

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 MFIs 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 2019¹. 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 2019², 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 Offenses³ 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 parties⁴.

¹ Federal Law 191-FZ dated 18 July 2019 “On Amendments to Certain Legal Acts of the Russian Federation”.

² 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”.

³ 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”.

⁴ Draft Law “On Amendments to the Law of the Russian Federation “On Protection of Consumer Rights» and the Federal Law “On an Alternative Dispute

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 account the features of consumer relations and the need for their special protection⁵.

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

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".

⁵ Draft Code of Administrative Offenses of the Russian Federation (project ID 02/04/01-20/00099059) // Federal Portal of Draft Regulations regulation.gov.ru/projects#npa=99059.

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 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 вашифинансы.рф и хочумогузнаю.рф.

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.