

## **Financial Consumer Protection Task Force: pushing forward a key topic**

*Speech by Theodor Kockelkoren, Chair of the G20/OECD Task Force on Financial Consumer Protection and acting chairman of the Netherlands Authority Financial Markets (AFM) at the G20 seminar on Financial Education and Consumer Protection in Moscow, June 14<sup>th</sup> 2013.*

I am happy and honored as Chair of the G20-OECD Task Force on Financial Consumer Protection to present you an overview about the Task Force. I would like to convey three main messages regarding the urgency of effective consumer protection, our current approach and thoughts regarding future work.

### ***The urgency of financial consumer protection***

Simply stated, my first message is that we should urgently work on consumer protection. The urgency follows from the notion that our efforts into financial education will fully be harvested only in the medium to long term. Therefore, it is paramount that in the short term financial consumer protection is implemented to bridge the time gap. Let me explain this in three points.

1. Research after research shows that financial literacy in many countries is limited to less than half of the adult population. This includes a sizable segment of higher educated adults. The percentage seems not to have increased significantly over time. On the contrary, some research in developed countries suggests that young adults perform worse than their parents. To give two examples: in the Netherlands 30% of the people are not able to work with percentages. And two thirds of the adult population cannot apply the compounded interest (interest-on-interest) concept, which is so crucial in many financial decisions. So the task of consumer education is daunting.
2. Closing the financial literacy gap requires a resolved and intense effort for a prolonged period of time. Based on the mixed experiences so far it may well take a generation – or more – to really lift financial literacy within a country to a higher level.
3. As a result, it is crucial that in the mean time financial consumer protection helps to prevent that people will become a victim of their financial illiteracy. Without the help of protection measures, we should fear the consequences. There is an increasing number of people whose money concerns materially impact their general wellbeing. Already before the crisis, in 2006, research found that one in four people in the UK suffered relationship problems, potentially leading to physical problems as a result of money related stress. We should expect society's social fabric as well as productivity to suffer the consequences.

Therefore, in addition to improving literacy, the implementation of effective financial consumer protection in the short term is urgent.

### ***The approach of the task force***

This brings me to my second main message: "It is the believe of the Financial Consumer Protection Task Force that the best way to support the implementation of effective financial consumer protection, is to create a toolbox filled with a broad range of effective approaches, both common and emerging." We welcome your thoughts. Let me now present briefly what has been done, and explain our current reasoning and approach.

### *What has been done?*

In February 2011, the G20 Finance Ministers and Central Bank Governors called on the OECD, the Financial Stability Board and other relevant international organizations to develop principles on financial consumer protection. The G20-OECD Task Force started work on developing these principles in April 2011. The high level principles, ten in number, were endorsed at the G20 Cannes Summit in November 2011. The principles have been designed to assist governments and regulators to enhance financial consumer protection. At the Los Cabos summit in Mexico, June 2012, the G20 leaders endorsed the action plan to identify effective approaches to support the implementation of the high level principles.

### *Why do we believe this action plan is the best way forward?*

The field of financial consumer protection is developing quickly and will probably continue to do so for some time. The field is relatively new. Also, experiences from earlier approaches and new insights from academia regarding how consumers think and feel about, as well as handle their financial issues, have stimulated the thinking of policy makers and practitioners worldwide. As a result many new approaches are being developed and implemented. I think this is to be applauded and stimulated.

Therefore, the Task Force has developed an action plan and approach that aims to identify and present a broad range of effective approaches, including common approaches applied already in a broader range of jurisdictions and emerging approaches that are more recently implemented in a few jurisdictions. The effective approaches will be presented principle by principle. In this way a toolbox is developed, instead of detailed guidelines. The effective approaches are illustrative and serve to inspire and stimulate the implementation of the high level principles as well as to share lessons learnt and foster new insights on what works well under which circumstances - as naturally circumstances can be very relevant.

The process the Task Force has followed so far can be characterized in three points. It has evolved over time and with experimentation.

1. In this first phase we have put the focus on three principles, namely (i) principle 4 on transparency and disclosure, (ii) principle 6 on responsible business conduct of financial services providers and their authorized agents, and (iii) principle 9 on complaints handling and redress.
2. We have committed to a member led exercise. For each principle subgroups have been installed to push forward the work that is discussed in the Task Force at large. The subgroups have, I think, under the inspiring lead of the vice chairs, most notably Juan Luis Diez Gibson and Gyan Bhushan, delivered good results about which we will learn more later today.
3. The identification of effective approaches was based on a survey to which many members responded extensively. Using this rich material the experts on the subgroups and the Task Force at large have been able to draft an update report on the three principles mentioned. An informal consultation with stakeholders has further enriched the material. In the update report to be presented first to the G20 Finance Ministers in coming July, the effective approaches and some underlying assumptions are described. Let me give some examples for illustrative purposes.

- An effective approach implemented in a broader range of jurisdictions, referred to as a common approach, is the following: “Financial service providers and authorized agents take into account the needs, financial situation, attitude to risk and interests of different type of consumers, particularly more vulnerable consumers to determine whether the financial product to be recommended is adopted or filled to their needs and situation. The information to be retrieved from the consumer by the financial service provider or authorized agent is proportionate according to the nature and complexity of the consumer situation.”
- An example of an emerging approach is: “In order to avoid financial products leading to consumer detriment, financial services providers that provide products, implement adequate product approval processes to ensure that the products are suitable for the targeted consumer segment. Regulators have the power to intervene if products enter the market that are not suitable.
- An example of an underlying assumption is: “Duty of care (and other conduct requirements) is necessary in addition to improved transparency as consumers are ‘bounded in their rationality’ and therefore cannot be expected to always make decisions that are in their own best interest.”

I hope the above has given you a flavor of the type of results we think will contribute to the implementation of the high level principles.

### ***Future work***

Finally my third main message: “We will work on the remaining principles and ask you to think about how to keep the toolbox alive after the final report is delivered.”

First of all we will identify effective approaches for the other principles. In this work we will cooperate closely with INFE on consumer education. We will also draw on the work of the Worldbank for example on institutional arrangements. We will learn more in the next presentation. We will also continue to cooperate with other organizations, such as the international standard setting bodies. The work will follow a similar process to the process we have developed in the current work. We aspire to deliver the final report on effective approaches by June 2014. Beyond that time the approaches should not collect dust but instead continue to evolve as a result of new insights and experience. We welcome your thoughts on how to do this.

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This brings me to the end of my contribution. Recapping my main messages:

1. Financial consumer protection requires urgent attention as it complements the literacy investments that will deliver results across countries in the mid to long term.
2. It is our belief that the best way to stimulate implementation of effective consumer protection is by developing a toolbox of effective approaches, and keeping it alive.

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3. We will deliver an update report shortly and aspire to deliver the toolbox by June 2014. We welcome your thoughts on how to keep learning from one another structurally by keeping the toolbox up to date.