation of adults and children will be continued. Announcements of demo lessons, webinars, master classes, lectures as well as other modern interactive events in the online form will be posted on the official web-site of the Project – vashifinancy.ru and in the official accounts of the Project in social media⁶⁹⁷.

For adults the **VI All-Russian Savings Week** was organized in November 2019. Over three million residents took part in the Week’s activities.

The key topic of the VI Savings Week was digitalization of financial services and related risks and possibilities for consumers. Hence, the substantial part of lectures and seminars, financial festivals, quests, free of charge offline and online- advice, educational and public awareness activities for students and businessmen was devoted to the digital hygiene

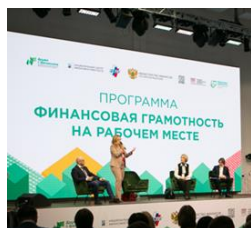
⁶⁹⁵Financial Literacy Rating of the Russian Regions 2019 // vashifinancy.ru Portal karta.vashifinancy.ru.

⁶⁹⁶Information Bulletin No. 13, July 2019 // vashifinancy.ru Portal vashifinancy.ru/upload/docs/bulletin_03_19_v4-int.pdf.

⁶⁹⁷VI All-Russian Week of Financial Literacy for Children and Young People Postponed for the Second Half of 2020, 18.03.2020 // vashifinancy.ru Portal vashifinancy.ru/for-smi/press/news/vi-vserossiyskaya-nedelya-finansovoy-gramotnosti-dlya-detey-i-molodezhi-perenositsya-na-vtoruyu-polo/.

and financial security rules.

For the first time in the Project's history a financial hackathon was arranged for the student audience. Contest participants looked for dubious financial offers in the Internet on a real time basis, which may theoretically result in money loss, articulated risks and suggested their own alternate solutions. The jury consisting of university professors, representatives of financial institutions and the Project experts assessed the completeness, relevance and usefulness of project works. Financial hackathons took place in Moscow, Kaliningrad, Barnaul and Stavropol.



Under the auspices of the VI Savings Week the program **“Financial Literacy in the Workplace”** was presented. The program is aimed at providing adult working population having limited time for self-education with core knowledge on personal finance. The training course comprises key topics concerning personal finance: household budget management, savings and investments planning, financial consumer protection, risk assessment and ensuring digital security.

Among new programs of the Project launched in 2019 one can name the program titled **“Assistance to Shaping Citizens' Responsible Financial Behaviour by Disseminating Project Results Through Libraries in the Russian Regions”**. At the stage of the program testing it will involve 150 librarians from more than 30 libraries of 10 pilot regions, thus promoting other librarians throughout the country to launch information and educational activities on financial literacy.

The program will provide the librarians with training sets, remote instruction, orientation workshops and master classes. Together with this, it is planned to develop an autonomous system (Internet package) for financial knowledge disseminating through libraries in the Russian regions which will cover at least 10,000 libraries in future.



The Project pays special attention to activities for the family audience. In 2019, a new format of information and educational activities on financial literacy, namely, **family financial festivals**, was tested. Such festivals were held in Moscow, Voronezh, Yaroslavl, Ufa, Syktyvkar, and Cheboksary uniting about 4,000 participants: children, parents, educators, and personal finance management experts.

The Project coordinators and experts expanded such format to rural areas and held **Rural Financial Festivals** in Altai and Stavropol Territories, Mari El Republic. Over 300 residents of Sardayal Village in Mari El Republic and neighbouring villages visited the Rural Financial Festival aimed at raising financial literacy of various categories of low and middle income rural population and organizing family leisure time in the countryside. Festival guests were invited to 7 topic-based sites, and several activities were held on each of them. Classes were arranged in the “School of Financial Education”, “Teaching Workshop”, “Elementary School of Financial Literacy”, “Economic Game Room” and other locations.

Distribution in the Russian regions of unique circulation of **Teaching Materials Sets (TMSs) on Financial Literacy** developed under the Project for Grades 4-11 schoolchildren and their parents can be named a milestone of 2019. Russian schools in 51 constituent entities of the Russian Federation were provided free of charge with over 11.5 mln TMSs in total – this is the largest one-time circulation of schoolbooks in the modern Russian history.



In 2019, regular **All-Russian Mass Media Contest “Your Friendly Finances”** was carried out to choose the best media content devoted to relevant personal finance issues. Almost 300 applications from 26 Russian regions were sent to the Contest. 18 journalists from 10 regions became the Contest laureates. Open public voting for the best media content was arranged on vashifinancy.ru Portal.

In February 2020, in five Russian cities (Volgograd, Petrozavodsk, Cheboksary, Novosibirsk, Gorno-Altaysk), information campaign **“Financial Literacy Transport”** was launched.



Traditional public transport vehicles (buses, tramcars, subway cars) were transformed into information carriers bearing essential information for financial security. Financial Travel Companion, a cartoon character used in decorative design of sides and interior of vehicles, shares important information with passengers. Brief and clear advice of the Travel Companion help people to check reliability of a financial organization, calculate debt burden, keep their personal information secure from fraudsters, avoid mistakes when taking a financial decision.

By estimation, total number of advertising “contacts” of the placed educational materials with the target audience during the entire campaign in the participating cities- will reach 20 mln⁶⁹⁸.

One of the subprojects of the Good Ideas Foundation is the initiative aimed at **educating foster parents' school teachers, methodologists of foster families support programs, and employees of custody and guardianship agencies on the issues of responsible financial behaviour of foster parents and protection of their rights as financial consumers**. The initiative resulted in the set of methodological materials for teaching basics of financial literacy to foster (adopting) parents, custodians, guardians and people preparing to become the same. The set consists of 5 thematic modules:

- Review of core financial products and services.

⁶⁹⁸“Financial Literacy Transport” in the Russian Cities, 03.04.2020 // vashifinancy.ru Portal vashifinancy.ru/for-smi/press/news/transport-finansovogo-prosveshcheniya-v-gorodakh-rossii/.

- Competent management of a foster child's property.
- Financial security principles and ways for addressing violations of financial consumer rights.
- Money saving tools.
- Monetizing talent and developing entrepreneurial skills⁶⁹⁹.

Throughout 2019, issues of financial literacy and financial consumer protection were actively discussed on different forums involving representatives of various stakeholders: federal executive bodies (the Ministry of Finance of Russia, the Ministry of Education of Russia, Rospotrebnadzor), the Bank of Russia, expert and academic community, non-governmental organizations.

The X Gaidar Forum "Russia and the World: National Development Goals and Global Trends" (15-17 January 2019, Moscow) hosted a discussion on the topic **"Public Task: Creating Environment for Raising the Level of Public Financial Literacy in the Russian Federation"**. The discussants talked about increasing the efficiency of interaction of all stakeholders at the federal and regional levels, assessment of the results of the financial literacy programs, support mechanisms for volunteers and public initiatives in this area.

The Petersburg International Economic Forum (6-8 June 2019, St. Petersburg) organized the special session **"Enhancement of Financial Culture: How to Earn People's Trust and Improve Availability and Quality of Services"**.

During the session, experts exchanged opinions on the most efficient ways of financial literacy promotion and aspects of financial consumer protection.

The Eastern Economic Forum (4-6 September 2019, Vladivostok) hosted the round table **"Digital Finance: Infinite Possibilities or Unavoidable Threat?"** In the round table discussion, representatives of the regulator, financial market participants and educational organizations talked about peculiar features of the digital era and new financial opportunities for residents in the digital environment and related risks as well.

Relevant issues of financial education development were discussed at the session **"Financial Education of Consumers in the Digital Era: Risks and Opportunities"** held under the auspices of the Moscow Financial Forum (12-13 September 2019, Moscow). Anna Zelentsova, Advisor to the Project Manager, member of the OECD Supervisory Board in charge of financial education, acted as the session moderator.



At the opening of the III International Conference **"Financial Consumer Protection. Focus on Vulnerable Communities"** (30 October 2019, Moscow), the public report "On State of Consumer Protection in the Financial Sector in 2018" prepared by Rospotrebnadzor together with FBK Grant Thornton was presented. An outstanding feature of the Conference was the discussion of new mechanisms for protecting rights of socially vulnerable categories of consumers.

Among the conference participants one can name representatives of Rospotrebnadzor, its territorial bodies and subordinate organizations, the Bank of Russia, national banks of the Republic of Belarus and Kyrgyz Republic, the UNCTAD, Ministry of Economy of Portugal, consumers' public associations, Ombudsman for the Rights of Financial Consumers of services provided by insurance, microfinance, credit cooperation and credit institutions as well as the Project experts.

After the Expert Roundtable devoted to independent monitoring of financial consumer protection, the conference came to a close.

Socially vulnerable groups of the population became the subject of discussion at the session **"Financial Literacy as One of the Tools to Overcome Poverty of Socially Vulnerable Groups of the Population"** held on 15 January 2020 during the XI Gaidar Forum. The discussants analyzed peculiarities of financial behaviour of the population categories being at risk and highlighted target initiatives that have already proven their efficiency, and possible areas for improvement.

FOR REFERENCE

At the Faculty of Economics of Lomonosov Moscow State University, online lecture course "Financial Literacy Amid Coronavization of Economy" started on 31 March 2020⁷⁰⁰.

Members of the MSU Faculty of Economics being the Project experts and specialists of the Federal Network Methodological Center for Advanced Training of University Instructors and Development of Programs for Raising Financial Literacy of the MSU Students together with external experts discuss economic issues that have arisen due to the COVID-19 dissemination.

In the **Moscow International Salon of Education (MISE)-2020** which was held on 26-29 April 2020 online for the first time, a virtual stand of the Project was arranged. The virtual stand contained presentations of educational products and programs, interactive masterclasses, educational lectures, discussions, roundtables devoted to financial literacy for instructors, children and their parents. Guests of the virtual stand were also able to see the presentation of financial literacy series. They may be used to illustrate tutorials and teaching materials on financial literacy and as an independent learning guide.

⁶⁹⁹Financial Literacy for Foster Parents Schools, 01.04.2020 // vashifinancy.ru Portal vashifinancy.ru/for-smi/press/news/finansovaya-gramotnost-dlya-shkol-priemnykh-roditeley/.

⁷⁰⁰Non-Working Non-Holiday Week: Financial Literacy Amid Coronavization of Economy // Faculty of Economics of Lomonosov Moscow State University econ.msu.ru/COVID-19/Dekameron2020/.

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

In 2019, the implementation of the goals, objectives, and main directions of the Strategy for Raising Financial Literacy in the Russian Federation for 2017-2023 continued in accordance with the respective Action Plan ("Roadmap") for its implementation⁷⁰¹.

In course of solving the problem of increasing the financial education coverage and quality, activities were carried out to expand the practice of teaching financial literacy to students of general education and vocational training organizations.

Monitoring of implementation of financial literacy courses in the educational programs of schools and colleges conducted by the Ministry of Education of Russia together with the Bank of Russia shows that over 70% of schools and 80% of secondary vocational education institutions teach financial literacy to their students⁷⁰².

This coverage with the financial literacy programs was the most intensive in the Republic of Bashkortostan, Republic of Tatarstan, Moscow Region. In Sverdlovsk and Rostov Regions, implementation of financial literacy courses into secondary vocational education programs was quite active.

Basics of financial literacy are being studied in general education classrooms as part of such disciplines as Mathematics, Geography, Social Science. Lesson materials are universal and suitable for all age groups. They can be transmitted via students to the older generation, thus reducing risks of financial errors of the family.

35% of Russian schools have introduced some elements of financial literacy to the elementary school programs where they are being studied at the lessons of Mathematics and The World Around Us.

Furthermore, financial literacy programs are widely implemented within the system of continuing education and project work.



In order to promote financial prudence among children and teenagers and raise the level of their financial literacy, a preliminary stage of the first **All-Russian Financial Literacy Championship** was held from 10 to 15 December 2019 in 15 constituent entities of the Russian Federation⁷⁰³. In 2020, municipal, regional and federal stages of the Championship are planned.

The Financial Literacy Championship is a complex interactive learning technology which allows the participants of the Championship:

- To master, systemize and reinforce necessary knowledge on financial literacy through a) solving financial and communication tasks, and b) public defence of the solutions developed and opposing the competitor;
- To master and reinforce the ways of reasonable financial behaviour on the basis of the well-grounded choice model.

A distinctive feature of the contests held within the Championship is their competitive character – they are held in the form of financial and communication combats. It is supposed that based on the results of the Championship, the national rating of experts on financial literacy and national register of instructors- specialized in financial literacy playing techniques will be established.

Such educational activities in the area of financial literacy as school Olympiads are also competition-based. Financial Olympiads allow for solving two major tasks: firstly, gradual introduction of financial literacy into the set of school subjects, and secondly, motivating schoolchildren to study financial literacy by means of additional preferences granted to the Olympiad winners and awardees entering national economic universities.

In 2019, the results of the **XIV All-Russian Olympiad in Financial Literacy, Financial Market and Financial Consumer Protection were announced**.⁷⁰⁴ The Olympiad was organized by Rosпотребнадзор, the Bank of Russia, the Federal Service for Financial Monitoring (Rosfinmonitoring), the Institute of Economics of the Russian Academy of Sciences, non-governmental organizations. 47,000 schoolchildren representing 85 constituent entities of the Russian Federation took part in the Olympiad; 28 of them were named winners of the final stage and 65 became awardees.



In 2019, 46,000 students and 2,300 instructors representing 81 constituent entities of the Russian Federation took part in the **III All-Russian Online Olympiad in Financial Literacy** for Grades 5-11 schoolchildren and students of secondary vocational education institutions⁷⁰⁵. The Olympiad stirs up interest in financial literacy issues and gives a chance to test knowledge in a simple and easy way using the Internet. Tasks of the online Olympiad for the first time have been prepared according to the standards of the international financial literacy survey PISA.

Leading economic universities of Russia also arrange their own financial Olympiads for schoolchildren. The main goal of the Olympiads is developing high school students' creativity and interest in scientific- research activities in the field of finance, promoting scientific knowledge about the financial market functioning mechanisms, providing schoolchildren with career guidance and skills for rational personal finance management.

Olympiads also perform an important function of raising awareness because they assist in disseminating personal finance knowledge among schoolchildren, teachers, parents and forming



⁷⁰¹ The 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 the Ministry of Finance of the Russian Federation on 03 December 2018 (as amended on 17 February 2020)).

⁷⁰² Financial Literacy Programs Have Covered over 70% of Schools // Ministry of Education of Russia edu.gov.ru/press/1035/programmy-finansovoy-gramotnosti-ohvatili-bolee-70-shkol/.

⁷⁰³ All-Russian Financial Literacy Championship fincup.ru/2019/.

⁷⁰⁴ All-Russian Olympiad in Financial Literacy, Financial Market and Financial Consumer Protection, fin-olimp.ru.

⁷⁰⁵ All-Russian Online Olympiad in Financial Literacy, olimpiada.oc3.ru.

skills of secure financial behaviour.

In September 2019 – January 2020, instructors were provided with **the Interactive Financial Literacy Course**. 1,080 instructors from 68 Russian regions were involved in the training. The course participants studied materials on nine financial literacy topics remotely and used them for performing offline educational activities covering over 12,000 schoolchildren of Grades 9-11 and students of secondary vocational education institutions⁷⁰⁶.

Another learning course for instructors was launched in February 2020 providing advice on application of interactive study forms in the financial education of Grades 5-8 schoolchildren⁷⁰⁷. A set of 40 gamified activity scenarios was developed for Grades 5-8 schoolchildren, including business games, station games, masterclasses, and case studies. The objective of the learning course is to present these materials to the instructors and explain how to use them.

Interim results of implementing the Strategy for Raising Financial Literacy and high priority tasks for the nearest future were the key topic at the **interregional conference “Regions’ Contribution to Implementing the Strategy for Raising Financial Literacy”** held on 21-22 November 2019, which involved representatives of the Ministry of Finance of Russia, the Ministry of Education of Russia, Rospotrebnadzor, the Bank of Russia, regional executive bodies and expert community.

In her report at the plenary session of the conference A.Yu. Popova, Head of Rospotrebnadzor mentioned that in 2018-2019, Rospotrebnadzor managed to reveal 3,500 violations of consumer rights by financial organizations, took 1,500 proceedings to hold credit institutions and insurance companies administratively liable (including over 100 proceedings with regard to consumer fraud) and awarded fines in the amount of RUB 200 mln against financial organizations that have committed violations.

Furthermore, specialists of Rospotrebnadzor attended 1,500 court proceedings to issue opinions. 171 lawsuits were filed by Rospotrebnadzor territorial bodies to protect interests of the disabled and older consumers deceived when financial services were provided to them⁷⁰⁸.

Together with work aimed at financial consumer protection, in 2019, within the framework of implementing the Strategy for Raising Financial Literacy, specialists of Rospotrebnadzor carried out a number of activities to expand information coverage and advice to financial consumers, including consumers of digital financial services and digital communication interfaces.

For instance, in advance of the World Consumer Rights Day 2019 held under the slogan “Trusted Smart Products - Digital World: Reliable Smart Devices”, Rospotrebnadzor specialists arranged the **All-Russian Hotline for Consumer Protection**.

Over 30,000 consultations were provided by Rospotrebnadzor specialists in new formats: not only for those coming in person or calling the hotlines, but also in shopping centers of major cities, in Multifunctional Centers in pilot regions and via messenger applications. A large part of consultations was devoted to issues of financial services, including those provided in the digital form⁷⁰⁹.

In 2020, the World Consumer Rights Day was held under the slogan “The Sustainable Consumer”.

Ensuring transition to sustainable consumption and production patterns is one of the Sustainable Development Goals adopted by the UN Member States in 2015 as part of the 2030 Agenda for Sustainable Development.

During the All-Russian Hotline held from 11 to 25 March 2020, Rospotrebnadzor specialists provided consumers with over 40,000 consultations, including those concerning financial services⁷¹⁰.

At the same time, **24/7 hotline for consumers of financial services** arranged in 2017 continued working – it can be reached at toll-free number 8-800-100-29-26. Recently, over 70,000 consumers have called this hotline seeking advice⁷¹¹.

FOR REFERENCE

Raising financial literacy of the population and small and medium businesses, and ensuring availability of financial services in the territory of the Russian Federation are now formalized in the legislation among main functions of the Bank of Russia⁷¹².

Before adoption of the said Law, the Bank of Russia performed activities relating to financial literacy and financial inclusion within the framework of exercising other powers formalized in the Federal Law “On the Central Bank of the Russian Federation (the Bank of Russia)”.

⁷⁰⁶Materials of the Interactive Financial Literacy Course for Instructors Are Published, 13.02.2020 // vashifinancy.ru Portal vashifinancy.ru/for-smi/press/news/opublikovany-materialy-interaktivnogo-kursa-po-finansovoy-gramotnosti-dlya-pedagogov/.

⁷⁰⁷Course for Instructors. Interactive Study Formats in the Financial Education of Grades 5-8 Schoolchildren // PACC Educational Projects edu.pacc.ru/course58/.

⁷⁰⁸Anna Popova, Head of Rospotrebnadzor spoke at the conference dedicated to implementing the National Strategy for Raising Financial Literacy, 21.11.2019 // Rospotrebnadzor rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=13127.

⁷⁰⁹Results of the All-Russian Hotline for Consumer Protection, 09.04.2019 // Rospotrebnadzor rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=11687.

⁷¹⁰Results of the All-Russian Hotline for Consumer Protection, 09.04.2020 // Consumer Protection State Information Resource zpp.rospotrebnadzor.ru/news/federal/207162.

⁷¹¹Anna Popova, Head of Rospotrebnadzor Spoke of Actions Taken by the Federal Service for Raising the Level of Public Financial Literacy, 14.09.2019 // Rospotrebnadzor rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=11306.

⁷¹²Federal Law No. 106-FZ dated 03 April 2020 “On Introducing Amendments to Federal Law “On the Central Bank of the Russian Federation (the Bank of Russia)” and Certain Legal Acts of the Russian Federation with Regard to Specific Features of Changing Terms of a Credit Agreement, Loan Agreement”.

Vesting the Bank of Russia with powers for raising financial literacy and ensuring financial inclusion will reinforce relevant activities, including legislative measures and thus contribute to the growth of confidence in the financial market. The Bank of Russia will exercise new powers in conjunction with the Russian Federation Government⁷¹³.

5.3. Development of Information Resources for Consumers



In 2019, development of **zpp.rospotrebnadzor.ru Consumer Protection State Information Resource** was continued. In the section “Consumer Guide” information materials for consumers posted in the category “Financial Services” were updated.

The virtual reception room⁷¹⁴ organized on the Portal also continued its work. Starting from autumn 2018, visitors may file a complaint/petition on this site or receive automated clarifications remotely. Together with this, they are able to get acquainted with answers of Rospotrebnadzor and its territorial bodies to the complaints/petitions filed earlier. The search is arranged with the breakdown by relevant categories, among which the category “Financial Services” is provided separately.

FOR REFERENCE

Due to COVID-19 dissemination, Rospotrebnadzor posted the summary note “Coronavirus COVID-19: Support and Protection of Consumers in New Conditions”⁷¹⁵ on zpp.rospotrebnadzor.ru Portal. The summary note contains recommendations, reminders, answers to typical questions as well as links to useful Internet resources concerning the most relevant issues during the COVID-19 pandemic, including personal finance issues.

A set of electronic materials for adults and schoolchildren developed with the participation of Rospotrebnadzor under the common title “I want. I can. I know” is posted on the similarly-named website **khochumoguznayu.rf**.



In 2019, new blocks of materials dedicated to digital financial services and communication channels as well as containing advice to pensioners and parents of minor children were added to the website. A separate set of materials is devoted to clarification of the dispute resolution procedure involving Ombudsman for the Rights of Financial Consumers (Financial Ombudsman).



In 2019, introduction and update of content on **vashifinancy.ru** Portal continued. For instance, in the section “Library” there are draft departmental standards for consulting the consumers of financial services developed by Rospotrebnadzor with support of specialists of FBK Grant Thornton⁷¹⁶.

The standards contain legal and regulatory information (terms and definitions, the legislation clarifications, list of documents, links to judicial practice, and standard solutions) concerning 16 typical problems that consumers come across in the financial market. The standards are intended for methodological support of consultations provided by specialists of Rospotrebnadzor consultation centers.

In the section “Everyday Finance” electronic forms of certificates for main financial services⁷¹⁷ are posted. Such certificates were developed in order to facilitate better understanding by consumers of the essence of specific financial services, inform residents of the Russian Federation of financial organizations, their official status, their services as well as the ways to protect the rights of financial consumers and interact with governmental and non-governmental organizations.

FOR REFERENCE

A new section is created on vashifinancy.ru Portal dedicated to key financial questions of individuals during COVID-19 pandemic and possible economic shocks. The section is entitled “Intelligent Financial Solutions in the Context of Coronavirus Pandemic”⁷¹⁸. Individuals can obtain clarifications on the following:

- Measures of state support for the population and business;
- Rules for obtaining new social benefits;
- How to protect themselves against fraudsters;
- How to save money;
- Rules of family budget optimization;
- Ways to reduce debt burden;
- How to overcome a financial shock;

⁷¹³ Activities of the Bank of Russia on Raising Financial Literacy and Ensuring Financial Inclusion Are Now Supported by Legal Powers, 01.04.2020 // Bank of Russia cbr.ru/press/event/?id=6611.

⁷¹⁴ Virtual Reception Room of Rospotrebnadzor // Consumer Protection State Information Resource zpp.rospotrebnadzor.ru/Forum/Appeals.

⁷¹⁵ Coronavirus COVID-19: Support and Protection of Consumers in New Conditions, 28.04.2020 // Consumer Protection State Information Resource zpp.rospotrebnadzor.ru/news/federal/209904.

⁷¹⁶ Library // vashifinancy.ru Portal vashifinancy.ru/materials/filter/?SIZEN_1=10.

⁷¹⁷ Collections of Electronic Certificates of Financial Services (7 Collections) // vashifinancy.ru Portal vashifinancy.ru/materials/sborniki-elektronnyh-pasportov-finansovyh-uslug-7-sbornikov/.


⁷¹⁸ PANDEMI.NET: SAVE YOUR BUDGET // vashifinancy.ru Portal vashifinancy.ru/coronavirus/.

- A panel of experts on financial literacy is involved in preparing the materials.*



The Portal also has a special page “New TMSs” vashifinancy.ru/books, where new teaching materials sets on financial literacy developed in 2019 are placed.

Teaching materials contain a substantial volume of information and can be used not only within teaching and learning activities but outside the class as well, for self-education, implementing an individual educational plan of a person, studies together with parents, etc.



In 2019, a new page of the Portal called “Rural Financial Festival”⁷¹⁹ was created. It is intended for posting information and materials for rural residents in order to draw their attention to the personal financial literacy issues, motivate them to improve their financial culture by self-education, participate in various face-to-face and online financial literacy events.

Due to growing interest to the financial literacy topic in 2019, higher traffic was observed on vashifinancy.ru Portal. From 1 January to 30 November 2019, there were 862,000 visits to the website, during each of them more than five pages were reviewed⁷²⁰. At present, on the basis of vashifinancy.ru Portal, the **online resource** of the **professional community** in the area of financial literacy and financial consumer protection is being formed⁷²¹. Main tasks of the project are to facilitate coordination between professionals, create a single information space, make new developments and practices more accessible.

The community of professionals in the area of financial literacy (professional community) includes instructors, experts, analysts, officials, methodologists, employees of advanced training centers, businessmen, journalists, etc. engaged in activities relating to financial literacy and/or financial consumer protection in Russia⁷²².

To provide the community with consultancy support, the **Consultation Center**⁷²³ was established where the following issues can be discussed:

- Use of materials available in the Library of vashifinancy.ru Portal;
- Interaction with experts/entities engaged in raising public financial literacy in Russia;
- Participation in preparing study materials for schoolchildren to be embedded into electronic learning resources;
- Methodological support of financial literacy and financial consumer protection;
- Participation in the activities aimed at sharing experience and dissemination of best practices.



The Ministry of Finance of Russia held the **All-Russian Creativity Online Contest “Your Friendly Finances”** from 1 March to 31 May 2020 involving representatives of the professional community in the area of financial literacy. The Contest is aimed at creating new articles relating to financial literacy and financial consumer protection, and improving the existing ones in the Russian-language section of online- encyclopedia Wikipedia⁷²⁴. The Contest pursues the objectives of promotion of the Project results and facilitation of public access to them, development and reinforcement of the professional community in the area of financial literacy.

Within the framework of the federal project “Human Resources for Digital Economy” within the national program “Digital Economy of the Russian Federation” the information resource **tsifrovayagramotnost.rf** is created as a library of knowledge on secure and efficient usage of digital technologies and services. The resource hosts, inter alia, video tutorials and texts on financial literacy issues and secure use of digital financial services.



For example, one can find on the stated platform the “Financial Literacy Guide”⁷²⁵ providing information on shopping, payment, and money management opportunities in the Internet and related key threats to financial security of the users.

The booklet contains the tips on how to protect oneself from the most typical financial hazards when using the Internet. Special attention is given to various types of the Internet- fraud and cyber extortion which can be associated with financial online transactions.

With the view of developing public financial culture, the Bank of Russia has established **information and educational resource Fincult.info**. The website is intended for a wide audience with different levels of knowledge and financial possibilities. The website materials explain in common form with some assumptions and simplifications the situations that every consumer may come across – from the need to take a credit and choose the most appropriate

money saving option to search of the optimal strategy for future pension accrual.

The website also offers a variety of services allowing financial consumers to obtain useful information on licenses possessed by financial organizations (“Reference Book of Financial Market Participants”), possible fraudulent schemes

⁷¹⁹How to Arrange a Rural Festival // vashifinancy.ru Portal vashifinancy.ru/rural-festival/how-organization/.

⁷²⁰Results of Implementing the Project of the Ministry of Finance of Russia for Raising Financial Literacy for 2019, 30.12.2019 // vashfinancy.ru Portal vashfinancy.ru/for-smi/press/news/itogi-realizatsii-proekta-minfina-rossii-po-povysheniyu-finansovoy-gramotnosti-za-2019-ood/.

⁷²¹ Financial Literacy. Community of Professionals fgprofi.vashifinancy.ru.

722 Ibid.

723 *Ibid.*

⁷²⁴ Contests/Your Friendly Finances // NP Wikimedia RU ru.wikipedia.org/wiki/Конкурсы/Дружи_с_финансами.

⁷²⁵ <https://www.konkurent.ru/contest/10382990da8a68c0be135211eb.pdf>

("Traps"), draw up a repayment schedule for a planned credit or loan ("Credit Calculator"), determine the return on a bank deposit for different periods and interest payment terms ("Deposit Calculator").

A separate section of the website will be of use for financial literacy instructors, methodologists, and volunteers and contains necessary reference, methodological and teaching materials.

FOR REFERENCE

Due to self-isolation regime and COVID-19 dissemination Fincult.info information- and educational resource offers a number of tips for obtaining financial and other services remotely⁷²⁶, clarifications on how to apply for a repayment holiday⁷²⁷ and examples of fraudulent schemes used for swindling money out of people during the COVID-19 pandemic⁷²⁸.

On the official website of the Bank of Russia information on support for individuals and business during COVID-19 pandemic as well as answers to typical questions related to the stated support measures are posted⁷²⁹.

Upon the initiative of the Student Council of Autonomous Non-Profit Organization for Higher Education National Institute for Financial Markets and Management, the project **"Financial Health of a Young Family"** (financialhealth.ru) is being implemented. The main idea of the project is creating conditions for preventing and/or mitigating consequences of unreasonable financial risks taken by Russian young families. To do this, some practical mechanisms based on available financial instruments can be used which allow for getting out of difficult life situations. The project is intended to contribute to financial health of a young family, reduce tension in the society, and enhance public confidence with regard to the financial market and certain financial services.

The project website comprises video materials, analytic information and news relating to formation and rational use of a family budget, doing business, investments and savings, financial market security. There are credit calculators and deposit analytics on the website necessary for successful investing.

The National Council of Financial Market (NCFM) implements the **charity project for raising financial literacy of schoolchildren and students "Financial Knowledge from an Early Age"**. Information on the project can be found in the special section "Financial Literacy" of the official website of the NCFM rosfinsovet.ru/fingram.

Together with a number of financial organizations the NCFM published a book "A Secret of Abandoned Town"⁷³⁰ in the series "Magic Adventures in the World of Finance" written in the "financial fantasy" genre.

A Harry Potter-style Christmas fairy tale with quite complex economic terms embedded therein is aimed at teaching financial literacy to children. Currently, the circulation of the book exceeds 3,000 copies, and all of them were transferred by the NCFM free of charge to orphan homes, schools and universities of Moscow, Kazan and Kostroma.

Together with this, in November 2018, Athena Youth Financial Club for Pre-University Training was established under the project on the basis of Sports and Education Center Moscow Experimental School under the auspices of Moscow City Department for the Physical Culture and Sports. The Club's activities will help schoolchildren to get prepared for entering universities specialized in finance and law. In May 2019, members of Athena Youth Financial Club summed up the results of the first half year of training and got deserved rewards.

FOR REFERENCE

National Center for Financial Literacy launched an anti-crisis section on its official website under the title "Pandemic and Crisis: Protect Your Finance"⁷³¹, where users can find useful materials, recommendations, webinars, live programs and expert advice. The Anti-Crisis Project covered over 7 mln residents of Russia.

The team of practical experts and consultants on financial literacy has prepared:

- *A set of materials on personal finance with practical tips and recommendations;*
- *Online webinars "How to Protect Your Personal Finance";*
- *Online marathon "Credit History and Personal Credit Rating";*
- *Live programs in Odnoklassniki social network.*

Users can also put their questions to financial literacy consultants on Sravni.ru Portal, review reminder cards prepared by Rospotrebnadzor ("Coronavirus COVID-19: What Rights Does a Consumer Have and How to Protect Them?", "How to Avoid Fraudsters' Traps During Coronavirus Pandemic?", "What Elder People Should Know to Protect Themselves from Fraudsters?"), train themselves free of charge in the online financial literacy program.

A number of channels on **Yandex.Dzen** service publish information on financial literacy issues, among them:

⁷²⁶ How to Solve Financial Issues Without Leaving Home // Fincult.info Information and Educational Resource fincult.info/article/kak-reshat-finansovye-voprosy-ne-vykhodya-iz-doma/.

⁷²⁷ How to apply for a Repayment Holiday During Coronavirus Pandemic // Fincult.info Information and Educational Resource fincult.info/article/kreditnyie-kanikuly-i-restrukturizatsiya-kak-v-2020-godu-oblegchit-sebe-vyplatu-dolga/.

⁷²⁸ Support Development of Coronavirus Vaccine // Fincult.info Information and Educational Resource fincult.info/services/grabli/sayty/podderzhite-razrabotku-vaktsiny-ot-koronavirusa/.

⁷²⁹ Coronavirus: Support Measures for Individuals and Business // Bank of Russia cbr.ru/covid/.

⁷³⁰ Book "Magic Adventures in the World of Finance. A Secret of Abandoned Town" // National Council of Financial Market rosfinsovet.ru/fingram/v-mire-finansov.

⁷³¹ How to Protect Your Financial Interests amid Crisis and Coronavirus // National Center for Financial Literacy ncfg.ru/pandemiya-i-krizis-zashchishchaem-finansy.

Your Friendly Finances Channel, which is the official channel of the Project. The channel hosts materials aimed at raising financial literacy, forming prudent financial behaviour and responsible attitude to money both in children and adults. Furthermore, various topics are discussed concerning forming personal and family budgets, savings process and pension accrual⁷³².

The channel of **Finam Information Agency** publishes breaking news in the financial sector: news, expert comments and forecasts for financial markets, companies' activities and stock exchange indices⁷³³.

Author's channel "Keep Your Purse Closed" offers everyday ways to save and manage money: how to spend less and save more, how to plan expenses, how to save money when shopping, and what is worth special attention when planning high-budget purchases⁷³⁴.

"ABC of Money" is a channel which will help to "get in with money", learn how to form a personal budget, make and increase savings. The channel also provides information on investing and choosing right assets for the investment portfolio⁷³⁵.

FinanceGramm Channel explains in simple terms the specific features of operations in the investment market. Users can find out how to build up big capital step by step, get acquainted with financial book reviews, new services and complex terms⁷³⁶.

The channel "School of Financial Wisdom" shares the rules of personal finance management. The author tells us about specific features of various bank deposits and provides the list of the most profitable ones, comments on the readers' real life situations, and describes the opportunities to save and increase money. The channel also warns about new methods used by financial fraudsters and suggests the ways of protection⁷³⁷.

The channel "Financial Subtleties" will help to resolve difficult situations concerning credits. The articles published there indicate the issues the investor should pay attention to and ways of consumer protection when dealing with financial organizations. The explanations are supported by real examples⁷³⁸.

FOR REFERENCE

In spite of COVID-19 dissemination, educational activities under the Project run their course. On vashifinancy.ru Portal there is a set of online resources for various user categories (children, schoolchildren, their parents, students, adults) dedicated to financial literacy and relevant issues of personal finance in the context of today's instable environment⁷³⁹.



In the course of implementing the Strategy for Raising Financial Literacy and the Project during 2019 and in early 2020, a set of activities was carried out aimed at introducing financial literacy into educational programs, providing financial consumers with information and advice, in particular, using the Internet information resources. Regular update and expansion of the content, new services on these resources contributed to a greater number of users and extended coverage of the population with financial education.

⁷³² Your Friendly Finances Channel zen.yandex.ru/id/5b4f361357bd1c00a904f362.

⁷³³ Channel of Finam Information Agency zen.yandex.ru/finam.ru.

⁷³⁴ Channel "Keep Your Purse Closed" zen.yandex.ru/sveta_economy.

⁷³⁵ Channel "ABC of Money" from Alexander Evstegneev zen.yandex.ru/azbukadeneg.

⁷³⁶ FinanceGramm Channel zen.yandex.ru/financegramm.

⁷³⁷ Channel "School of Financial Wisdom" zen.yandex.ru/finance_sapience.

⁷³⁸ Channel "Financial Subtleties" zen.yandex.ru/fintonkosti.

⁷³⁹ Online Resources on Financial Literacy, 17.03.2020 // vashifinancy.ru Portal vashifinancy.ru/for-smi/press/news/onlayn-resursy-po-teme-finansovoy-gramotnosti-/.

6. Key Performance Results of Public and Public-Private Organizations for Financial Consumer Protection

6.1. Financial Consumers Protection Union



All-Russian Non-Governmental Organization of Consumers Financial Consumers Protection Union (OOOP FinPotrebSouz) was established on 12 April 2010, and at present, it has representatives almost in all constituent entities of the Russian Federation in its 48 regional offices.

Main goals of OOOP FinPotrebSouz are protecting the rights and legitimate interests of consumers in the area of financial services (including protection of rights of equity holders and borrowers), contributing to creation of fair and orderly consumer financial market in the interests of Russian consumers, shareholders, and private investors as well as promoting financial literacy and knowledge within the broader population.

Among the most significant activities performed by OOOP FinPotrebSouz in 2019 one should mention the following:

- The Internet contest “Professional Leadership Is More Than Just Qualification” involving institutions of higher education was carried out, and courses of additional vocational training were prepared.
- The socially important project “Creation of Environment and Promotion of Young Specialists of Financial Market” was implemented, which included survey of problems which young specialists come across when applying for a job.
- The research and training conference “Relevant Finance” was held, where over 200 participants took part, including leading specialists of the financial market and potential employers.
- 6 roundtables on consumer protection and social responsibility of financial institutions were organized in Moscow, Krasnodar, Ufa, Chelyabinsk, Izhevsk and Vladivostok. The roundtable activities involved 316 participants, including representatives of the Bank of Russia, Rospotrebnadzor, Ombudsman for Human Rights, state bodies, insurance companies, bank associations and institutions of higher education.
- In 2019, the project “Quiz on Financial Mathematics, Financial Literacy and Financial Technologies” supported by the grant of the President of the Russian Federation was launched. It shall contribute to revealing talented children in the regions of Russia and training highly qualified specialists for the financial market and the national system of consumer protection⁷⁴⁰.
- Together with Rospotrebnadzor and the Bank of Russia regular All-Russian Olympiad in Financial Literacy, Financial Market and Financial Consumer Protection was organized⁷⁴¹.
- Residents of retirement age were provided with necessary clarifications.

Furthermore, in 2019, OOOP FinPotrebSouz developed 3 webinar programs and a videoconference program for various social groups on the following topics:

- “Bank Cards: Fraudulent Schemes”;
- “Consumer Credit: Pro et Contra”;
- “Microfinance Organizations: Is High Interest Justified?”;
- “Shared Construction: What Aspects Are Worth Special Attention When Concluding a Contract with the Developer?”;
- “Answers to Questions of the Citizens Concerning Financial Services in the Online Mode”.

Under the programs developed 7 free webinars and 1 videoconference were arranged.

In addition, OOOP FinPotrebSouz prepared and posted in mass media information materials and advertisements on providing consumers with advice and legal assistance.

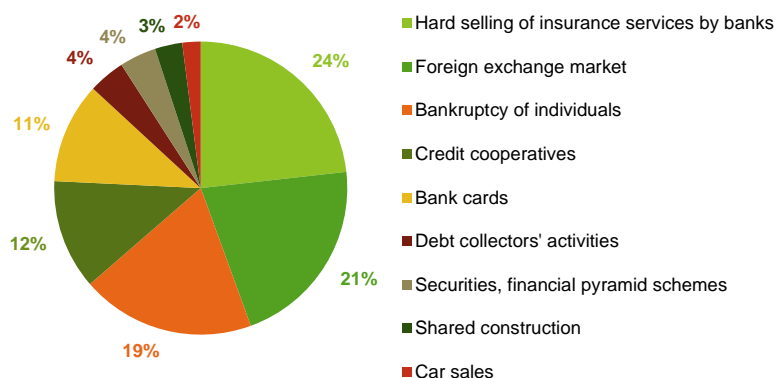
OOOP FinPotrebSouz is also engaged in active protection of rights and legitimate interests of financial consumers on the pre-trial basis and in court with regard to their interaction with financial organizations. For instance, in 2019, OOOP FinPotrebSouz received 9,401 various claims and complaints from individuals, including 8,113 ones via free hotline 8–800–707–05–21. Thereat, the claims and complaints of individuals were associated with the following issues (Figure 6.1).

⁷⁴⁰ Quiz on Financial Mathematics, Financial Literacy and Digital Financial Technologies fin-victory.ru.

⁷⁴¹ All-Russian Olympiad in Financial Literacy, Financial Market and Financial Consumer Protection olimp.ru.

Figure 6.1. Breakdown of Complaints Filed by Individuals to OOO FinPotrebSouz in 2019 by Topics

Source: OOO FinPotrebSouz



Complaints of consumers were considered mainly on the pre-trial basis, including free consultations. Together with this, in 2019, OOO FinPotrebSouz took part in 28 court proceedings and won 24 cases in the courts of first instance and 1 case in the court of second instance. Due to successful consumer protection in courts and high rate of won cases⁷⁴² the total amount of penalties awarded by courts in favor of consumers and OOO FinPotrebSouz was RUB 1.07 mln in 2019.⁷⁴³

FOR REFERENCE

Regional offices of OOO FinPotrebSouz have reception rooms where free advice, legal assistance and support are provided to the individuals, and there is a hotline operating. A virtual reception room is arranged on the website of OOO FinPotrebSouz (finpotrebsouz.ru) where users may apply for legal advice. Furthermore, the website contains useful information for financial consumers.

In 2019, OOO FinPotrebSouz together with other non-governmental organizations for consumer protection, Rospotrebnadzor, the Bank of Russia, and Ombudsman for Human Rights paid special attention to independent public examination of regulations. In addition, representatives of OOO FinPotrebSouz took part in the activities of expert councils of the SD RF and workgroups of Rospotrebnadzor in charge of developing draft laws concerning consumer protection.

6.2. Consumers Union of the Russian Federation



Consumers Union of the Russian Federation (CURF) is a voluntary self-regulated union of public associations established for the purpose of protecting rights and legal interests of Russian consumers. The Union started its activities in 1990. Tasks of CURF are raising the level of protection of Russian consumers and developing consumer movement.

Being one of the oldest public associations in the country, in 2019, CURF united 83 entities located almost in every region of Russia – the Central, North-Western, Southern, North--Caucasian, Volga, Ural, Siberian and Far-Eastern Federal Districts⁷⁴⁴.

FOR REFERENCE

On the official website of CURF (souz-potrebiteley.ru) consumers can find useful information, including regulatory documents, claim forms and pieces of legal advice.

In 2019, CURF continued implementing its permanent projects⁷⁴⁵:

- Development of the Legal Protection Network for Consumers⁷⁴⁶.
- Training of experts in the Center of Independent Consumer Product Testing.
- Organizing regional contests for schoolchildren and students on basics of consumer knowledge.
- Annual consumer surveys.
- Participation in the activities of the Commission for Application of the Code of Good Practice⁷⁴⁷.

Together with this, CURF started to prepare proposals on statutory regulation of online interaction between consumers and product sellers (service providers)⁷⁴⁸.

⁷⁴² 85% according to the results of 2019.

⁷⁴³ According to Clause 6 Article 13 of Law "On Consumer Protection" and Clause 46 of Resolution of the Plenum of the SC RF No. 17 dated of 28 June 2012 "On Consideration of Civil Cases by Courts Concerning Disputes on Consumer Protection" due to the consumer claims rejection on a voluntary basis.

⁷⁴⁴ List of Entities // CURF souz-potrebiteley.ru/spisok.shtml.

⁷⁴⁵ Current Projects // CURF souz-potrebiteley.ru/main/projects/71890/.

⁷⁴⁶ The stated network includes consultation centers and offices providing assistance to the consumers – welfare beneficiaries, including assistance in cases with insignificant compensation for damage (RUB 2-3 thous.).

⁷⁴⁷ Commission for Application of the Code of Good Practice, codeofconduct.ru.

⁷⁴⁸ The Consumers Union Preparing Draft Regulation of Buyer-Seller Interaction, 01 April 2019 // CURF souz-potrebiteley.ru/main/news/79392/. The status of implementing the online tool for dispute resolution is described in detail in Clause 1.1 of the Report.

On 19 March 2019, the Committee for Development of Entrepreneurship and Consumer Market of St. Petersburg together with CURF and Consumer Choice Association held the conference “Building Consumer Culture as an Essential Condition of Development of Consumer Market of Goods and Services” devoted to the World Consumer Rights Day. The conference participants gave special consideration to the issues of ensuring consumer protection in the context of digitalization of the market of consumer goods and services⁷⁴⁹.

The Consumers Union of the Russian Federation also participated actively in the joint meeting of the Advisory Board of the CIS Member States (16th meeting) and the Advisory Board for Consumer Protection in the EAEU Member States (6th meeting) as well as in the 28th meeting of the Advisory Board for Consumer Protection. Together with this, CURF Chairman P. B. Shchelishch participated in the activities of the Public Council under Rospotrebnadzor as its permanent member⁷⁵⁰.

In April 2020, in connection with COVID-19 pandemic, CURF addressed to the top public bodies of Russia in the name of all-Russian associations of consumers, manufacturers and sellers of consumer goods. In order to keep socially important food products and other essential goods affordable for the population in the emergency situation of COVID-19 dissemination, CURF recommended to start promptly the implementation of the previously postponed project of the Ministry of Industry and Trade of Russia aimed at granting credits to low-income population groups out of funds of the federal budget which are repayable by the recipients when buying domestic goods, and to expand the project scope to persons who lost their income because of the pandemic-based restrictions⁷⁵¹.

6.3. International Confederation of Consumer Societies



International Confederation of Consumer Societies (ConfOP) was established in 1989 and unites 36 leading non-governmental organizations of consumers from Russia, Ukraine, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan.

Main areas of activities of ConfOP include promotion of legislative proposals aimed at improvement of regulations on disclosure of consumer information in the area of financial services and education of consumers.

ConfOP is a member of the Council of Consumers International, the summit whereof was held from 30 April to 2 May 2019 in Estoril (Portugal)⁷⁵².

During the summit D. D. Yanin, Chairman of the Board of ConfOP spoke at the session “Financial Services: Expansion of Rights and Opportunities of Consumers Through Surveys, Raising the Level of Financial Literacy and Providing Higher Quality Services”. He told the audience about ConfOp activities under the Project, including independent monitoring of financial services and distribution of the results thereof among main participants of the financial market and regulators.

FOR REFERENCE



CI summit held every four years is a key event for consumer associations all over the world and a forum for inception of future agenda of the consumer movement and determination of main directions for joint efforts in reinforcing the consumer protection.

In 2019, the summit was devoted to consumer protection in the quickly changing digital world. Among key topics of the summit there were the following: impact of digital innovations, Internet of Things and Artificial Intelligence on the area of consumer protection, protection of user data and access to digital services⁷⁵³.

In 2019, ConfOP studied observance of consumer rights in the market of savings and credit products. Within the framework of the study savings programs of MFOs were investigated in 20 Russian regions.

On 11 February 2019, within the framework of the All-Russian Civil Forum and the roundtable “Discrimination in Insurance: Results of Monitoring by ConfOP” the report on the results of independent monitoring by ConfOP “State of Consumer Protection in the Market of Insurance Services in Russia” was presented. The expert panel discussion brought together representatives of the Bank of Russia, Rospotrebnadzor, the Ministry of Finance, EEC, Ministry of Healthcare of Russia, insurance companies, academic community, and experts in the areas of insurance and personal finance.

During discussion D.D. Yanin, Chairman of the Board of ConfOP presented the results of the stated monitoring with regard to 27 insurance companies and 20 banks offering insurance to borrowers.

The results of the monitoring were also presented at the regional roundtable “State of Protection of Rights and Interests of Financial Consumers” held on 29-30 May 2019 in St. -Petersburg. The event was visited by the representatives of Rospotrebnadzor, the Bank of Russia, national and international experts on financial consumer protection, representatives of non-governmental organizations and journalists.

D.D. Yanin, Chairman of the Board of ConfOP shared the results of the “insurance wave” of the monitoring. In addition, A.V. Susha, Chairman of Belorussian Society of Consumer Protection, a member organization of ConfOP presented the results of independent monitoring of observance of financial consumer rights in the Republic of Belarus.

⁷⁴⁹ See CURF website souz-potrebiteley.ru/main/news/79384/; Website of Center of Independent Consumer Product Testing Fund cnpe.spb.ru/stati/article_post/konferentsiyu-effektivnoya-funktsionirovaniye-sistemy-zashchity-prav-potrebiteley-kak-neobkhodimoye-usloviye-povysheniya-kachestva-zhizni-peterburhtsev.

⁷⁵⁰ Minutes // Rospotrebnadzor rospotrebnadzor.ru/feedback/ob_sovet/protokoly.php.

⁷⁵¹ Statement on Necessary and Immediate Measures Ensuring Affordability of Socially Important Essential Goods in the Context of Protection Against Coronavirus Pandemic // CURF souz-potrebiteley.ru/documents/2474/79580/.

⁷⁵² Consumers International (CI) has been operating since 1960. At present, it unites 240 member organizations representing 120 countries. CI is engaged in consumer protection in the UNESCO and UN structures, provides educational services and legal advice. CI website: consumersinternational.org.

⁷⁵³ According to materials of ConfOP.

The results of the “savings wave” of the stated monitoring were presented by ConfOP at the III International Conference “Financial Consumer Protection” held on 30 October 2019 in Moscow at the respective expert roundtable. Together with this, some measures were suggested to reinforce the individuals’ protection in the market of savings services:

- To formalize in the legislation of the Russian Federation the rule on preparing a contract in the standard form easy for a consumer to read and understand, and on submission thereof to the consumer for thorough review.
- To formalize in the legislation of the Russian Federation the rule on mandatory provision of information on the deposit expiry to the consumers.
- To increase the level of consumers’ awareness on hazards associated with financial pyramids and involve the Internet search systems in distribution of such information.

The results of independent monitoring of observance of financial consumer rights and proposals on the legislation improvement in this area⁷⁵⁴ were also presented by ConfOP in 2019 on the following forums: On 17 May 2019, on the Petersburg International Law Forum in St. Petersburg at the discussion session “Private Bankruptcy”, on 13 September 2019, on the Moscow Financial Forum, on 04 June 2019, during discussion of the World Bank’s report “Household Indebtedness in Russia” investigating debt overburden of individuals and held with the participation of ConfOP, and on 31 October 2019, during the discussion “Digitalization of Financial Services: Current Challenges and Solutions” within the VI All-Russian Savings Week in the Russia Today International Information Agency⁷⁵⁵. Together with the above, ConfOP took part in the opening ceremony.

FOR REFERENCE

ConfOP took an active part in consumer protection during the COVID-19 pandemic and supported protective measures for business and individuals adopted by the Russian authorities.

Together with this, ConfOP also supported the proposal of the Bank of Russia on reducing the cost of the bankruptcy procedure as the only legal procedure for complete debt relief for individuals. ConfOP indicates that according to the study carried out by the World Bank together with ConfOP, 57% of the Russian borrowers belong to the category of vulnerable and overly indebted borrowers. In the context of high debt burden indicators and decline in income of the population related to COVID-19, the failure of a borrower with high debt burden to make the next payment becomes much more probable.

6.4. Federal Public-Private Foundation for the Protection of Investors and Shareholders Rights



Federal Public--Private Foundation for the Protection of Investors and Shareholders Rights (hereinafter referred to as the “Foundation”) is established according to Decree of the President of the Russian Federation No. 1157 dated 18 November 1995 “On Certain Measures for the Protection of Investors and Shareholders Rights”.

Main goals of the Foundation are making compensation payments to persons to whom damage was caused in the financial and stock markets of the Russian Federation, as well as information- and educational activities aimed at raising the level of financial literacy and financial security of depositors, investors and shareholders⁷⁵⁶.

Such payments are made by the Foundation only to those persons who suffered damage from the entities included in the Register of Legal Entities and Individual Entrepreneurs Having Breached Legal Acts Regulating Activities in the Financial and Stock Markets of the Russian Federation⁷⁵⁷. As of 31 December 2019, this Register contained 539 entities (being a record for international compensation systems).

During the whole period of the Foundation’s activities 1.5 mln individuals received compensation payments for the total amount exceeding RUB 2.1 bln.⁷⁵⁸

In 2019, 2.9 thous. individuals received such payments for the amount of RUB 59.7 mln⁷⁵⁹. As a comparison, in 2018, 1.8 thous. individuals received payments for the amount of RUB 36.3 mln.⁷⁶⁰ (Figure 6.2). Thus, in 2019, substantial growth was observed with regard to the number of individuals applying for compensation to the Foundation and the aggregate amount of the compensation paid.

⁷⁵⁴It should be mentioned that annual surveys of ConfOP are used when preparing the Report.

⁷⁵⁵A part of the Project.

⁷⁵⁶Charter of the Foundation (approved by the Board of the Foundation, Minutes No. 23 dated 22 May 2015 as amended on 02 April 2019 // Foundation fedfond.ru/bitrix/docs/ustav_2019.pdf).

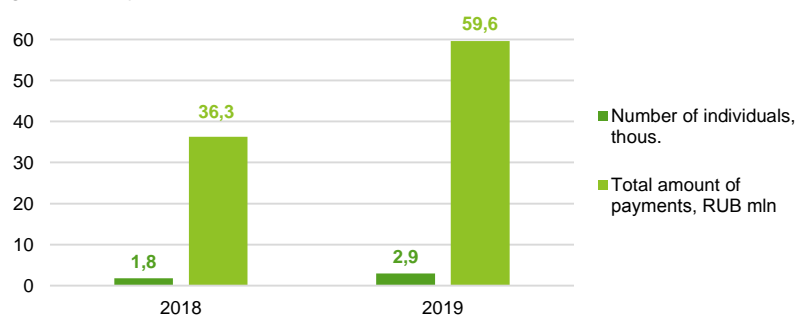
⁷⁵⁷Procedure for Making Compensation Payments to Individuals Suffering Damage in Financial and Stock Markets of the Russian Federation (approved by Decision of the Board of the Foundation dated 28 December 2010, Minutes No. 7 (as amended on 29 October 2019)).

⁷⁵⁸According to the information of the Foundation, as of 31 December 2019.

⁷⁵⁹Compensation Payments Report (2019) // Foundation fedfond.ru/about/dokumenty/reports_of_the_fund/reports/179/1713/.

⁷⁶⁰Compensation Payments Report (2018) // Foundation fedfond.ru/about/dokumenty/reports_of_the_fund/reports/175/1470/.

Figure 6.2. Dynamics of the Amounts of Compensations Paid and the Number of Compensation Recipients for 2018-2019



Source: Foundation

In addition to its main activity of compensation payment, the Foundation continued to protect actively the interests of individuals who suffered from unscrupulous financial institutions and organizations. Lawyers of the Foundation provided individuals with 825 consultations. Questions of consumers related mostly to non-performance by financial organizations of their obligations, including payment of dividends.

FOR REFERENCE

Amid the COVID-19 pandemic consumers could apply to the Foundation for compensation or advice remotely⁷⁶¹.

In 2019, the Foundation continued its information -and educational activities aimed at raising the level of financial literacy and security of the citizens when choosing ways of money saving and investing in the financial market. In particular, a booklet “How to Earn on Risks and Not to Go Bankrupt” is published warning on the risks inherent in the Forex market; together with Rossiyskaya Gazeta a teaching brochure “Digital Revolution in the World of Finance: Rules of Secure Consumer Behavior” is issued, which is intended for a wide range of readers.

FOR REFERENCE

The official website of the Foundation fedfond.ru contains information materials and clarifications on receiving compensation payments, the register of legal entities and individual entrepreneurs the depositors whereof receive a compensation, as well as the list of organizations authorized to make compensation payments out of the Foundation's resources. Consumers may also apply to the Foundation for legal advice.

According to the cooperation agreement with Moscow City Organization of Trade Union of Public Education and Science Employees of the Russian Federation, the Foundation held two educational meetings with teams of vocational education and higher education institutions of Moscow involving over 150 teachers and instructors.

On 26 November 2019, the Foundation concluded an Agreement with Association for Financial Literacy Improvement on cooperation with the view of raising financial literacy of financial consumers, which provides for promotion of consumer financial literacy educational programs and assistance to activities aimed at creating and developing educational projects for raising financial literacy.



**БУДЬ ФИНАНСОВО
БДИТЕЛЕН**

Information and educational website stoppiramida.ru established by the Foundation was further developed. The website is aimed at shaping rational attitude of the consumers to investment services, informing of current fraudulent schemes in the financial market, developing skills in assessing financial risks, informing of the procedure for protecting consumer rights in the financial market as well as suppressing the activities of specific financial pyramids.



“StopObman” (“Stop Fraud”), a kind of a “virtual help button” on the website, is a simple service for those who suffered from financial pyramid activities and consumers in difficult life circumstances. Using this service, the consumers can send a message on unfair practices and get free legal advice.

In 2019, the Foundation launched its new project, StopPiramida Museum. It is intended for potential victims of fraudulent schemes, and in the future, it may support the activities of a smart scientific center for counteracting financial fraud.

The Museum permanent exhibition consists of various documents collected by the Foundation: a unique collection of documents of financial pyramids – certificates, shares, savings passbooks, bills of exchange, tickets, contracts and advertisements. It is planned to supplement the Museum collection with copies of judicial documents and other interesting papers.

The Foundation also continued its activities as a permanent participant of international events relating to consumer protection. In particular, on 03 October 2019, the Foundation together with the EEC organized the VI International Conference for Financial Consumer Protection “Territory of Financial Security” in Moscow⁷⁶².

The Conference highlighted such problems as the regulators’ policy of protecting the rights of investors and financial

⁷⁶¹ Foundation fedfond.ru/index.php?sphrase_id=182911.

⁷⁶² International Conference for Financial Consumer Protection “Territory of Financial Security”, conference.fedfond.ru.

consumers, misselling in various segments of the financial market, digital and financial security, counteraction to unfair financial practices and financial pyramids as well as improving the private investor protection system. The Conference participants also reviewed the mobile exhibition of the StopPiramida Museum.

Conclusions: Achieving Excellence in Financial Consumer Protection in Russia

The results of the monitoring of key segments of the financial market imply enduring systemic risks for financial consumers, especially in the areas of credit, insurance and microfinance.

The main violations in the consumer lending are remain linked to unauthorized funds transfer, hard selling of additional services and unfair agreement terms that violate consumer rights. The problem issues in the field of insurance are inflated prices on OSAGO, inability to conclude an electronic OSAGO agreement, hard selling of life insurance. Consumer complaints against MFLs are mostly linked with unfair debt collection practice, breach of contract and inflated interest rates, as well as with identity fraud against borrowers.

The rapid development of innovative financial products, ways of interaction between financial institutions and financial consumers, an increase in the number of transactions lead to continuous "improvement" of unseemly methods, the emergence of new high-tech dubious schemes and unfair practices, reinforcing the negative impact on financial market, as well as on consumers.

Additional challenges and threats are connected with a sharp deterioration in the economic situation in early 2020 and projected decline in real income of the population due to the spread of COVID-19 and collapse in oil prices.

Under those circumstances, measures for support and protection of financial consumers, increase the level of awareness and financial literacy of the population are important. The role of Rospotrebnadzor, the Bank of Russia, the judiciary and law enforcement agencies and other participants in the national consumer protection system in creating the conditions for constructive interaction between financial market participants and providing an effective system for preventing the emergence of unfair practices and financial consumer rights protection is increasing.

Improving current consumer protection mechanisms and developing the new ones at the legislative level became much relevant.

One such mechanism is the possibility of judicial recourse for the protection of the rights and legitimate interests of a group of persons, including consumers, introduced from 1 October 2019⁷⁶³. At present, the practice of hearing the class action is forming and several such lawsuits have already been successfully initiated by Rospotrebnadzor.

There were significant changes to the Law on Consumer Rights Protection in 2019⁷⁶⁴, aimed at improving of the state policy in the field of consumer protection, including the empowerment of Rospotrebnadzor to approve guidelines for the development and implementation of regional and municipal consumer protection programs, as well as empowerment of executive authorities of the constituent entities of the Russian Federation to develop regional consumer protection programs and to assist local governments and public organizations of consumers (their associations, unions) in their implementation of consumer protection.

Positive impacts on the financial service market and on improving the level of consumers' protection are also arisen from the application of the new Bank of Russia's Basic Standards: "On Insurer Operations in Financial Market, the Basic Standard on Protection of Rights and Interests of Individuals and Legal Entities, which are the Recipients of Financial Services, Provided by SRO Members, Integrating Insurance Organizations", and "On Broker Operations in Financial Market".

In addition, the Bank of Russia issued an Ordinance No. 5055-U "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", which had a greatest influence on the ILI market and significantly reduced a number of violations of consumer rights when selling this insurance product.

In 2019, legislators paid great attention to the protection of the rights of socially vulnerable groups of consumers.

Thus, the amendments made to the Code of the Russian Federation on Administrative Offenses⁷⁶⁵ allow the prosecution of sellers (providers) for discrimination of socially vulnerable groups of consumers in the form of denial them of access to goods and services on an equal basis with others. High levels of fines and punishment, inexorably following by each case of consumer's rights violation, will contribute to prevention of occurrence of such discrimination cases.

The improvement of legislation in the sphere of consumer protection also affected in 2019 the development extrajudicial mechanisms for protecting consumer rights, which include a system of alternative online dispute resolution mechanisms. The draft law establishing the legal basis for the development of such a system was prepared in 2019 and conceptually supported by Rospotrebnadzor and other interested parties⁷⁶⁶.

2019 was also marked by the beginning of the full-fledged work of the Financial Ombudsmen for the Rights of Consumers of Financial Services, established a year earlier. The initial results of its activities showed the rather high efficiency of the new mechanism for the pre-trial settlement of disputes. At the same time, certain shortcomings were identified, as well as gaps in legislative regulation, the elimination of which should be the subject of priority attention in 2020.

The crucial stage in the development of legislation on consumer protection in 2019 was also a draft of the new Code of Administrative Offenses of the Russian Federation by the Ministry of Justice of the Russian Federation, which took into

⁷⁶³ Federal Law 191-FZ dated 18 July 2019 "On Amendments to Certain Legal Acts of the Russian Federation".

⁷⁶⁴ Federal Law 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".

⁷⁶⁵ Federal Law 56-FZ dated 18 March 2020 "On Amendments to the article 14.8 of the Code of the Russian Federation on Administrative Offenses".

⁷⁶⁶ Draft Law "On Amendments to the Law of the Russian Federation "On Protection of Consumer Rights" and the Federal Law "On an Alternative Dispute Resolution Procedure with the Participation of a Mediator (Mediation Procedure)" with Respect to Creation of a Legal Basis for the Development of a System of Alternative Online Dispute Resolution Mechanisms".

account the features of consumer relations and the need for their special protection⁷⁶⁷.

It should be noted also the continuation of the Rospotrebnadzor's work to codify legislation on consumer protection. Codification issues were actively discussed by Rospotrebnadzor at various sites with the involvement of the best Russian and international experts. As a result, Rospotrebnadzor outlined prospects for codification of Russian legislation, considering the best global practices, and formed a scientific and practical base necessary for the drafting of a new law (code) on consumer protection.

There are also have been adopted a number of legislative initiatives in the sector of consumer lending, aimed at limiting the debt burden of borrowers and providing a grace period for mortgage borrowers ("mortgage holidays").

An important legislative initiative in the sector of e-commerce regulation is a draft law, adopted in April 2020 in the second reading by the State Duma of the Russian Federation, which provides an additional empowerment of the Government of the Russian Federation to regulate activities of an owner of goods and services information aggregators when concluding retail sales contract between a seller and a consumer, including remote sales.

The adoption of this draft law will be another important step in the implementation of the Strategy of State Consumer Rights Protection Policy of the Russian Federation for the Period Until 2030, approved by the Government of the Russian Federation in 2017, which considered problems of consumer protection in e-commerce as priorities.

The most important "feedback tool" for authorized control and oversight bodies remains the consideration of citizens applications, which allows them to react promptly to emerging threats to consumers interests and to develop adequate mechanisms for their protection.

Over the past two years, a number of applications, received by Rospotrebnadzor and its territorial bodies from citizens – financial consumers remains at about the same level and represents at around 23 thousand applications annually.

In 2019, Rospotrebnadzor conducted 466 activities on monitoring (supervision) compliance with legislation on the financial consumer protection, which is 18.7% less than in the previous year and more than three times less than in 2015. This trend is related to amendments, introduced in 2016 to the federal state supervision procedures in consumer protection, which had resulted in definitive division of federal supervision (in the form of inspections) itself and the enforcement of legislation on administrative offences in law enforcement practice.

The effectiveness of inspections (the ratio of a number of detected violations of mandatory requirements per inspection) in 2019 amounted to approximately 5 violations per inspection (for comparison: the average effectiveness of inspections throughout the consumer market was 2.5 violations per inspection).

In general, there is a decrease in the indicators of administrative response and an increase in the stability of judicial and administrative decisions in the interests of financial consumers, which are largely determined by the joint efforts of authorized state bodies, particularly Rospotrebnadzor, the Bank of Russia, the Supreme Court of the Russian Federation, the Federal Antimonopoly Service, sanitation of financial market and improvement of financial literacy of the population, contributing to more aware consumers' interaction with financial institutions.

The activities of Rospotrebnadzor of informing and advising financial consumers were further developed in 2019.

As before, the services, most in demand by consumers, are onsite and phone consultations. At the same time, the amount of consultations using electronic means of communication is on the rise. Work with financial consumers via multifunctional centers was carried out on a pilot basis and will be continued in the future.

The use of the Unified Guidance and Departmental Standards for Financial Services Consumer Consulting, drafted by Rospotrebnadzor with the participation of FBK Grant Thornton specialists under the Project, contribute to establishing of a uniform approach to counselling citizens in counselling centres and points of Rospotrebnadzor.

In 2019, the work on improving methods of financial consumer consulting was continued. Taking into account the proposals by counselling centres, two new departmental standards were developed – "Specifics of Consumer-Creditor Relations with Respect to Overdue Debt Repayment" and "Borrower Collective Insurance Programs Offered with Loans". In addition, the section "Appeal to the Financial Ombudsman" of the departmental standard "Restitution of Violated Rights, Freedoms, and Legal Interests of Financial Services Consumers" was substantially revised and extended in connection with the start of the activities of the Financial Ombudsman.

The feedback received from the counselling centres of Rospotrebnadzor at the beginning of 2020 once again showed high degrees of their interest in maintaining and developing the system of departmental standards for advising financial consumers, which have become a recognized and essential part of the unified system of informing and advising consumers.

In 2019, Rospotrebnadzor continued to represent the best Russian practice in the sphere of financial consumer protection in the international arena.

Thus, within the session of UNCTAD Intergovernmental Group of Experts on Consumer Protection Law and Policy on the contemporary challenges of the digital economy, held on July 2019, Rospotrebnadzor presented the national experience in practical implementation of the main provisions of the United Nations Guidelines for Consumer Protection, as well as the information on the status of implementation of the Strategy of State Consumer Rights Protection Policy of the Russian Federation for the Period Until 2030 and legislative initiatives, related to the protection of socially vulnerable categories of consumers.

The impact of economic digitalization on consumption was a key subject of discussion at the G20 International Conference on Consumer Protection, held in September 2019 in Japan. As part of a session on online dispute resolution and digital services, Rospotrebnadzor announced the development of a new digital platform for remote consumer

⁷⁶⁷ Draft Code of Administrative Offences of the Russian Federation (project ID 02/04/01-20/00099059) // Federal Portal of Draft Regulations regulation.gov.ru/projects#npa=99059.

consultation, which will include many useful services, such as smart search for necessary information, step-by-step consultation on protecting rights in a various situations, voice services, including those for people with disabilities, information about unsafe purchases, search for dispute resolution services, electronic complaint book and more.

Russian Federation also put forth concrete initiatives on developing the international cooperation for financial consumer protection and called for the adoption of a G20 joint declaration on consumer protection at the next session in Saudi Arabia.

At a regular session of the G20-OECD Task Force on Financial Consumer Protection, held in October 2019, were discussed the availability of financial services in the face of ageing population and the development of a complex measures for the protection of socially vulnerable consumers. The study of those matters, in which the Ministry of Finance of Russian Federation and Rospotrebnadzor took an active part, showed that many states are characterized by similar problems and approaches to solving them.

In 2019, Rospotrebnadzor continued to be actively engaged in the implementation of the Project. The outcomes of the Project show positive trend in key areas: a number of educational events is growing, their geography is expanding, new educational technologies are being introduced, a number of users of information resources on financial literacy is increasing, including the web portals vasifinansy.ru и hochumozna.ru.

There have been also launched new financial literacy programs under the Project. Thus, the program “Financial Literacy in the Workplace”, within which were planned more than 14 thousand events in 40 regions of the country, was designed to give key knowledges in the field of personal finances to the adult working population with limited time for self-education.

At the approbation stage of the program “Promotion of a Responsible Financial Behaviour by Disseminating the Project Outcomes through Libraries in the Regions of the Russian Federation” will be engaged 150 librarians from more than 30 libraries of 10 pilot regions, that should be an incentive for engaging other librarians from all over the country into the practice of carrying out the awareness-raising activities on financial literacy.

A significant event in 2019 was the distribution of a unique circulation of educational and methodological kits for financial literacy in Russian regions, created under the Project for students of grades 4–11 and their parents. More than 11.5 million of such kits were donated to schools in 51 constituent entities of the Russian Federation — this was the largest one-time circulation of school textbooks in the history of modern Russia.

During 2019, issues of financial literacy and financial consumer protection were actively discussed at various venues with the participation of representatives of interested federal executive bodies (the Ministry of Finance of the Russian Federation, the Ministry of Education of the Russian Federation, Rospotrebnadzor), the Bank of Russia, scientific and expert community, public organizations.

At the opening of the Third International Conference “Financial Consumer Protection. Focus on Vulnerable and Disadvantaged Groups”, held on 30 October 2019, was the presentation of the public report “On the Status of Financial Consumer Protection in 2018”, jointly prepared by Rospotrebnadzor with FBK Grant Thornton under the Project.

In the context of the integration of an increasing number of consumers from different groups into a complex financial market and the development of remote means of sale of the financial products, the activity of public and public governmental consumer protection associations has become crucial.

Thus, in 2019 FinPotrebSouz, SPRF, KonfOP and the Federal Foundation for the Protection of Investors and Shareholders, in close cooperation with Rospotrebnadzor and other government bodies and organizations, continued their active work to increase the level of financial literacy of consumers, protect their rights and legitimate interests, and to prevent consumer rights violations by financial institutions.

Further areas of activity in the field of financial literacy of the population are largely determined by the Strategy for Raising Financial Literacy in the Russian Federation for 2017-2023 and the action plan for its implementation.

At present, educational and methodological materials and training programs have been developed for schools, secondary vocational education institutions, higher education institutions and the adult population. Furthermore, it remains to make them as popular as possible, disseminate them across the country and generate interest in them among secondary and higher education institutions, which are ready to organize training programs and seminars for their employees.

An important objective is the extension of the Project at the regional level, including attraction of new participants and active replication of the best practices of Project’s pilot regions. These outcomes will be contributed by the implementation of the approaches and recommendations at the regional level, proposed in the model regional programme for raising financial literacy, developed by the Ministry of Finance of the Russian Federation.

The next aspect is related to informing the public in the field of financial consumer protection. The Multifunctional Centres (which, starting in 2019, can accept complaints and consult consumers on the protection of their rights, including in financial services), have an important role to play in addressing to solve that problem.

Further prospects for the development of the national consumer rights protection system are connected with the solution of the dual task, facing all its participants. On the one hand, it is necessary to inform the population about the opportunities and risks, which brought about by new financial instruments, and to rise digital and financial literacy of the population. On the other hand – to improve existing and develop new regulatory measures aimed at protecting consumers. At the same time, the timeliness of their imposition should correspond to the pace of technological development of the financial market.

In terms of further improving the institutional financial consumer protection framework, the following areas seem especially important:

- Identification and accumulation of the most relevant issues in the field of consumer protection in a single document, their consistent resolution by the consolidated efforts of all participants of the national consumer rights protection system.

- Ensuring greater accessibility and transparency of financial services, tools and infrastructure for consumers, including with the usage of best international practices of establishing in legislation the rules for granting a minimum guaranteed set of financial services to all consumers.
- Expansion of the functions and powers of Rospotrebnadzor in the field of international cooperation with specialized consumer protection international organizations in order to use their knowledge and experience in applying successful mechanisms for financial consumer protection.
- Development of risk-based approaches to financial consumer rights protection, especially in terms of financial transactions using digital technologies, including electronic money, mobile financial services, online financial services, remote banking.
- Ensuring the sustainability of structures and mechanisms created in the course of implementing the Project, including Regional Financial Literacy Centres.
- Development of proposals to ensure financing (co-financing) of consumer protection in the constituent entities of the Russian Federation.
- Development of tools for methodological, consulting, expert and informational support of regional government bodies and local authorities on issues of the financial consumer rights protection and improving the financial literacy of the population.
- Development of mechanisms of participation public consumer associations' representatives in the Rospotrebnadzor's work for financial consumer rights protection.



In 2019, the rapid growth of new technologies in the financial sector continued. It highlighted a whole range of problems related to the risks and availability of financial services for consumers, especially socially vulnerable categories of the population.

In this regard, the state through the competent authorities, including Rospotrebnadzor, faces new tasks of developing a financial consumer protection system and reducing citizens' vulnerability to possible negative developments in the financial market.

Additional challenges for the financial market and risks for consumers were brought in 2020 by the COVID-19 pandemic, the consequences of which have to be assessed.

List of Acronyms

JSC	Joint-Stock Company
DIA	State Corporation Deposit Insurance Agency
CHB	Credit history bureau
Departmental standard	Departmental standard for consulting financial consumers (draft)
Aggregator owner	Owner of the aggregator of information on goods (services)
GDP	Gross domestic product
WHO	World Health Organization
SC RF	Supreme Court of the Russian Federation
ARUI	All-Russian Union of Insurers
WTO	World Trade Organization
VCIOM	Joint-Stock Company Russian Public Opinion Research Center
SD RF	State Duma of the Federal Assembly of the Russian Federation
CC RF	Civil Code of the Russian Federation
CPC RF	Civil Procedure Code of the Russian Federation
SCPA	Shared Construction Participation Agreement
VHI	Voluntary health insurance
RTA	Road traffic accident
EAEU	Eurasian Economic Union
UBS	Unified biometric system
UPSMS	Unified Portal for State and Municipal Services
EU	European Union
UIAS	Unified Identification and Authentication System
UFRBI	Unified Federal Register of Bankruptcy Information
EEC	Eurasian Economic Commission
HC RF	Housing Code of the Russian Federation No. 188-FZ dated 29 December 2004
HUS	Housing and utility services
H&U	Housing and utilities
Bankruptcy Law	Federal Law No. 127-FZ dated 26 October 2002 "On Insolvency (Bankruptcy)"
Competition Law	Federal Law No. 135-FZ dated 26 July 2006 "On Protection of Competition"
Consumer Protection Law	Law of the Russian Federation No. 2300-1 dated 07 February 1992 "On Consumer Protection"
Consumer Credit Law	Federal Law No. 353-FZ dated 21 December 2013 "On Consumer Credit (Loan)"
Advertising Law	Federal Law No. 38-FZ dated 13 March 2006 "On Advertising"
Financial Ombudsman Law	Federal Law No. 123-FZ dated 04 June 2018 "On Ombudsman for the Rights of Financial Consumers"
CJSC	Closed Joint-Stock Company
RMC	Residential mortgage credit
INN	Taxpayer Identification Number
Mortgage holidays	A grace period during which the borrower can reduce or suspend payments under a mortgage credit
ILI	Investment life insurance
FCCI	Voluntary insurance of vehicles against damage and theft

CLR	Combined loss ratio for compulsory auto insurance
AOC RF	Administrative Offenses Code of the Russian Federation
ConfOP	Union of Public Associations International Confederation of Consumer Societies
CCC	Consumer credit cooperative
MCC	Microcredit company
MFIs	Microfinance institutions
MFC	Microfinance company
MFO	Microfinance organization
MF Center	Multifunctional center providing state and municipal services
NAPCA	Self-Regulating Organization National Association of Professional Collection Agencies
NAUFOR	National Association of Stock Market Participants
NAFI	Joint-Stock Company National Agency for Financial Research
NBCH	National Bureau of Credit Histories Joint Stock Company
PIT	Personal income tax
UCL	Unsecured consumer loans
NSPFs	Non-state pension funds
CVLI	Cash-value life insurance
NSPK	National Payment Card System
NCFM	Non-Commercial Partnership National Council of Financial Market
NFO	Non-credit financial organization
OJSC	Open Joint-Stock Company
OGRN	Primary State Registration Number
MHI	Mandatory health insurance
ONF	All-Russian Social Movement ALL-RUSSIA PEOPLE'S FRONT
UN	United Nations Organization
LLC	Limited Liability Company
OOOP FinPotrebSouz	All-Russian Non-Governmental Organization of Consumers Financial Consumers Protection Union
Compulsory Motor TPL Insurance	Compulsory insurance of civil liability of vehicle owners
ODR	Online dispute resolution
OECD	Organization for Economic Cooperation and Development
PJSC	Public Joint-Stock Company
DBI	Borrower's debt burden indicator
UIT	Unit investment trust
AML/FT	Anti-money laundering and combating the financing of terrorism
Project	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"
FCLV	Full consumer credit (loan) value
pp	Percentage point
RAEC	Association for Electronic Communications
RAMI	Russian Association of Motor Insurers
Runet	Russian-language part of the Internet

RF	Russian Federation
RFLC	Regional Financial Literacy Center
FPS	Faster Payments System of the Bank of Russia
Internet	Information and telecommunications network Internet
ACCC	Agricultural consumer credit cooperative
Mass media	Mass communication media
CURF	All-Russian Union of Public Associations Consumers Union of the Russian Federation
SRO	Self-regulating organization
SRO MiR	Self-Regulating Organization Union of Microfinance Organizations Microfinancing and Development
DIS	Deposit insurance system
CrC RF	Criminal Code of the Russian Federation No. 63-FZ dated 13 June 1996
TMS	Teaching materials set
FAS of Russia	Federal Anti-Monopoly Service
FBHI	Federal Budget Healthcare Institution
Federal Foundation for the Protection of Investors and Shareholders Rights	Federal Public-Private Foundation for the Protection of Investors and Shareholders Rights
Fedresurs	Unified Federal Register of Legally Significant Information on the Activities of Legal Entities, Individual Entrepreneurs and Other Economic Entities
CB RF	Central Bank of the Russian Federation
SDG	Sustainable Development Goals
ES	Emergency situation
Equifax	Equifax Credit Services Limited liability Company
Expert RA	Joint-Stock Company Expert RA Rating Agency
UNCTAD	United Nations Conference on Trade and Development
COVID-19	Coronavirus disease COVID-19