



Our money our rights

How the global consumer movement is
fighting for fair financial services





About Consumers International (CI)

Consumers International (CI) is the only independent global campaigning voice for consumers. With over 220 member organisations in 115 countries we are building a powerful international consumer movement to help protect and empower consumers everywhere.

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For more information, visit www.consumersinternational.org

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A message from Joost Martens

Director General of Consumers International

Consumer organisations all over the world are working tirelessly to bring reliable financial services (FS) to consumers. This sector has been bedevilled by myths in the past. Some commentators have placed the blame for the global financial crisis squarely at the feet of consumers, citing imprudence and irresponsible borrowing or ignorance. Post-crisis, consumers have been criticised for excessive prudence and not spending enough to kick-start economies, when in fact, a very different picture is emerging from the work done by the member organisations of Consumers International (CI).

Consumers around the world face a range of problems in their dealings with FS providers, from irresponsible lending practices to unfair contracts, abusive charges and advice by salespeople lacking in objectivity. Despite this, most consumers manage their affairs responsibly; indeed in many poor countries savings ratios are higher than those in much richer countries. And while the picture widely portrayed is one of consumer excess, the reality is that many consumers have no access to FS at all. The broad picture revealed by the work of CI members is that in developing countries the issue is basic access, while in rich countries consumers suffer from a lack of impartial advice amid a plethora of options.

The results of a CI member survey, summarised in this briefing, are a tribute to the efforts of the consumer movement and the sheer variety of activities is hugely impressive. I believe that the involvement of CI members in efforts towards reforming this vital, yet under-performing sector, gives those of us interested in consumer rights cause for great optimism.



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In India, 73% of 89 million farmer households have no access to formal sources of credit.



Consumers and financial services

The FS sector is lagging behind many other industries, both in terms of customer care and basic access. For example, there will soon be 1.7 billion people in the world with mobile phones but no bank account.¹

The UN reported in 2006 that risks in lending to the poor have been consistently overrated². At its peak in 2007, the FS sector accounted for 14% of GDP in the US. While accounting for 5% of private sector jobs, during this time FS was responsible for no less than 40% of total corporate profits (up from 6% in the 1980s³) and 23% of stock market value⁴. And with the furore over salaries and bonuses at the time of the financial crisis, many argue that the sector has badly under-served poor consumers while considerably over-serving its own senior executives.

While bank account coverage in Denmark for instance, is 99%, in most developing countries formal finance sectors provide access to only 20% of the population and actual usage is lower still. In India, 73% of 89 million farmer households have no access to formal sources of credit, and 82% of the rural dwellers do not have insurance. In Laos, 90% of the rural population do not have access to formal banking services⁵.

CI carried out a survey of member activities during August and September 2009 in preparation for World Consumer Rights Day (WCRD) 2010. The results, summarised here, reveal a wide spectrum of experience, encompassing 'traditional' activities such as consumer education, comparative information and advice, as well as high level representation vis-à-vis regulators and service providers, legal actions and the development of new forums for service providers to face their customers.

The responses received from across all regions of the globe indicate that a majority of CI member organisations focus on private sector FS, mainly:

- retail banking (deposits and payments)
- consumer credit
- loans for house purchases
- insurance.

Many CI members also work on public sector FS, such as pensions and social security, as well as third sector providers, such as mutuals and cooperatives. In addition there is a growing diversity of work by consumer organisations in this area, including:

- capital markets and investment in **India** and **Spain**
- pensions in The **Netherlands**
- informal money lending in both rich and poor countries in the **UK** and **Fiji**
- management of mutual savings banks in **Spain**.

What are CI member organisations doing on financial services?

Consumer education

This is the most common activity in FS carried out by CI member organisations.

Taken from many examples, those from Eastern and Southern Africa aim to equip consumers for the rapidly developing FS market through slots on TV and local radio, town hall meetings and distributing leaflets. Other examples from Africa include:

- **Kenya** - The Youth Education Network (YEN) works with local authorities to disseminate information and conducts training workshops in the Nairobi slums. The Consumer Information Network (CIN) has full time education staff and an Expert Committee on Education.
- **Zambia** - The Zambian Consumer Association (ZACA) conducts 'training the trainer' courses.
- **Tanzania** - The Tanzania Consumer Advocacy Society (TCAS) has over 1,000 volunteers supported by 23 employees.



- **Botswana** - As a pre-requisite to consumer education, the Botswana Consumer Centre for Advocacy, Research and Orientation (BCCARO)⁶ carried out a survey of financial literacy among secondary school children.

Examples from other countries include:

- **Malaysia** - CI's Kuala Lumpur Office is working with the Citi Foundation on a financial education project, producing light-hearted information TV spots aimed at a mass audience and linked to news programmes on two channels. Plans are in place to roll this pilot project out to other CI member organisations in Asia Pacific.

Many CI members provide regular advice in their publications. Some produce specialised publications dedicated exclusively to comparative testing in FS, such as:

- **Germany** – *Finanztest* by Stiftung Warentest
- **UK** – *Which? Money* by Which?
- **Belgium** – *Budget & Droits* by Test-Achats
- **Spain** – *Dinero y Derechos* by Organización de Consumidores y Usuarios (OCU).
- **Chile** – Organización de Consumidores y Usuarios de Chile (ODECU) has a dedicated website featuring five steps towards getting out of debt, a debt calculator and advice on how to deal with creditors.
- **Portugal** – Associação Portuguesa para a Defesa do Consumidor also run a similar site as the one in Chile.

Consumer advice

This can be provided to the general public or to individual members. At the time of CI's survey, many member organisations were heavily engaged in providing advice in relation to the global financial crisis:

- **Germany** – Verbraucherzentrale Bundesverband (VZBV) set up a special hotline taking 140,000 calls from consumers during just two months in late 2008.
- **Hong Kong** – The volume of enquiries on FS to the Hong Kong Consumer Council (HKCC) rose twelve-fold between 2007 and 2008.
- **Denmark** – The special government-funded debt counselling service is coming on stream in 2009, thanks to successful lobbying by the Danish Consumer Council (DCC).

Dispute resolution

This often involves the participation of consumer organisations in panels, as consumer representatives considering individual cases:

- **Denmark and France** – DCC and Consommation, Logement et Cadre de Vie (CLCV) are involved with well-established tripartite panels, dealing with unresolved debt cases. The membership comprises of industry and consumers in both cases, plus the national bank (as secretariat) in France and a Supreme Court judge in Denmark.
- **Italy** – Associazione Consumatori Utenti has just nominated three national conciliators at the request of the national bank, which supervises the credit sector.



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- **Indonesia** – Yayasan Lembaga Konsumen Indonesia convenes collective complaints hearings with industry and the relevant regulator.
- **Hong Kong and Fiji** – The Hong Kong Consumer Council (HKCC) was involved in settling 1,100 cases in the last year. As there are no financial or banking ombudsmen, HKCC and the Consumer Council of Fiji (CCF) campaign for more redress mechanisms.

Consumer representation

Representing the consumer perspective on governmental regulatory or industry self-regulatory bodies; examples include:

- **Denmark** – DCC is negotiating a 'soft law' (code of practice) with the ombudsman, covering consumer credit and payday loans.
- **Netherland** – Consumentenbond is a member of the co-regulatory body on advertising. The organisation also negotiates with the Ministry of Finance, Association of Insurers, Bankers Association and Federation of Intermediaries.
- **France** – CLCV sits on the Consultative Council for Financial Services, convened by the national bank.
- **Belgium and Germany** – Test Achats and VZBV represent the consumer interest on the committee of the FS Ombudsman.
- **UK** – Individual expert members coming from consumer organisations were chosen for the consumer policy committee as part of the statutory Financial Services Authority.



Sometimes, despite the absence of formal recognition of consumer organisations, negotiations happen on an ad hoc basis. For example:

- **Gabon** – SOS Consommateurs negotiate bilaterally with the government on the harmonisation of contract terms for credit, despite non-membership of any official consultative process.
- **Russia** – Ad hoc negotiation has taken place between the Interrepublican Confederation of Consumer Societies (Konfop), the Economics Ministry and the FS sector to agree on the statutory provision of a ‘summary box’ covering the terms of new credit contracts.

Legal actions

Undertaken often on behalf of consumers, sometimes directly as litigants or on other occasions prompting the relevant authorities to take legal action:

- **Germany** – A successful intervention by VZBV on unfair contract terms in insurance resulted in consumers being able to terminate cover after one year, compared with previous ten-year limits.
- **Brazil** – Pro Teste took legal action to suspend the practice of charges to open a bank account.

- **Hong Kong** – The HKCC was called as an expert witness on credit agreements, resulting in reform of credit charges and the striking down of ‘unconscionable contracts’ in credit. A Consumer Legal Action Fund was established by HKCC to give access to legal remedies.
- **India** – Where cases are not resolved the Consumer Education and Research Centre (CERC) may jointly file a case with the individual consumer before the official Consumer Commission.

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- **UK** – Which? exposed the misselling of payment protection insurance for credit cards. This resulted in the government agency taking companies to court. The National Consumer Council (NCC) also launched a ‘super complaint’ about doorstep-selling of credit on behalf of millions of consumers. The complaint was referred to the Monopolies Commission who tightened up requirements about assessment of creditworthiness.
- **Mauritius** – The Institute for Consumer Protection (ICP) successfully campaigned for the respect for choice in the insurance market to be incorporated into the Insurance Act of 2007.



- **France** – Union Fédérale des Consommateurs (UFC), sought the intervention of the state ombudsman when the FS ombudsman refused to press the credit companies to carry out checks of consumer credit-worthiness. The state ombudsman gave his view that such checks should be mandatory and the Government has introduced a draft law to that effect.

What are consumers saying?

CI member organisations often carry out surveys to gather data and evidence to support and inform other activities. These surveys can vary from highly structured market research and examining complaint files to requesting their own members to provide examples of commercial practices.

A wide range of CI members (**Lebanon, France, Spain, Gabon, India**) have surveyed consumer indebtedness.

Some other survey findings include:

Cost of credit

- Consumers in **France** and **Denmark** were pushed towards higher rate loans, particularly revolving credit.
- Consumers in **Hong Kong** were denied refunds of 'stored value' on store cards.
- Only 45% of consumers in the **US** said they were paying less on credit than a year ago, and 32% had cancelled a credit card since January 2008.
- Consumers in **El Salvador** complained of excessive charges for credit cards.

Client assessment practices for granting credit

- **Serbian** consumers encountered discrimination in credit assessment; companies used ownership of a fixed line telephone as a proxy for credit-worthiness.

Access to banking services

- A bank branch closure programme in **Hong Kong** slowed down as a result of an intervention by HKCC.
- Ligue pour la Défense du Consommateur au **Bénin** (LDCB) carried out a survey on access and charges.

Good and bad practices by service providers

- High administrative charges in Indonesia were found to be wiping out bank accounts with low balances.
- A lack of access to independent advice and conflicts of interest were an issue for consumers in **Germany, Finland** and **Denmark**.
- In **France** a lack of transparency in bank charges was revealed.
- In a wide-ranging survey of 3,000 **Australian** consumers big commercial banks emerged far worse than mutual banks and credit unions. In response to these findings the big banks promised a cut in penalty fees.
- Surveys in **India** uncovered problems including non-payment of insurance claims and arbitrary amendments of bank charge calculations.



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Human stories

- Consumers Union, **US** produced *The Faces of Foreclosure*⁷, a video presentation of the stories of individuals caught up in the mortgage crisis.

Calling for change

Surveys often form the basis of campaigns to which other activities listed earlier, such as publications, representation, lobbying, contribute. What follows is a selection of changes that CI member organisations have called for in their campaign activities.



Legislation to regulate specific practices or services

- **Gabon** – SOS Consommateurs ran a campaign for the regulation of micro-finance.
- **Brazil** – Pro Teste called on banks to stop charging consumers to open accounts.
- **France and Botswana** – Both CLCV and BCCARO have campaigned nationally for mandatory credit referencing.
- **Fiji** – CCF were instrumental in persuading the government to pass the Consumer Credit Act in to law in 2009, creating a framework of regulation with new rules on transparency.



Regulation of services under existing legislation

- **Hong Kong** – HKCC campaigned to amend the national banking code in order to reduce bank charges and improve deposit protection.

- **France** – CLCV and UFC pushed to keep caps on interest rates.
- **Brazil** – Pro Teste successfully campaigned to enforce transparency of bank charges.
- **India** – Consumers Association of India (CAI) campaigned for APR to be calculated on daily balance.
- **Spain** – Confederación de Consumidores y Usuarios (CECU) and OCU have campaigned for the regulation of consolidation loans.

HKCC are campaigning for a FS ombudsman to be set up.

Development of new services, improvement in use of services

- **Hong Kong** – HKCC are campaigning for a FS ombudsman to be set up.
- **Indonesia** – YKLI are calling for better use of the Mediation Bureau by consumers and for improvements to its procedures.

Emerging issues

While the examples above emphasise successes, CI members still foresee significant challenges in FS in the coming years. Some of the salient themes and national developments are outlined below.

Lack of independent advice, conflicts of interest

- **Netherlands** – Following pressure from Consumentenbond, certain types of bonuses have been suppressed in the insurance sector and commission must be disclosed.
- **Germany and the UK** – VZBV and Which? are pressing for similar measures regarding incentives.
- **Benin** – Demonstrating that this is not just a rich country issue, LDCB identify a need for independent advice and highlighted a widespread fear that a lack of consumer familiarity with new FS poses particular risks in emerging markets.
- **Russia and Serbia** – To counter such unfamiliarity, Konfop is working with the World Bank on a programme to develop financial literacy and the Association of Consumers of Serbia has trained volunteers to disseminate consumer information.



In some rich countries such as France and the US micro-credit is developing among the very poor.



Unfair contract terms

This is a universal concern, particularly regarding inconsistency within and between countries.

- **Latin America** – A collaborative effort by CI members in the region revealed that multinational banks were engaged in practices that would be illegal in the EU, where they were headquartered. A notable example was the lack of advance disclosure of conditions of credit contracts.

Access to services

- **Europe and North America** – In some rich countries such as **France** and the **US** micro-credit is developing among the very poor.
- **West Africa** – In developing countries attention is being paid to the services that spring up in the absence of 'formal' FS. LDCB, **Bénin** has campaigned for development of 'social assistance funds'. SOS Consommateurs, **Gabon** have called for universally available savings banks, as well as scrutiny of micro-credit, a phenomenon that is developing rapidly on the African continent.

Cost of 'informal' credit

- **Fiji and Hong Kong** – Many CI members are actively combating excessive charges from small-scale moneylenders. CCF has been urging consumers only to borrow from registered moneylenders and even then with caution. HKCC reports on unlicensed money lending.

- **UK and Denmark** – Action by NCC in the UK sparked a Competition Commission enquiry into door-to-door moneylenders. DCC in Denmark is campaigning for the regulation of deeply embedded practices, such as payday loans, solicited by new technologies like SMS.

Responsible lending and borrowing

- In countries as different as **Botswana** and **France** CI members have drawn attention to the issue of credit referencing to assess the credit worthiness of consumers.
- DCC in **Denmark** point to the example of **Belgium** (where credit assessment is a prerequisite to all consumer credit contracts) as an example to follow.

Conclusions

It is clear that consumer organisations around the world are engaged in a rich variety of innovative activities in the field of FS. From comparative testing to parliamentary lobbying, from courtroom battles to town meetings in poor neighbourhoods. What emerges and stands out is the 'cross-over' nature of many of the issues. Consumers in developing countries can suffer from problems normally associated with the rich world, such as unfair contract terms covering credit cards. Similarly, some rich country consumers suffer from lack of access, requiring the development of new services such as micro-credit. Differences within countries can also be as great as those between them.

It is unfair to assume that developing countries must simply 'catch up' with practices in rich countries with more conspicuous FS markets, and follow their evolution.



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Africa has witnessed a spectacular increase in the field of financial transfers by mobile phone.



Indeed developing countries are advanced in some areas of FS. One widely acknowledged development is that of micro-credit, prevalent in South Asia and increasingly in Sub-Saharan Africa. However, this phenomenon is beginning to attract its critics as formal interest rates are not low. LDCB, **Bénin**, were also critical of unfair contract terms. Micro-credit is generally considered to be for production rather than consumption, a convention found by some to be unnecessarily rigid. CI members in countries as diverse as **France** and **Brazil** are starting to examine this sub-sector more closely.

Africa has witnessed a spectacular increase in the field of financial transfers by mobile phone. It is worth considering the potential for micro-banking using this medium, given the huge increase in mobile connectivity in Africa. 'Leapfrogging' in this way may avoid a slow roll out of banking infrastructure, just as mobile phones avoided the need for developing fixed line infrastructure.

Contrary to widespread perception, micro-services need not necessarily be credit-related. Just as micro-mobile banking and micro-credit have expanded in poor countries, the same may become true of micro-insurance. There are interesting links to explore between insurance, environment and the prevention of natural disasters. Insurance companies in the US and Europe became sponsors of car safety as it reduced their payouts. Likewise, perhaps disaster insurance could lead to insurance funds developing an interest in conservation or reforestation for the prevention of flooding, landslides, water shortages, which damage homes and livelihoods.

In the context of the financial crisis it is clear that some very 'sophisticated' and rich investors in FS displayed a woeful ignorance, both individually and collectively, leading many to ruin. Conversely, there is a depth of financial sophistication

among poor consumers that has been under-appreciated. *Portfolios of the Poor*⁸, a publication by the Financial Access Initiative, studied 250 poor households in **India**, **Bangladesh** and **South Africa** over one year. The researchers found that all the families dealt with at least four types of financial instrument over the course of the year and rural households had total cash flows equal to 10 to 30 times their end of year asset values. The sheer complexity of transactions (involving savings clubs, banks, formal and informal institutions, savings and debts) belies the idea of the poor as financially ignorant. In fact, the sums of money are simply less than those transacted by wealthier people. Some of that same basic expertise is to be found among CI's membership. For example, Consumer Unity and Trust Society (CUTS), **India** is registered as an investor association and advises small rural investors. CUTS is also conducting 10 programmes for investor protection in Rajasthan.

At the time of writing, many issues previously regarded as old-fashioned in the rich world are coming back into favour. One such example is regulation through the imposition of maximum interest rate caps, which is strongly defended by CI members in **France** and **Belgium**. The financial crash has brought forward consideration of far-ranging concepts such as the right to a bank account, which exists in law in **France** and **Belgium**. The traditional role of 'popular' banks is

coming under scrutiny in this regard, as they have the merit of a generalised infrastructure. But in **France**, **Germany** and the **UK**, national savings or post banks have lost ground. In some cases, notably **France**, these institutions have explicitly lost their social mission, even while public perception is to the contrary.

Postal banks are the closest to a national service in many countries in **Africa** and **Asia**. But will the development of micro-services allow developing countries the chance to build on or even 'leap-frog' this phase without the laborious construction of a physical network that will take years to serve everyone? There may not be a definitive 'answer' as such, but if universal service is to be sought and achieved, and if the poorest populations are to be included, there are potentially very flexible models under development on which the global consumer movement must bring its considerable experience and expertise to bear.

For any more information please contact CI at campaigns@consint.org. Alternatively, to find out more about any of the CI member organisations mentioned in this briefing go to the member section at www.consumersinternational.org

Endnotes

- ¹ The Economist, 24 September 2009 [original source: Consultative Group to Assist the Poor (CGAP)]
- ² UN, *Blue Book – Building Inclusive Financial Sectors for Development*, 2006
- ³ UN Conference, *World Financial and Economic Crisis and its Impact on Development* Draft outcome document presented by M. D’Escoto Brockmann, 2009
- ⁴ The Economist, 24 January 2009
- ⁵ Nimal A. Fernando, *Low income households access to financial services: International experience, measures for improvement and the future* Asian Development Bank EARD Special Studies, October 2007
- ⁶ BCCARO is *not* currently a member of CI.
- ⁷ *Faces of foreclosure* Consumer Reports Magazine, March 2009.
<http://www.consumerreports.org/cro/magazine-archive/march-2009/money/scams/faces-of-foreclosure/faces-of-foreclosure.htm>
- ⁸ Daryl Collins, Jonathan Murdoch, Stuart Rutherford, Orlanda Ruthven *Portfolios of the Poor: How the World’s Poor Live on \$2 a Day* Financial Access Initiative, 2009. www.portfoliosofthepoor.com

World Consumer Rights Day 2010

The global consumer movement will once again unite for a day of action on 15 March 2010. The theme for World Consumer Rights Day (WCRD) 2010 will be 'Our money, our rights', and will highlight consumer issues concerning financial services.

To highlight the theme, CI has suggested a number of activities to member organisations:

- Mystery shopper investigation
- Consumer survey
- Comparative test of financial services/products
- Hold a public event

For more helpful suggestions please download the *Our money, our rights – a guide to member action on WCRD* briefing from www.consumersinternational.org



World Consumer Rights Day 2010
Our money, our rights:
fighting for fair financial services

Name **Consumers International**
Expires **15 March 2010**



Consumers International
Authorised Signature

For ideas on what to do on 15 March 2010,
download '*Our money, our rights –
a guide to member action on WCRD*'
from www.consumersinternational.org/wcrd

15 March 2010
World Consumer
Rights Day

Tell CI about your plans at campaigns@consint.org



CI is 50

Consumers International marks 50 years of the global consumer movement in 2010. Celebrate with us as we continue to support, promote and protect consumer rights around the world.

www.consumersinternational.org/50