PERU

Diagnostic Review of

Consumer Protection and Financial Literacy

November 2013

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PERU

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Abbreviations and Acronyms

AAFP	Association of AFPs
AFP	Administradoras Privadas de Fondos de Pensiones (private pension funds)
APESEG	Asociación Peruana de Empresas de Seguros (Association of Insurance Companies)
ASBANC	Asociación de Bancos del Perú (Banks Association of Peru)
ASOMIF	Asociación de Instituciones de Microfinanzas del Perú (Association of Microfinance Institutions of Peru)
ATM	Automatic Teller Machine
BCRP	Banco Central de Reserva de Peru (Central Bank of Peru)
CPFL	Consumer Protection and Financial Literacy
CCT	Condicional Cash Transfer
DA	Defensor del Asegurado (Defender of the Insured)
DCF	Defensor del Cliente Financiero (Defender of the Financial Client)
EU	European Union
FENACRE	Federacion Nacional de Cooperativas de Ahorro y Credito del Peru (National Federation of Savings and Loans Cooperatives)
FI	Financial Institution (banks and microfinance institutions)
FSAP	Financial Sector Assessment Program
FSD	Fondo de Seguros de Depósitos (Deposit Insurance Fund)
GDP	Gross Domestic Product
General Law	General Law of the Financial and Insurance Systems and Organic Law of the Superintendence of Banking and Insurance
GPU	Gerencia de Productos y Servicios al Usuario (Products and User Services Office)
IMF	International Monetary Fund
INDECOPI	Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual (National Institute for Defense of Competition and Protection of Intellectual Property)
INEI	Instituto Nacional de Estadística e Informática (National Institute of Statistics and Informatics)
IOPS	International Organization of Pensions Supervisors
MEF	Ministerio de Economía y Finanzas (Ministry of Economy and Finance)
MIDIS	Ministerio de Desarrollo e Inclusión Social (Ministry of Development and Social Inclusion)
MTPL	Motor Third Party Liability
NBFI	Non-bank financial institutions
NGO	Non-governmental organization
POS	Point of Sale
SBS	Superintendencia de Banca, Seguros y AFP (Superintendence of Banking, Insurance and Private Pension Funds)
TCEA	Annual effective cost rate
TREA	Annual effective return rate
WB	World Bank
YoY	Year-on-year

Preface

The Diagnostic Review for Consumer Protection and Financial Literacy (CPFL) provides a detailed assessment of the institutional, legal and regulatory framework for consumer protection in four segments of the financial sector: banking, microfinance, pensions and insurance. The review was undertaken in response to a request for WB technical assistance in the field of financial consumer protection made by the Superintendencia de Banca, Seguros y AFP (SBS) in October 2012.

A World Bank (WB) mission visited Peru from March 18-27, 2013 to prepare the review. An Aide Memoire was prepared in the field highlighting preliminary findings and recommendations and shared with official counterparts for comments. The objectives of the CPFL Review were: (i) to assess the existing consumer protection and financial literacy framework by reviewing laws, regulations, and practices in Peru compared to international good practices; and (ii) to provide recommendations on ways to improve the level of financial consumer protection and financial literacy in Peru.

The CPFL Review is part of the World Bank's Program on Consumer Protection and Financial Literacy. It seeks to identify key measures in strengthening financial consumer protection, with the ultimate aim of increasing the availability and transparency of financial information, helping build consumers' trust in the financial sector and expanding their capacity to wisely use financial services.

CPFL Reviews against Good Practices have been conducted by the World Bank in a plethora of countries including Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Kazakhstan, Kosovo, Latvia, Lithuania, Malawi, Mozambique, Nicaragua, Pakistan, Romania, the Russian Federation, South Africa, Slovakia, Tajikistan, Tanzania and Ukraine.

The main objective of the Review is to assess the legal/regulatory and institutional frameworks for financial consumer protection in a country, with reference to international best practices. The Review addresses the following issues: 1. Institutional Arrangements, 2. Legal and Regulatory Framework, 3. Disclosure, 4. Business Practices, 5. Dispute Resolution Mechanisms, and 6. Financial Education.

The Review is based on compliance with a set of Good Practices for Financial Consumer Protection[1] which was developed by the World Bank since 2006. They provide a set of good practices based on in-depth country level reviews of consumer protection and financial literacy conducted by the World Bank as well as international benchmarks, such as the principles released by the Basel Committee, IOSCO and IAIS, as well as the OECD recommendations for financial education and awareness on pensions, insurance, and credit products. The Good Practices were partly informed by provisions of directives, laws, regulations and codes of business practices from the EU, United States, Australia, Canada, France, Ireland, Malaysia, Mexico, New Zealand, Peru and South Africa.

1 http://responsiblefinance.worldbank.org/~/media/GIAWB/FL/Documents/Misc/Good-practices-for-financial-consumer-protection.pdf

Executive Summary

A sound consumer protection and financial literacy framework is essential to ensure responsible access to financial services and that expanded access benefits consumers and the economy as a whole. Well-designed consumer protection and financial literacy can improve trust and understanding of financial services in turn leading to greater usage and help avoid harmful impacts on consumers and financial institutions.

Access to finance has improved dramatically in the past decade in terms of amounts of financial balances and transactions, presence of points of service, and number of financial system users. By implication, many users are new to financial services, and the education level for the new customers is probably lower than what it was. The expansion of financial services to the lower income population raises the bar for the protection of consumers and the challenge of financial literacy. In tandem with policy measures taken to promote greater financial inclusion, adequate arrangements for ensuring the responsible use of financial services are needed.

Peru has built a comprehensive regime for consumer protection in financial services in the last decade, and the approach to consumer protection and financial literacy in Peru is generally well-balanced. Peru's regulatory and supervisory framework for disclosure and transparency has insights to offer as a model for other countries. Detailed regulations on complaints handling and fair treatment of consumers have been established, and a wide range of financial awareness and education initiatives complement legal and regulatory consumer protection measures.

Notwithstanding an overall well-balanced approach, this review aims to identify opportunities to improve efficiency for example by streamlining procedures and reducing overlaps. Having in place an extensive framework for consumer protection and financial literacy calls for ongoing evaluation of the effectiveness and efficiency of the measures taken and imposed on the industry such as the current disclosure and transparency regime.

Current institutional arrangements regarding CPFL involve two main institutions with unclear delineation of responsibilities. The Superintendence of Banking, Insurance and Private Pension Funds (SBS) is the main financial supervisory authority in Peru, covering most financial service providers.[2] INDECOPI[3] on the other hand is the general consumer protection and competition agency in Peru. Currently both institutions handle complaints from consumers and both institutions supervise the financial industry (except regarding pensions) for market conduct under separate legal mandates.

A clearer division of responsibilities between both institutions could benefit both consumers and the industry. It is recommended that the SBS becomes the single authority for supervision and enforcement of financial consumer protection provisions, and INDECOPI becomes the single authority for complaints handling and consumer redress. A single point of interaction could benefit the consumers as well as the industry; although the separation of consumer redress and market conduct supervision requires a high degree of collaboration between the two institutions.

Concentrating market conduct activities within the specialized consumer protection department of the SBS can improve organizational efficiency. The Gerencia de Productos y Servicios al Usuario (GPU), a department within the SBS, is in charge of market conduct oversight for banks, microfinance institutions and insurance companies, the promotion of consumer empowerment as well as the handling of enquiries and complaints. By contrast, *both* prudential and market conduct supervision for private pension funds is handled by the responsible Superintendencia Adjunta. Given Peru's integrated supervisory model it would be beneficial if all consumer protection activities within the SBS are consolidated under GPU in order to combine consumer

2 With the exception of savings and credit cooperatives that are under the supervision of the Peruvian national federation of savings an credit cooperatives (FENACREP), as well as securities markets firms, which fall under the supervision of the Superintendence of Securities Markets.

3 Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual (National Institute for Defense of Competition and Protection of Intellectual Property).

protection along functional lines and mitigate potential conflicts of interest between the prudential and market conduct supervision. Relatedly, legal protection of GPU staff needs to be further enhanced as GPU currently lacks the legal protection provided to Deputy Superintendents.

Meaningful opportunities to improve the current consumer protection regime were identified on cooperatives, deposit insurance, and the contract clause review process. Bringing savings and credit cooperatives under the financial consumer protection regime established by the SBS would ensure consistency with other financial services providers. Deposits in institutions less than two years old are not covered by deposit insurance even though the institution is a member of the Deposit Insurance Fund (FSD). Expanding coverage to such deposits would not only protect consumers and support stability, but would also lower barriers to entry for new institutions. Current contract clauses are pre-approved for each institution by the SBS, and the development of model contract clauses in consultation between the industry and the SBS could help reduce this regulatory burden both for the SBS and for the industry.

The transparency regime might be enhanced based on insights from consumer testing and could be streamlined through standardized formats of mandatory key facts statements. It is recommended to perform a cost-benefit analysis of the existing transparency regime in order to further streamline regulatory and supervisory processes and apply industry-wide standardization where possible. Consumer testing can assist in this process by measuring the degree of knowledge and understanding of the information materials available to consumers. Although key facts statements such as the Summary Sheet and Informative Note are mandatory and require the provision of certain key information, consumers would benefit further from standardized formats that could be developed in collaboration between the industry and the SBS.

In the area of business practices, uniformly implemented codes of conduct could benefit consumers. Industry associations have made some efforts in this direction, and the SBS is currently developing a code of conduct for the whole financial sector. Comprehensive codes of conduct for each of the financial sectors would establish a uniform standard across financial institutions and help establish trust among financial services users.

The risk of over-indebtedness in select population groups needs careful monitoring. The success of the consumer lending and micro-finance industries raises the risk of over-indebtedness among the low income population, and industry participants voiced concerns about problems in select groups. Whereas the total amounts involved may be small relative to the size and strength of the financial system and thus not represent a systemic risk, the number of people affected could be large, and over-indebtedness in an economic downturn could become a social risk. The SBS has already taken measures designed to curb over-indebtedness, and it is a risk that needs continued monitoring and action as needed.

In addition to the aforementioned consolidation of complaints handling by INDECOPI, it is recommended to ensure that the complaints process starts with the relevant financial institution. Only in the case of the pension system it is legally required that the relevant financial institution be the first point of contact for consumer complaints. It is recommended to extend this principle to all financial sectors before consumers approach an external dispute resolution mechanism. Until a legal change is in place, administrative measures can be taken to achieve a similar outcome.

With a plethora of public and private financial education initiatives, a coordination mechanism is needed to optimize and streamline ongoing and planned efforts. Diverse challenges across demographic and geographical groups require a diversity of approaches. For example, to be effective, financial education programs should adopt appropriate methods to reach low income and rural populations, especially in remote areas of the country where different languages are common. Coordination among programs can enhance their combined impact. A financial education committee under the joint leadership of Ministerio de Economía y Finanzas (MEF-Ministry of Economy and Finance), the Superintendencia de Banca, Seguros y AFP (SBS), the Ministerio de Desarrollo e Inclusión Social (MIDIS-Ministry of Development and Social Inclusion) and the Banco Central de Reserva del Peru (BCRP) that could be organized under the financial consumer protection and financial literacy subgroup of the new inter-governmental Financial Inclusion Council could provide useful leadership and coordination for the development of a national financial education strategy.

Table 1 List of Recommendations

Recommendations	Responsible	Term[4]	Priority
Institutional Arrangements			
Adjust the current division of responsibilities between the SBS and INDECOPI in financial consumer protection: the SBS becomes the single authority for supervision and enforcement of consumer protection provisions; and INDECOPI handles consumer redress. As a first step (1) amending the existing legislation (Consumer Protection Code, General Law as well as existing regulations) and as a second step by (2) revising the memorandum of understanding between the two bodies to address practical implementation issues and facilitate collaboration / coordination.	SBS, INDECOPI, Government	MT/LT	High
Strengthen legal protection for GPU staff	SBS	ST	Medium
Pensions			
Consolidate all market conduct functions within the SBS under GPU	SBS	MT	Medium
Legal and Regulatory Framework			
Develop mandatory model contracts and clauses to increasingly substitute the SBS's pre-approval obligations of contract clauses and enhance consumer protection.	SBS, industry associations	ST	High
Banking/ Microfinance institutions[5]			
Consider bringing all savings and credit cooperatives under the consumer protection regime of the SBS	Government, SBS	MT	Medium
Amend the General Law to provide that members of the Deposit Insurance Fund (FSD) are covered under the deposit guarantee from the moment of their incorporation	Government, SBS	MT	Medium
Consider safeguards for consumers, especially vulnerable segments of the population, when developing implementing regulations under the new electronic money law	SBS	ST	Medium
Insurance			
During the ongoing development of implementation regulations under the Insurance Contract Law, consider the establishment of an enhanced set of consumer protection standards for insurers	SBS	MT	Medium

4 ST, short term, indicates action can be undertaken in 0-6 months. MT, medium term, indicates 6 months-1 year. LT, long term, indicates 1+ years.

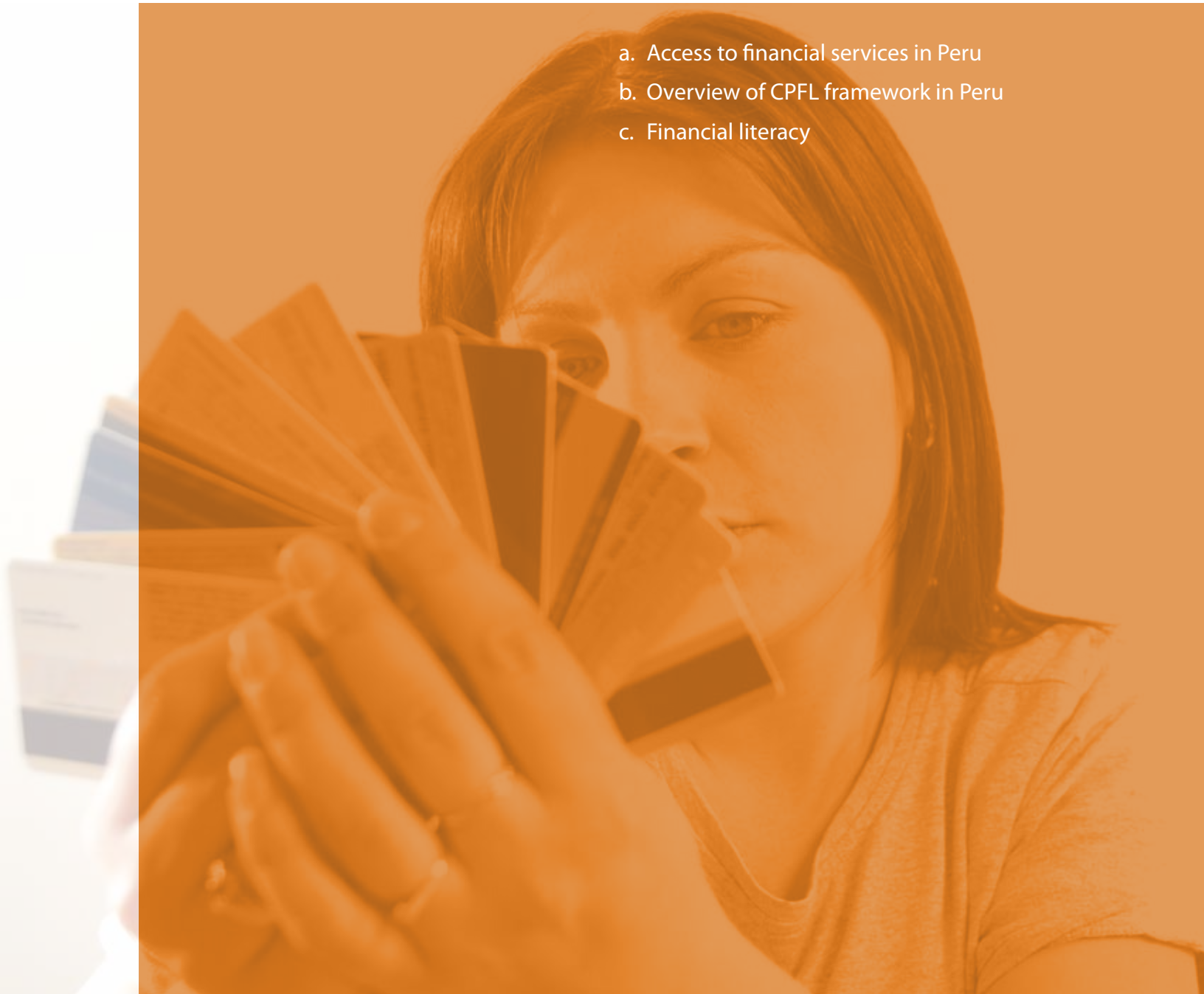
5 Microfinance institutions in this note refers to financing companies, municipal savings and loan institutions, rural savings and loans institutions, small & micro enterprise development companies (Edpymes), savings and credit cooperatives and a specialized bank (Mibanco).

Recommendations	Responsible	Term[4]	Priority
Disclosure			
Consider consumer testing to measure the degree of consumers' knowledge and understanding of the various information materials available	SBS, industry associations, consumer associations	ST	High
Conduct a cost-benefit of the transparency regime comparing the costs that financial institutions and supervisors face in order to comply and supervise these requirements	SBS, industry associations, consumer associations	ST	High
Consider issuing public warnings and publishing data on sanctions applied to financial institutions for breaching financial consumer protection provisions	SBS	MT	Medium
Banking/ Micro finance institutions			
Develop and require all institutions to use a standard format for the Key Facts Statements and Informative Note	SBS, industry associations	ST	High
Develop a mandatory disclosure wording with respect to financial institutions which are members of the FSD (including stickers with a standard logo) and for savings products that are not covered by the deposit insurance	SBS, FSD	MT	Medium
Pensions			
Consider introducing additional standardized disclosure on historical and projected investment return	SBS, AFP industry associations	MT	Medium
Consider introducing limits on pressure selling at the time of the pension decision	SBS	MT	Medium
Business Practices			
Develop industry Codes of Conduct focusing on disclosure, complaints, product appropriateness and other areas of business practices	SBS, industry associations	MT	Medium
Banking/Microfinance institutions			
Monitor and manage the risk of over-indebtedness among the low income population	SBS	ST	Medium
Pensions			
Implement direct financial disincentives for withholding employer contributions	Government	MT	Medium
Insurance			
Strengthen monitoring of broker conduct and practices	SBS	ST	Medium

Recommendations	Responsible	Term[4]	Priority
Complaints Handling Mechanisms			
Encourage consumers to submit a complaint to the financial institution before approaching an external dispute resolution mechanism	SBS, INDECOPI, financial institutions	ST	High
Provide clear guidance to consumers about the existing complaints handling mechanisms by requiring financial institutions to disclose in all pre-contractual and contractual disclosure documents detailed information on the internal as well as relevant external dispute resolution mechanisms	SBS, INDECOPI, industry associations, consumer associations, financial institutions	ST	High
If the industry-sponsored ombudsmen are to retain a role, as an alternative to INDECOPI, it would be advisable to reconstitute them in accordance with best practice.	Industry-based ombudsmen, industry associations	MT	Medium
Financial Education			
Establish a Financial Education Committee potentially organized under the financial consumer protection and financial literacy subgroup of the new inter-governmental Financial Inclusion Council which is in charge of the development of a national financial education program	MEF, SBS, BCRP and MIDIS and other stakeholders	MT	High
Enhance collaboration with relevant education authorities by more effectively implementing the existing MoU	SBS, Ministry of Education	ST	Medium
Consider developing tailored financial education programs focusing on reaching low income and also rural populations, including those with low levels of literacy	MEF, SBS and MIDIS and other stakeholders	MT	High
Use financial literacy survey results as a baseline to measure the impact of financial education initiatives	MEF, SBS and MIDIS and other stakeholders	MT	Medium

I

Context for CPFL in Peru



a. Access to financial services in Peru
b. Overview of CPFL framework in Peru
c. Financial literacy

The financial sector in Peru is dominated by banks. Overall, banking sector assets account for almost 80 percent of financial system assets and more than 40 percent of Peru's GDP. As of December 2012, there were 16 private banks and 2 state-owned banks. Among the private banks, 11 are controlled by foreign shareholders. The number of private banks' branches has increased from 1,583 by December 2011 to 1,734 by December 2012 (which represents 45% of total branches of financial institutions), whereas the number of ATMs and banking agents also increased, from 4,969 and 10,800 in December 2011 to 6,464 and 14,806 by December 2012 (representing 85% and 58% of total ATMs and agents of financial institutions). The banking sector is concentrated, with the four largest banks accounting for about 80 percent of the sector's credits and about 75 percent of the sector's deposits.

Table 2 **Basic Development Indicators**

GDP (current $US)	197 billion
GDP per capita (current $US)	6,568
Population	29,987,800
- Urban	78%
- Rural	22%
Adult literacy rate	90%

Source: World Development Indicators (2012), UNICEF (2011), UN Data (2010).

The total microfinance sector assets represent about 3.5 percent of GDP and include cajas municipales (2.7 percent GDP), cajas rurales (0.5 percent GDP), and Edpymes (0.2 percent GDP). In addition, finance companies and savings and credit cooperatives account for 1.9 and 1.0 percent of GDP, respectively. By December 2012, there were 13 cajas municipales, 10 cajas rurales and 10 Edpymes. Cajas municipales are MFIs that receive deposits from the public and grant credits especially to small and microenterprises. Cajas rurales are MFIs that also receive deposits from the public, but focus on grant credits to rural small and microenterprises. Edpymes are not authorized to receive deposits from the public, and they are specialized in granting credits to small and microenterprises. The three largest cajas rurales accounting for 79 percent of that segment's credits (and 85 percent of depositors) and the three largest Edpymes accounting for 69 percent of that segment's credits (as of December 2012). The segment of cajas municipales is less concentrated, with the four largest entities representing 58 percent of credits and 63 percent of depositors.

The insurance industry is of modest size with total assets amounting to 4.1 percent of GDP. Peru's penetration rate of 1.5 percent (measured as gross written premiums as a percentage of GDP) is modest compared to both the global average of 6.6 percent and its neighbors such as Chile (4.07 percent), Argentina (2.5 percent) and Colombia (2.24 percent). From a total of 14 insurers, 4 are composite (life and non-life), 5 are life insurers and 5 are general insurers. Two insurers write 60 percent of net premiums, and in the life insurance sector the top five companies held 94 percent of the market in 2012. Motor, property and credit insurance represent the highest non-life growth products, whereas life insurance products are mostly for risk protection rather than investment.

The system of private pension funds (AFPs) provides a significant source of investment funds with 18 percent of GDP worth of assets under management. There are a total of 4 AFPs operating in Peru.[6] All AFPs – except for one - are foreign owned. Affiliates are able to select from three investment options: preservation of capital, balanced/mixed and growth/capital appreciation. By December 2011 the number of private pension affiliates represented 49.6 percent of the total workforce. However, only around 40 percent of affiliates regularly make contributions to their account.

6 In early 2013 the number of AFPs dropped to 3 as shares of one AFP were acquired by two others. Moreover an additional AFP was just authorized to enter the market.

a. Access to financial services in Peru

Peru's financial sector has developed at a strong pace over the past decade backed by financial and macro-economic stability, and Peruvians' are now frequent users of credit, but still lag the regional average in account ownership and savings (Table 3). Since 2000, economic growth rates have averaged 5.8%, and inflation has been brought below 3 percent. On the back of a more favorable domestic environment and in spite of the global financial crisis, real credit has been growing at 26% per year since 2007. Based on the Global Findex survey, among the adult Peruvians 20.5 percent reported having an account at a financial institution, 8.6 percent saved at a financial institution in the past year, and 12.7 percent reported having taken a loan from a financial institution in the past year. In addition, women (17.6 percent) are 5 percent less likely than men (23.4 percent) to have an account at a formal financial institution compared to 34.7 percent and 44 percent respectively in the region. National data suggests that 28 percent of adults are debtors in the financial system (as of June 2012) up by 9 percentage points higher since June 2007.[7] In comparison to the Latin America region, Peru has been relatively successful in developing credit products.

Table 3 **Adults with a Financial Product at a Formal Financial Institution** *(in percentage, adults over age 15)*

Country	Account [a/]	Saving [b/]	Loan [c/]	GNI per capita/US$
Brazil	55.9	10.3	6.33	9,390
Venezuela	44.1	13.6	1.7	11,590
Chile	42.2	12.4	7.8	10,120
Ecuador	36.7	14.5	10.6	3,850
Argentina	33.1	3.8	6.6	8,620
Colombia	30.4	9.2	11.9	5,510
Bolivia	28.0	17.1	16.6	1,810
Paraguay	21.7	9.7	12.9	2,720
Peru	**20.5**	**8.6**	**12.7**	**4,700**
Latin America and the Caribbean	39.2	9.5	7.8	

a/ Defined as an account at a bank, credit union, cooperative, post office, or microfinance institution.
b/ Percentage of adults over 15 that saved at a formal financial institution in the past year.
b/ Percentage of adults over 15 that look out a loan from a formal financial institution in the past year.

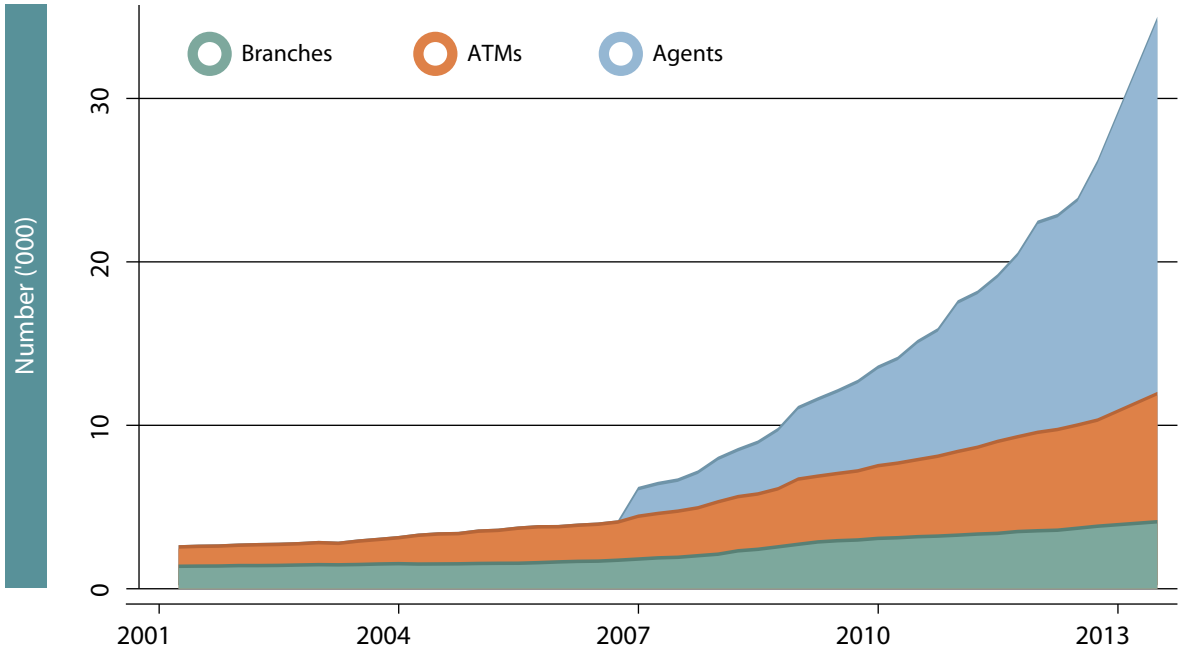
Source: Global Findex, 2012.

7 The increase suggested by the national numbers can be explained by many factors, most notably: i) the Findex survey was carried out at an earlier stage with a limited sampling size, ii) real credit growth at 26% per year since 2007, iii) differences in sampling and methodology.

Financial sector policies have progressively pursued innovations to facilitate greater inclusion, and the financial sector has significantly increased its presence (Figure 1). The introduction of *cajeros corresponsales* (bank agents) has dramatically increased the number of points of service and is reaching 7 percent of the population in districts without other points of service. Enabled by regulatory innovation, in December 2006 banks began opening agents primarily in order to shift low-value transactions away from branches with high operating costs, and secondarily, as a cheaper way to pilot the expansion of their networks to newer areas. By the end of 2012, there were over 16,000 cajeros corresponsales, and since their inception they have continued to grow at almost 50 percent per year. Moreover, mobile branches (trucks and boats) enable reach into more remote areas, and an e-money law was passed at early 2013 to allow for electronic money. This will facilitate the utilization of mobile phones for financial services.[8]

One third of districts representing 83% of the population have financial sector presence with the recent expansion in points of service being associated with some geographical dispersion (Figure 2). At the end of 2012, 59 percent of banks and 48 percent of agents were in Lima, and in total 81 percent and 67 percent, respectively, were in the 25 departmental capitals of Peru. 65 percent of Peru's 1,823 districts had no financial institution at the end of 2012, but being the less populated districts they represent only 17 percent of the populations.

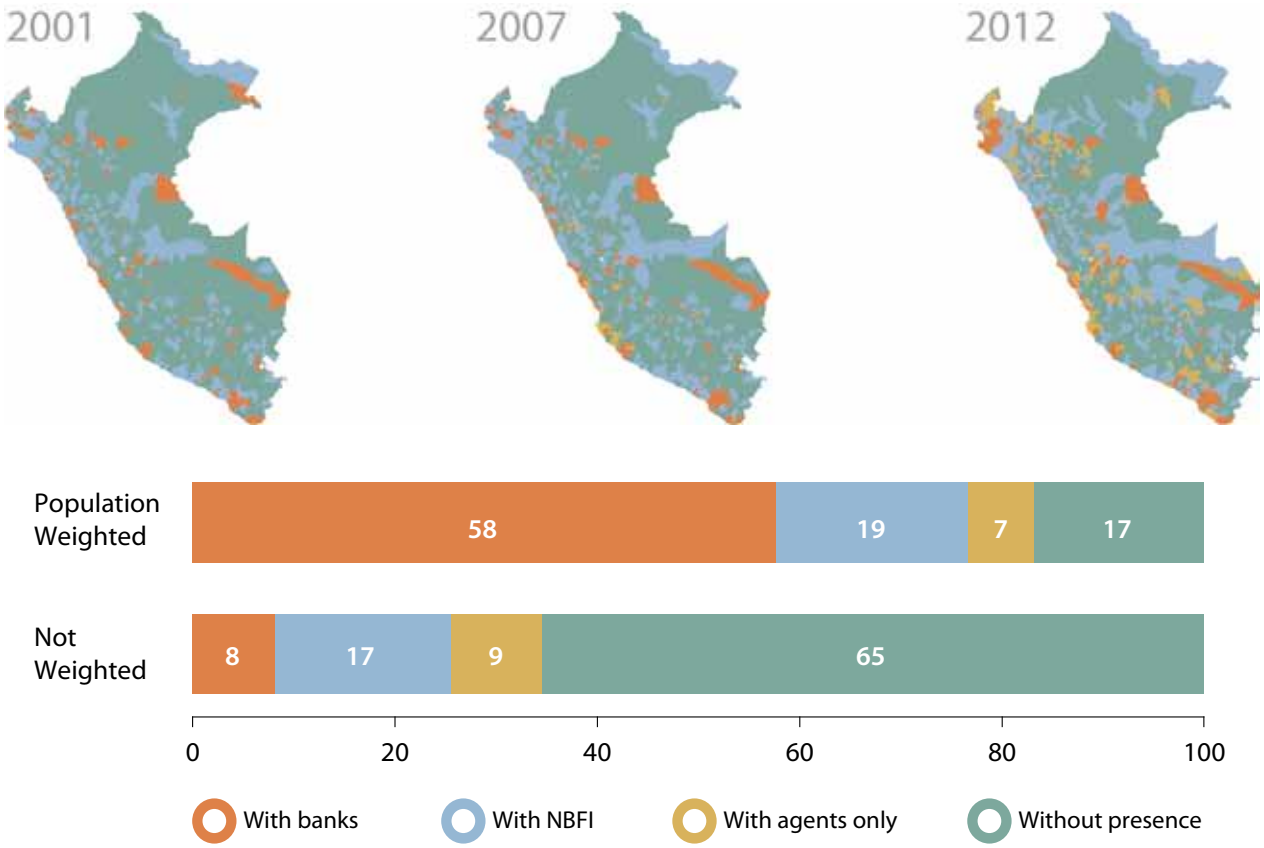
Figure 1 **Financial institution access points: branches, ATMs, and agents**



Source: SBS.

8 A specific Committee, comprised by the relevant areas of the SBS, BCRP, INDECOPI, MEF, National Register of People, Tax Agency and the TELCO regulator) is in charge of proposing the regulation of the electronic money law.

Figure 2 **Presence of financial institutions by district**



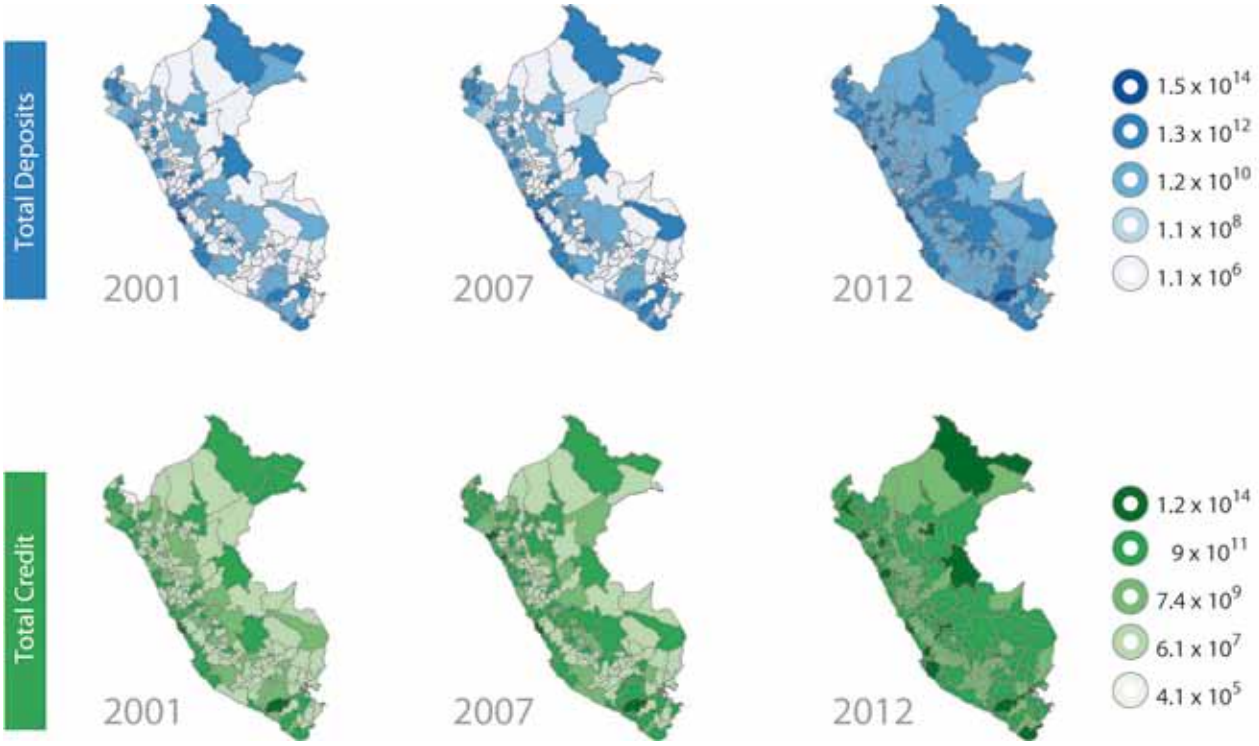
Source: SBS.

Note: A district with a bank branch is labeled 'bank'; a district with no bank, but with an NBFI branch is labeled 'NBF'; and a district with neither a bank nor an NBFI branch, but with an agent is labeled 'agent'.

Credits and deposits have expanded not just in volume, but also in the number of debtors and depositors, and they have become more geographically dispersed (Figure 3). The number of debtors has grown from 3.3 million to 5.2 million and depositors from 9.2 to 18 million[9] since 2007 implying a very large number of new users of financial services.

9 The number of depositors is the sum of natural persons with a deposit submitted by each bank. Therefore, the total number of depositors in the financial system could be overestimated as a person may have been reported by more than one financial institution as depositor.

Figure 3 Credit and deposit depth by province[10]



Source: SBS.

The expansion of financial services to the lower income population raises the bar for the protection of consumers and the challenge of financial literacy. As the number of financial system users grows, it progressively includes more vulnerable population segments with weaker abilities to understand financial products. In tandem with policy measures taken to promote greater financial inclusion, adequate arrangements for ensuring the responsible use of financial services are also needed.

Well-designed consumer protection and financial literacy can improve trust and understanding of financial services, in turn leading to greater usage. Effective consumer protection ensures that households have access to clear and transparent information about costs, risks and rewards of financial products. Financial literacy equips consumers with the tools needed to make complex financial decisions. As a result, usage of financial services is likely to increase, consumers are better able to benefit from financial services, and harmful impacts on consumers and financial institutions can be avoided (for example from consumer over-indebtedness or from mis-selling of financial services).

10 These maps outline the geographic level of deposits and credit in Peru between 2001 and 2012. Darker areas represent provinces with higher deposits or credit. The scale is in nuevos soles, and the number corresponding to each color band indicates the upper limit of deposits or credit within a province.

b. Overview of CPFL framework in Peru

Over the last decade, Peru built a comprehensive regime for financial consumer protection. Consumer protection and financial literacy were increasingly recognized as important elements of the SBS's functions in the 2000s. In 2006 the SBS created the Products and User Services Office (GPU - Gerencia de Productos y Servicios al Usuario), charged with consumer protection (regulation[11], market conduct supervision and disclosure), user orientation, and financial education and inclusion functions. In addition, the SBS resolves certain individual complaints regarding private pension products[12]. The consumer protection and competition agency INDECOPI[13], which handles disputes between consumers and all types of businesses as well as enforces general consumer protection provisions, has improved internal arrangements for financial services issues. Specifically, INDECOPI created a specialized executive dispute resolution unit for financial services in December 2010 and a specialized consumer protection commission to deal with financial services including banking, microfinance, insurance, pensions and securities. Industry associations have started playing a role in ensuring that financial institutions comply with a set of standards of service and quality when dealing with their consumers. In banking and insurance there are two industry-established ombudsman schemes through which consumers can seek redress.

Peru's financial consumer protection regime is sophisticated in comparison with other developing and emerging markets countries. The regulatory and supervisory framework for financial consumer protection regulation in Peru covers the four key consumer protection pillars of transparency, business practices, complaints handling and financial education, and is applicable to all types of supervised entities, including microfinance institutions and insurance companies. Only savings and credit cooperatives fall outside the scope of financial sector consumer protection. Effective approaches implemented by the Peruvian authorities (e.g. key facts statements as well as price comparison website) are recognized in the World Bank Good Practices for Financial Consumer Protection.

The framework for disclosure and transparency in particular has insights to offer for other countries. The current framework includes the requirement for financial institutions to prepare key facts statements summarizing in plain language key terms and conditions of any credit or deposit product, which must be disclosed to the consumer and annexed to the contract. Financial institutions are required to use the regulatory definition of annual effective cost and return rate in all their contracts and marketing materials and to clearly disclose such indicators to their clients. In addition, since 2002 the SBS has been publishing detailed price comparison tools with information on interest rates, annual effective cost and return rates, costs associated with credit and savings products, prices of motor third party liability (MTPL) insurance policies, and coverage of schoolchildren personal accident insurance policies in the internet and in newspapers. Since 2012, the cost of credits and returns of saving products are also published by region. This has helped increase competition and reduce prices, and it is among the most comprehensive efforts to improve consumer disclosure among developing countries (see section on disclosure for further information).

Peru is among the few countries with detailed regulations and published information on complaints handling by financial institutions. Regulated procedures are established for the reception, management, processing and resolution of complaints by all supervised financial institutions; as well as requirements for the submission of indicators, reports and statistics to the SBS. The SBS publishes comparative information on complaint statistics submitted by all supervised entities, and supervised entities publish statistics on the number of complaints handled, including the type of operation, product or service, the purpose, whether the complaints were resolved in favor of the client or not, and the average time taken to resolve complaints. Moreover, SBS has plans to extend complaints statistics reporting requirements of financial institutions to regional breakdowns.

11 GPU coordinates closely with the Superintendencia Adjunta de Asesoria Juridica (SAAJ) in charge of the overall legal and regulatory framework by proposing new regulations/amendments in the area of consumer protection and market conduct.

12 As provided for in the Consumer Protection Code. While SBS resolves complaints regarding affiliate information, general public information, affiliation, contributions and payments other issues such as advertising and market competition are handled by INDECOPI.

13 Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual (National Institute for Defense of Competition and Protection of Intellectual Property)

The SBS has taken measures to ensure fair treatment of financial consumers and prevent risks of over-indebtedness. The existing regulatory framework requires the SBS approval of selected contract clauses of banks, microfinance and insurance companies[14], and the SBS publishes the information on approved and prohibited contract clauses on its website. In addition, the new Insurance Contract Law requires minimum content requirements for policies of mandatory, mass market and personal insurance products. The SBS has also taken actions to prevent the risk of over-indebtedness of financial consumers, including a 2008 regulation referenced in the Good Practices for Financial Consumer Protection.

The SBS supervises compliance with the extensive financial consumer protection framework through regular on- and off-site inspections. In addition, unannounced visits to branches across the nation take place to monitor the quality of information disclosed to consumers and handling of complaints. Supervisory activity also includes market monitoring (e.g. monitoring of financial sector news and advertising). The SBS also uses mystery shoppers for supervision purposes.

Peru offers a good example of how financial regulators can complement the legal and regulatory framework for financial consumer protection with a range of financial awareness and education initiatives. Among other initiatives the SBS created a financial education portal and a financial consumer portal to provide consumer-oriented information on financial sector issues. In 2007 the SBS also developed a Financial Education Program for School Teachers (Programa de Asesoría a Docentes) based on an agreement with the Ministry of Education. In addition the SBS prepared a variety of other training modules, educational materials, radio spots and newspaper ads.

Overall, attention to consumer protection and financial literacy is well balanced, yet suggestions for enhancements were identified. The institutional framework for financial consumer protection and the promotion of financial literacy in Peru are well-developed, well-resourced, and well-motivated. Suggestions for enhancements were identified as described in the next section.

c. Financial literacy

Many Peruvians have limited knowledge of basic financial concepts. A pilot financial literacy survey was undertaken in 2011 based on the survey methodology and questionnaire developed by the OECD[15]. The survey was applied to 2,254 people with the objective of obtaining baseline information for the design and prioritization of financial education initiatives. Due to its sampling design with 96.7 percent of surveyed Peruvians coming from urban areas, the results provide limited representativeness for the whole country. Nevertheless, the survey results present interesting preliminary information about the financial knowledge and behavior of the population. The survey showed that 40 percent of the respondents know how to calculate annual interest rates. At the same time, 31 percent of the respondents do not fully understand the relation between risk and reward, whereas almost half of respondents do not know that they can reduce their risks through portfolio diversification. As expected, those with higher levels of education and income provided a higher number of correct answers.

Many Peruvians do not have a strong savings culture at a formal financial institution. Only 30 percent of respondents said that they had saved at a financial institution in the previous 12 months, whereas 35.4 percent had kept savings at their homes. Furthermore, 45 percent of respondents with a low monthly income (approximately below US$250) save at their homes, whereas only 27 percent of those with a higher monthly income (approximately above US$1,200) save at their homes. Only 16 percent of respondents with primary education use the financial system, whereas 40 percent of those with tertiary education use financial products and services. This shows that most of the financial transactions are still carried out outside of the financial system. Nevertheless, the national savings rate has risen to around 25 percent compared to the 21 percent regional average.

14 As foreseen in the Transparency Regulation 8181 and the Insurance Contract Law.

15 The same survey has also been conducted in Armenia, Czech Republic, Estonia, Germany, Ireland, Malaysia, the Netherlands Norway, Poland, South Africa, and United Kingdom.

The financial product most used by the respondents is the savings account, but Peruvians are not used to comparing the best offer. The three main financial products were: savings account (48.4 percent), public health insurance or EsSalud (34.7 percent) and credit card (28.3 percent). About 34.4 percent of respondents has some type of pension plan (21.5 percent are affiliates to the private pension system and 12.9 percent are affiliates to the public pension system). The survey also showed that only four out of ten respondents do compare different offers before acquiring a financial product, due to lack of will or knowledge.

More than half of the respondents had some difficulties paying the bills over the previous year despite conducting some type of money management. At least 70 percent of the respondents indicated that they carry out some type of activity to manage their money, including the analysis of their payment capacity, the revision of their financial condition, and the payment of bills on time. Also 80 percent revealed that they had a family budget. Despite these efforts, more than half of the respondents said that they had faced difficulties to pay the bills at some point over the previous year. The respondents indicated that the most common solution to deal with such problem was the reduction of expenses (44 percent), followed by additional paid work (19 percent), and asking for money or food from family or friends (16 percent).

II

Framework for Financial Consumer Protection in Peru

a. Institutional arrangements for financial consumer protection
b. Recommendations
c. Legal and regulatory framework
d. Recommendations

a. Institutional arrangements for financial consumer protection

The prudential supervisor, the SBS, is also responsible for market conduct supervision – including for banks and microfinance institutions[16], insurers and private pension funds. It is an autonomous institution, established under the constitution, with power to make binding rules for the financial institutions[17] that it supervises and (where necessary) impose sanctions or intervene. In November 2006 the SBS created a department (GPU), charged with consumer protection (regulation, market conduct supervision and disclosure), user orientation, and financial education and inclusion functions (see Figure 4 for further information).

GPU seems to be well-resourced to fulfill its tasks, but in particular with expanded responsibilities and relevance lacks the necessary legal protection. Reportedly, GPU is well-resourced with a staff of 65[18]. It maintains close relationships with the SBS's Superintendencias Adjuntas (Deputy Superintendencies) dealing with supervision, risk, legal matters and economics. However, GPU lacks the legal protection provided to Deputy Superintendents by the General Law.[19]

Consumer protection responsibilities for private pensions within the SBS are divided across departments which is inconsistent with the arrangements for banking, microfinance and insurance. Although GPU is the responsible body for financial consumer protection within the SBS, the functions of consumer protection supervision, enforcement and complaints handling for AFPs fall under the responsibility of the Superintendencia Adjunta de Administradoras Privadas de Fondos de Pensiones y Seguros (Deputy Superintendency for AFPs and Insurance). This bears the risks of inconsistent approaches across sectors e.g. when it comes to the handling of complaints as well as potential conflicts with the latter department's prudential supervisory roles.

INDECOPI[20] is responsible for cross-sector consumer protection, as well as for competition and intellectual property. INDECOPI is an autonomous institution, established by law in 1992. It enjoys a high profile with consumers. Unlike the SBS, INDECOPI cannot make binding rules for financial institutions – but INDECOPI does have power to impose binding remedies and impose sanctions for breaches of the Consumer Protection Code. It can also conduct supervisory activities against financial institutions under the consumer protection code. The proceeds of any sanctions are retained by INDECOPI as a contribution towards its budget, potentially giving rise to the perception that it might have a financial interest in the decisions it makes about sanctions. In earlier years there were suggestions of inconsistencies among the approach of different INDECOPI regional offices and lack of expertise in some specialist financial-services issues (though there are arrangements for INDECOPI to seek technical input from the SBS). But now INDECOPI appears to have developed improved internal arrangements for providing consistency as well as a specialist financial-services unit.

Powers of the SBS and INDECOPI as regards to consumer protection of financial institutions are overlapping and the division of responsibilities between agencies remains unclear (see Figure 4).The SBS oversees prudential regulations and many of the consumer protection aspects of the financial sector under the sector specific regulatory framework. INDECOPI, on the other hand, oversees the financial sector pursuant to the Consumer Protection Code, which states that the legal consumer protection framework for those entities supervised by the SBS comprises the provisions of the Consumer Protection Code and Law 28587, which complements the Consumer Protection Code in financial services matters. Together with the regulations issued to enforce it, Law 28587 precedes the general

16 Except for savings and credit cooperatives. Capital markets are supervised by the Superintendency of Securities Markets (Superintendencia de Mercado de Valores (SMV).

17 The term financial institutions used in this note refers to the main institutions supervised by the SBS including banks, insurance companies, private pension funds and microfinance institutions.

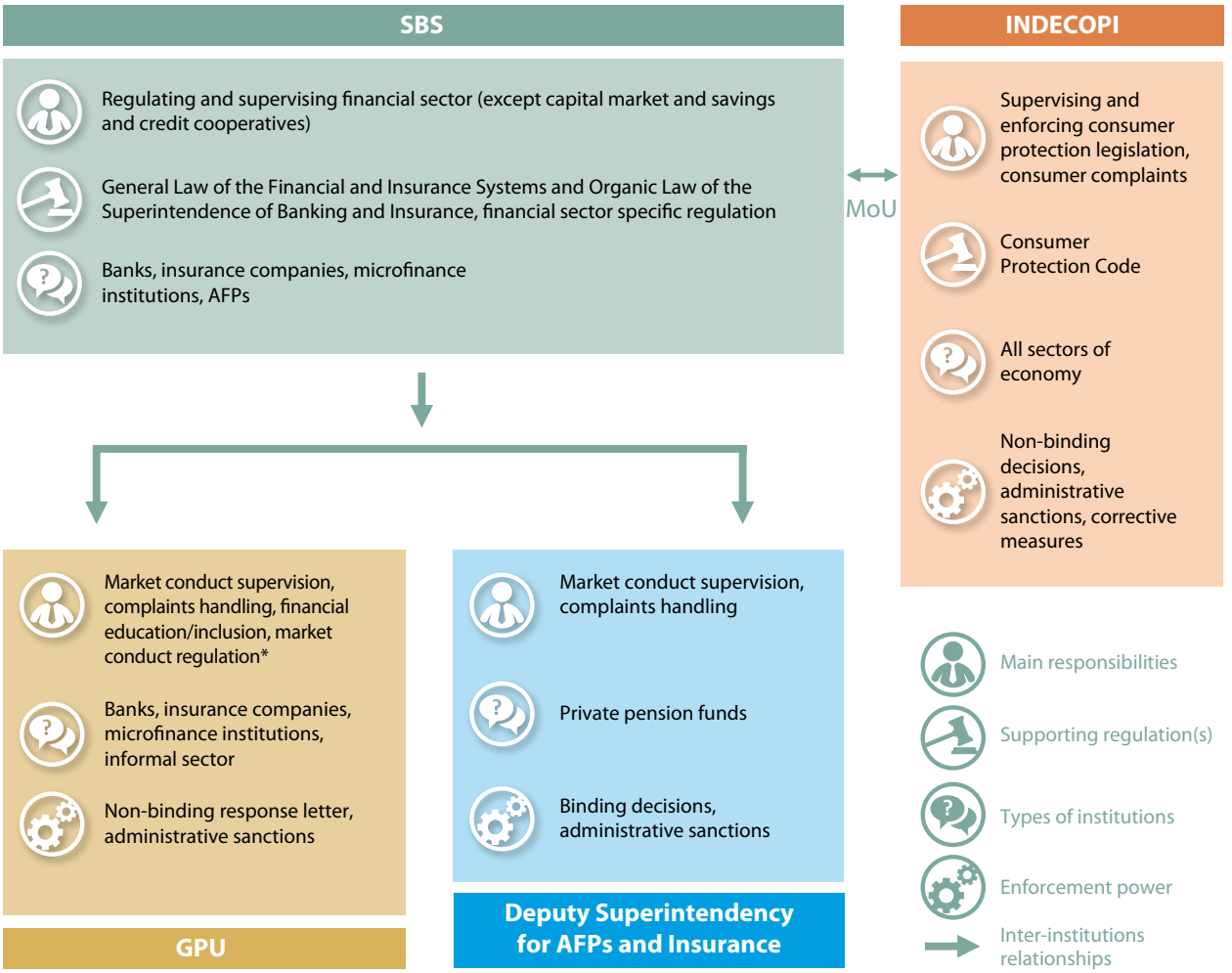
18 The GPU hired an additional 10 temporary employees for its Call Center in order to attend the increased demand for information on the recent pension funds reform. As a reference, the Deputy Superintendence for Banks and Microfinance Institutions has around 130 staff.

19 According to Article 366 of the General Law any criminal complaint against the Deputy Superintendents needs to be directly filed before the public prosecutor. In case the complaint is founded, the Attorney General shall submit directly to the Specialized Court of the Superior Court of Lima, which has to be involved in first instance.

20 Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual (National Institute for Defense of Competition and Protection of Intellectual Property)

legislation. Law 28587 foresees that violations can either be sanctioned by INDECOPI or the SBS according to their field of responsibility. It remains unclear how these fields of responsibilities are divided.[21] As a consequence financial institutions can be subject to inspection and sanction by two separate institutions, with the SBS focusing on its own laws and regulations and INDECOPI focusing on the Consumer Protection Code – especially as some the SBS regulations replicate or even go beyond requirements in the Code. Such dual supervision by INDECOPI and the SBS leads to risks of inconsistency and duplication as raised by several stakeholders.

Figure 4 **Institutional arrangements for financial consumer protection**



** In coordination with the Superintendencia Adjunta de Asesoría Jurídica (Superintendency for Legal Affairs), GPU can propose/review market conduct reuglation.*

Source: World Bank staff analysis.

21 This relates to the general articles on transparency, and ways that information needs to be disclosed (format, font size) as well as unfair business practices and complaints handling procedures.

The SBS and INDECOPI coordinate and collaborate, but their interaction can be enhanced. A memorandum of understanding between the SBS and INDECOPI governs cooperation between the two institutions in relation to the exercise of their respective powers and functions. The current version, dating from September 2012, contains comprehensive provisions about information-sharing and a monthly liaison meeting, but it appears that many of its provisions are not fully and effectively implemented in practice. The National Consumer Protection Council headed by INDECOPI, and created under the Consumer Protection Code, is aiming to propose and harmonize national consumer protection policies as well as develop the National Plan of Consumer Protection, which will then be approved by the Presidency of the Council of Ministers, and promote the creation of a national integrated system of information and orientation toward consumers. The Council comprises 16 members, including one member from the SBS. However, the focus of the Council is very broad in nature, covering overall consumer protection issues rather than specific financial services related challenges.

b. Recommendations

The current division of responsibilities between the SBS and INDECOPI in financial consumer protection should be adjusted. It is recommended that the SBS becomes the single authority for supervision and enforcement of consumer protection provisions with respect to the SBS-supervised financial institutions and that INDECOPI handles consumer redress (see further details under Dispute Resolution Mechanisms). With respect to the financial institutions supervised by SBS, its powers of inspection and sanction should clearly be extended to cover breaches of the Consumer Protection Code, even if there is not a parallel breach of the SBS laws and regulations. Where INDECOPI has relevant information of consumer detriment concerning the Consumer Protection Code, it should – instead of making its own inspection – inform the SBS accordingly and let the SBS follow through with the inspection. It will therefore be necessary to amend the Consumer Protection Code and Law 28587 accordingly to ensure that the SBS is the sole authority to deal with financial sector consumer issues, even if it relates to broad contractual matters referred to in the Consumer Code.

International experiences show that inconsistencies and duplications can have counter-productive effects. As an example, in Brazil the National Consumer Protection Secretary (Senacon), which is responsible for general consumer protection, is supported at the local level by consumer protection bureaus known as "procons". The latter provide services directly to citizens across all product and service categories. On several key consumer protection issues leading procons have taken positions against those supported by financial regulators and arguably against the better interests of consumers. For example in the case of the payment card industry, procons defend the right of "one price" or "nao sobre preco" arguing that consumers should not be subject to higher costs for purchasing goods with credit cards instead of cash. However, a study conducted by the Central Bank of Brazil in 2010[22] found that such a no-surcharge rule leads to distortions in the market and is as a consequence detrimental to consumers as it impedes competition between payment services providers and incentivizes consumers to use certain payment instruments which may not necessarily be the cheapest option. Furthermore, freely established prices would reduce the adverse effects stemming from the acquirers' market power and, on the other hand, would increase bargaining power of customers. In the UK the regulation of consumer credit was recently transferred from the Office of Fair Trading to the new Financial Conduct Authority. One of the main objectives for the restructuring was to remove unnecessary regulatory duplication and burdens on financial institutions.

22 https://www.bcb.gov.br/Pom/Spb/Ing/Payment_Cards_Report.pdf

The refocusing of responsibilities between the SBS and INDECOPI should be reflected as a first step in the form of revisions to legislation (Law 28587) and - secondly - any necessary amendments to the memorandum of understanding between the two bodies, to deal with practical implementation issues. This should include a staged program for transfer of functions, coupled with mutual assistance in developing the capacity of the other institution and ongoing support through provision of technical advice. This may be facilitated by mutual secondments of staff. It should include ensuring an appropriate flow of information from INDECOPI to the SBS about any systemic issues (or new/emerging issues) disclosed by consumer redress claims handled by INDECOPI, to inform the SBS priorities in supervision and vice versa.

International experience suggests that when financial regulators adopt consumer protection as part of their mandate business conduct supervision should be separated from prudential supervision to mitigate conflicts of interest (see Box 1 for further information). Although having financially sound institutions is an important mechanism to protect consumers, the focus of prudential supervision is on the strength of the institution, whereas the focus of market conduct/consumer protection is on ensuring that the institution interacts on a fair and appropriate basis with the consumer. The International Organization of Pensions Supervisors (IOPS)[23] found that the majority of its members have separate units handling each of prudential and market conduct supervision of pension funds.

It is therefore recommended that all consumer protection activities within the SBS be consolidated under GPU. Given GPU's experience and focus on consumer protection matters, and the desirability of segregating the functions of prudential and consumer protection supervision, it seems appropriate that all consumer protection responsibilities would transition to GPU.

This would include consolidating the handling of complaints related to AFPs as well as the oversight of market conduct aspects of pensions regulation such as consumer disclosures, advertising and sales representation under GPU. While the supervision activities under the prudential category including such matters as corporate governance, investments, segregation of client assets, risk management, outsourcing, and the selection of insurance would stay with the responsible Superintendencia Adjunta, the consumer protection matters such as complaints (including collections, death benefits, funeral costs, and disability claims), advertising and marketing, and affiliate contract issues would be dealt with by GPU. This separation would not preclude GPU from referring matters to the Adjunta which are prudential in nature, or which require specialized advice. It will be important to further enhance communication between GPU and the Superintendencia Adjunta. An adjunct to the existing communication channels could be the adoption of a Supervision Committee, or equivalent, to ensure coordinated and timely responses to issues, and enable information sharing.

23 IOPS Working Paper No.16: Structure of Pension Supervisory Authorities and their Approaches to Risk-Based Supervision: http://www.oecd.org/site/iops/iopsworkingpapersoneffectivepensionsupervision.htm

Box 1 | Institutional arrangements for market conduct supervision in selected countries

In Malaysia the Bank Negara Malaysia (central bank) is responsible for both prudential and consumer protection oversight of financial institutions (except securities). The two mandates are overseen by separate departments but with close coordination.

This is also the case in Portugal, where a specialized Banking Conduct Supervision Department of the Central Bank of Portugal is responsible not only for the regulation and supervision of the conduct of credit institutions in their dealings with customers, but also the promotion of financial literacy.

Current trends go even further by establishing a specialized financial consumer protection/market conduct agency (so-called twin peak model) as seen in the creation of the Financial Consumer Agency of Canada (2001), the establishment of the Consumer Financial Protection Bureau in the United States (2011) and the Financial Conduct Authority of the United Kingdom. Conflicts of interest can thereby be avoided between oversight that focuses on ensuring the stability of the financial system as a whole, and supervision that seeks to ensure that individual consumers of financial services are protected in the market.

Strengthening of the legal protection for GPU is recommended. The proposed broadening of SBS's supervisory responsibility, as well as the proposed consolidation of consumer protection supervision and complaints handling for AFPs, would result in GPU fulfilling a heightened consumer protection role. It would also require the issuing of official decisions such as penalties and rulings that should receive the legal protection brought about by Article 366 of the General Law. Strengthening legal protection will enable GPU to better fulfill its role and will signal to consumers and regulated entities the heightened status of consumer protection in financial services.

c. Legal and regulatory framework

A comprehensive legal and regulatory framework for financial consumer protection exists. The Consumer Protection Code provides for the broad-based protection of consumers including addressing key matters such as unfair contracts, discrimination, transparent disclosure, suitability and misleading practices. The Law Complementing the Consumer Protection Law regarding Financial Services Matters (Law 28587) deals with consumer protection issues in the financial sector including provisions on transparency and disclosure of information, general contract clauses, interest rates and commissions, and abusive clauses. The General Law of the Financial and Insurance Systems and the Organic Law of the Superintendence of Banking and Insurance (General Law) provides as general rule that all financial institutions (as providers of credit, savings and other related financial products) and insurance companies should comply with its rules and regulations, and governs the activities and tasks of the SBS (including the credit registry that it administers) and the Deposit Insurance Fund (FSD). The Transparency Regulation 8181 deals with very detailed information that needs to be disclosed to consumers by banks or microfinance institutions. The Regulation also deals with contract issues (e.g. approval and dissemination of general clauses, criteria to determine abusive clauses, examples of abusive clauses, requirement to provide a list of transactions), and the requirement to set up a user services system and designate an official in charge (with specific responsibilities), while other regulations[24] deal with the procedures and handling of complaints by consumers. The Law of the Private Pensions System Reform requires AFPs to implement orientation and disclosure

24 Circular SBS G-146-2009 and Reglamento del Libro de Reclamaciones (DS N° 011-2011- PCM).

schemes for (potential) pension members and pensioners. The Insurance Contracts Law[25] represents a very significant advance in the area of consumer protection, with respect to which implementing regulations are currently being prepared and circulated for consultation.

The new electronic money law is expected to foster the development of electronic money-based financial services. Whereas these services hold the potential to advance financial inclusion, they also entail challenges for financial education and consumer protection. An e-money law was recently passed to allow for electronic money and implementing regulations are currently being prepared by SBS. These challenges could be more daunting regarding the previously unbanked, the poor, the illiterate, and those who do not have access to or are familiar with mobile phone technology, text messaging, or other aspects related to the provision and use of such services. SBS is currently working on a draft regulation which will enable bank agents to operate with more than one financial institution and allow them to open e-money accounts.

Regulatory challenges and gaps remain, such as cumbersome regulatory requirements for the approval process of contract clauses by the SBS. The Transparency Regulation 8181 puts the SBS in charge of approving all contract clauses of banks and microfinance institutions as a measure of consumer protection. A recent revision of the General Law as well as the newly passed Insurance Contract Law require the SBS to follow the same process for insurance contract clauses of mandatory, mass market and personal insurance products. The approval process consumes a large amount of specialist resources within the SBS. To reduce this regulatory burden, the SBS is currently working on improving its approval processes, and is coordinating with ASBANC (bank association) to develop standard clauses for key products (credit cards, mortgage loans and savings accounts). It is also conducting an evaluation on the feasibility of standard clauses for insurance products.

A total of about 160 savings and credit cooperatives are not yet subject to the financial consumer protection regime established by the SBS. Supervision of savings and credit cooperatives is currently delegated by the General Law to FENACREP (Federación Nacional de Cooperativas de Ahorro y Crédito del Perú – National Federation of Savings and Loans Cooperatives)[26], which combines this supervisory responsibility with its principal role as a representative industry body. However, FENACREP lacks the powers to effectively supervise cooperatives, which poses a risk to consumers in relation to the financial standing of these organizations and to their conduct. A proposed law for cooperatives (Proyecto Ley N°03324/2008) has been reactivated, which foresees transferring overall oversight responsibilities for cooperatives to the SBS. It is under revision by the Congress.

The General Law excludes deposit insurance coverage during the first 24 months of a new institution. Although new institutions must become members of the Deposit Insurance Fund (FSD)[27] and pay the corresponding premium from the commencement of their operations, their deposits will be covered by the FSD only after 2 years of being incorporated as a member.[28] Since there is no requirement for depositors in newer institutions to be specifically informed that they are not protected by deposit insurance this raises issues of lack of transparency, and risks adverse effects on consumer confidence in the banking system and in the FSD in the event of the failure of the institution within the two year qualifying period.

Long term savings and single premium life insurance are not subject to specific regulation. Although such products are not yet common in Peru, they are gathering increasing interest. There are currently no specific rules regarding these products, such as the provision of financial projections at the point of sale, regular provision of cash value, and specific education requirements for intermediaries selling such products.

25 The law came into effect in May 2013 (Resolution SBS 3199-2013).

26 The SBS can currently only directly supervise one.

27 Members of the FSD comprise all deposit-taking institutions supervised by the SBS: 16 banks, 8 "financieras", 13 "cajas municipales" and 10 "cajas rurales". Savings and credit cooperatives are not covered by the FSD.

28 This exclusion of deposit insurance coverage currently applies to two banks, five "financieras" and one caja rural that are members of the FSD.

d. Recommendations

The requirement for financial contract terms to be administratively approved by the SBS should be increasingly substituted by the already ongoing development of model contract clauses. It would be helpful if the industry and the SBS in collaboration developed model clauses for basic financial products and services, which would make it easier for consumers to compare similar products from different financial institutions. At the same time this would reduce the SBS's current regulatory burden due to its pre-approval obligations of contract clauses. It would also be advisable to assess the effectiveness of the current pre-approval process.

Savings and credit cooperatives should be brought under the financial consumer protection regime established by the SBS. Clients of cooperatives should receive the same protection as other microfinance clients, particularly with regard to disclosure and complaints handling provisions and procedures. A new law that brings cooperatives under the SBS supervision, requiring them to comply with the existing consumer protection framework and ensure its monitoring and enforcement, should be implemented to achieve this outcome. Interlinkages between market conduct and prudential supervision and practical issues in different supervisors for the two are recognized, but the institutional arrangements for prudential oversight are beyond the scope of this report.

There would be considerable benefit in amending the General Law to provide that all members of the FSD are covered under the deposit guarantee from their incorporation. Moreover, it is important to make clear to consumers which financial institutions are covered by the deposit insurance system, and which are not (see section on Disclosure for further information).

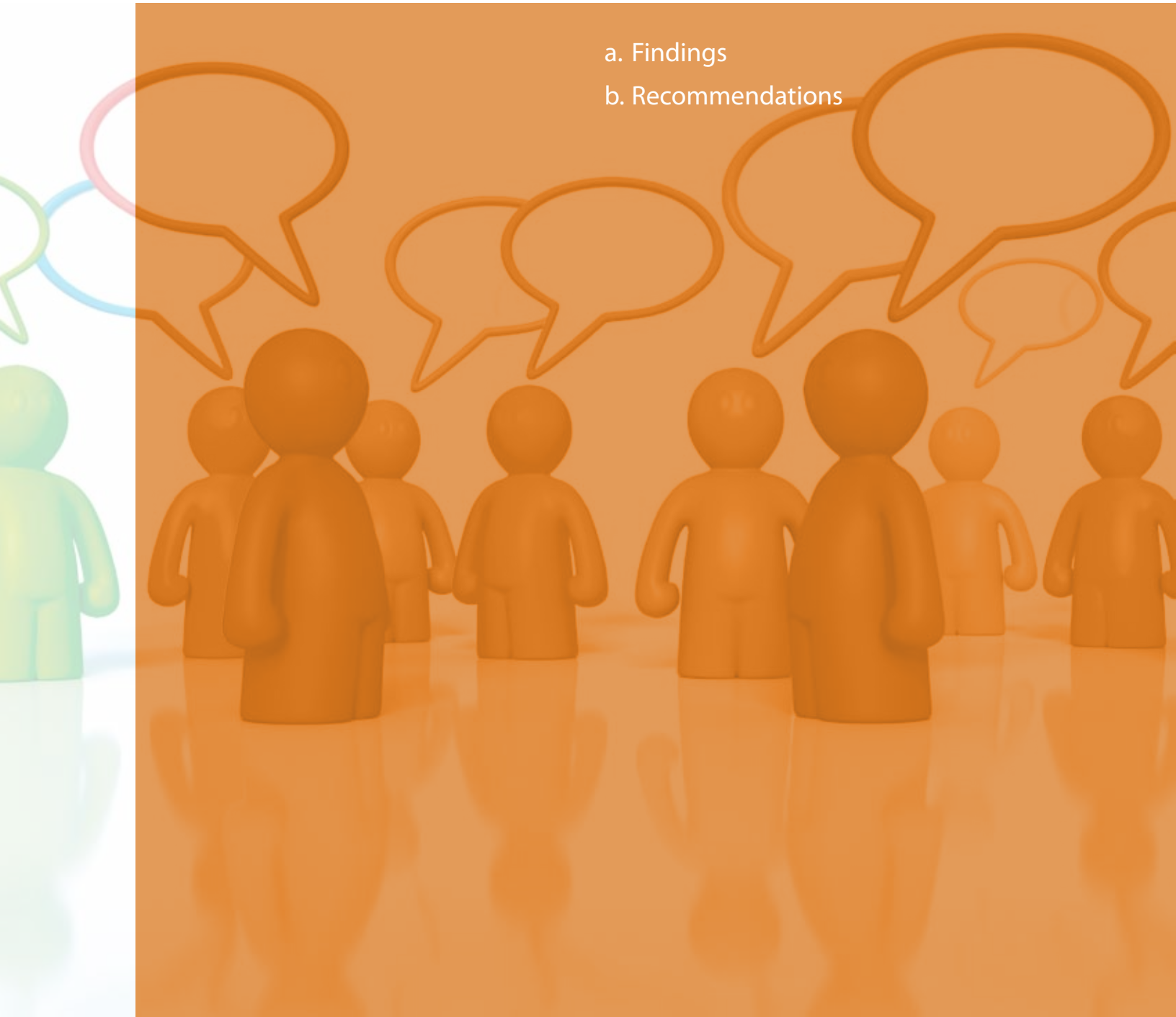
During the ongoing development of implementation regulations under the Insurance Contract Law, it is recommended that the SBS establish an enhanced set of consumer protection standards for insurers. The SBS has already addressed key gaps by approving the Insurance Transparency Regulation 3199-2013 which will enter into force in December 2013. Further areas for focus could potentially be clarity on how and what commissions should be disclosed, such as soft dollar[29] or non-financial incentives, detail on what occurs in the event of non-disclosure and how this can be verified, clear disclosure of the total cost differences between installment and annual premiums (and not just interest payable), the servicing of policies and claims in particular, protection of confidential consumer information and the handling of records and complaints by insurers. As noted, rules concerning long term or single premium life insurance should also be included. It would be beneficial to conduct are view of the impact of the laws within a fixed period after full operation of the new framework to understand whether any negative consumer effects such as an increase in prices or confusing disclosure have been felt, and whether further amendments are needed to refine either the law or the regulations.

It is recommended that the new implementing regulations under the electronic money law take into account safeguards for consumers, especially vulnerable segments of the population. In particular, relevant implementing regulations should set minimum requirements for disclosure of pricing information including fees and commissions, clarify responsibilities of financial institutions and mobile network operators over agents, prohibition of tying and bundling with other products and services, provision of internal dispute resolution procedures that work properly for mobile delivery channels as well as disclosure of complaints handling mechanisms to the end-user and require providers to educate customers on how to use electronic devices, including how to keep passwords safe.

29 A means of paying brokers for their services through commission revenue, as opposed to through normal direct payments (hard dollar fees).

III

Consumer Disclosure



a. Findings

b. Recommendations

a. Findings

A comprehensive transparency regime for financial services is in place.[30] However, consumer testing and cost-benefit analysis would further enhance this work. Regulations designed to ensure that financial institutions disclose - clearly and fairly - the key features of their products and services, may have little impact on consumer behavior if they do not understand why it is important to read disclosure documents or are not able to understand, and to put into context, information contained in these documents. Consumer testing verifying the degree of knowledge, understanding and user-friendliness of this information for financial consumers appears to be missing.

The existing key facts statements such as the 'Summary Sheet' for loans and the 'Informative Note' for deposits have no standard format. The regulation establishes detailed information to be included in the Summary Sheet for loans, such as the amount of the loan, TCEA, moratorium interest rate, description of the guarantee – if applicable-, the right to make prepayments as well as the table of payments. While this is already a considerable improvement, the variety of formats will likely cause confusion among consumers. A similar situation exists as regards to the Informative Sheet for deposits.

There is no explicit requirement to disclose in standard wording whether an institution is a member of the FSD. The FSD website includes a section with the list of FSD members[31] and the SBS website has a section with the list of entities authorized to receive deposits from the public[32]. But there is no requirement to publish and disclose in standard wording whether an institution is a member of the FSD and, whether its deposits are already covered by the deposit protection scheme (see paragraphs 48 and 52). This lack of information could create confusion among depositors as not all deposit taking institutions are members of the FSD and subject to full coverage by the FSD.

The decisions that need to be made by the consumer in the private pensions environment have the potential to significantly impact the consumer's financial future, and yet are riddled with complexity. The regulatory regime places a heavy emphasis on disclosure, mandating the provision of information to the consumer in order to assist their decision-making. However, disclosure can be flawed in an area as complex as pensions and needs to be complemented with responsible business practices. At the time of the pension decision, pension providers (usually life insurers) are provided with access to the affiliate's information in order to provide quotes for the available products. While this is positive from a competition point of view, it can result in the staff of multiple insurers pursuing the affiliate for the sale, only adding to the pressure and confusion of the consumer.

b. Recommendations

Consumer testing would be helpful in tailoring the formats and contents disclosed to best suit consumer understanding and communication preferences. It would be advisable for the SBS to conduct consumer testing in order to measure the degree of knowledge and understanding of the various information materials available to consumers. For example, preliminary results of an audit study conducted by World Bank/CGAP in peri-urban Mexico suggests disclosure and transparency policies might be ineffective if not linked to proper sales practices, product regulation, and tools such as cooling-off periods. The aim of the study was to understand the quality of information and products offered to potential low-income customers. Trained "shoppers" visited multiple financial institutions interested in credit and savings products. Results suggest that staff provide little information voluntarily, especially to auditors trained to reveal little experience with the market. Even when probed, most staff appears to be misinformed about key characteristics of the products they offer. More importantly, clients are almost never offered the cheapest product that fits their needs, most likely because institutions make more profits by offering more expensive products.

30 The current framework includes the criteria for the determination and definition of interest rates, commissions, charges and yields (including methods for calculating TCEA and TREA, information to be permanently disclosed to consumers (e.g. through booklets, tariffs, webpages, ATMs, verbally, which includes a requirement for sales officers to disclose the annual effective cost rate or TCEA and annual effective return rate or TREA), information to be disclosed before the signing of a contract (e.g. content of summary sheets for credits and informative leaflets for deposits), as well as the publication of comparative tables with the costs associated to specific savings products. The SBS also publishes comparative information on complaint statistics submitted by all supervised entities as well as information on contract clauses on its website.

31 http://www.fsd.org.pe/paginas/02-Miembros.html

32 http://190.102.151.31/0/modulos/jer/jer_interna.aspx?are=0&pfl=1&jer=1692

Additionally, it is recommended to perform a cost-benefit analysis of the transparency regime. The benefits of the transparency regime have to be compared to the costs that financial institutions and supervisors face in order to comply and supervise these requirements. Such an analysis could help to further streamline regulatory and supervisory processes and allocate resources where most needed.[33]

It is recommended that the industry and the SBS in collaboration developed standard formats for key facts statements and require all institutions to use them. This standardization will assure that the most relevant concepts of these sheets are disclosed in the same format and in a user-friendly way, facilitating the client's identification of the main characteristics of the financial products and simplifying the comparisons among different institutions. Examples of such standard key facts statements are found in Mexico[34] and Chile[35].

GPU could consider issuing public warnings and publishing data on sanctions applied to financial intuitions for breaching financial consumer protection provisions. Public warning and the publication of sanctions may make a significant contribution to general prevention of violations. Sanctioning regimes will better prevent other potential offenders from future violations, if those are aware that the sanctions provided for by law are actively applied and enforced and there is a real risk that violations will be detected. A first important step has been already made by SBS as its internal committee on sanctions approved that - starting January 2014 - sanctions related to transparency will be published.

It would be advisable for the SBS to develop a mandatory disclosure wording with respect to financial institutions which are members of the FSD and require them to disclose the logo accordingly. These logos could be included in all advertising and main documents sent to the clients (e.g. deposit statement). Additionally, the regulation could require each institution to place a standardized sticker at the entrance of each branch, identifying the institution as member of the FSD and indicate whether they are already covered or not with regard to their deposits.

Due to its complexity, private pensions consumers would benefit from additional standardized disclosure on historical and projected investment returns. With the transition to the new fee regime under the July 2012 reforms, it is recommended that the SBS work with the AFP industry to introduce a set of rules to standardize the presentation of historical and projected investment returns by AFPs. This should ideally result in standardized disclosures that can be easily compared between AFPs. The SBS and AFP industry could agree on a standard format for illustrations of future earnings, and consider a set of mandated assumptions to be used by all AFPs in providing such illustrations. For AFP promotional materials, it will be important to illustrate gross investment returns for the funds as a whole, net investment returns to show the real historical earnings for investors, and total fees.

Since affiliates making a pension decision can be subject to sales pressure from sales people consideration could be given to limit opportunities for pressure selling. Currently, there is a limited time for affiliates to make a decision about which pension option they wish to take up, and which insurer they will purchase from. Whilst AFPs are subject to strict rules about recommending products, anecdotal evidence suggests that people making a decision could be overwhelmed by contact from multiple insurers who receive their contact details. Given the complexity of the pension decision, this is likely to place the affiliates under unwarranted pressure where they may not feel empowered to make a well-reasoned decision. The short timeframe for a decision would exacerbate the pressure felt by the consumer, so consideration could be given to allowing a longer timeframe for decisions. Further, it is recommended that, an affiliate be given the option to receive information about annuity products in their chosen format (such as by email) and given the option of prohibiting uninvited contact from insurers.

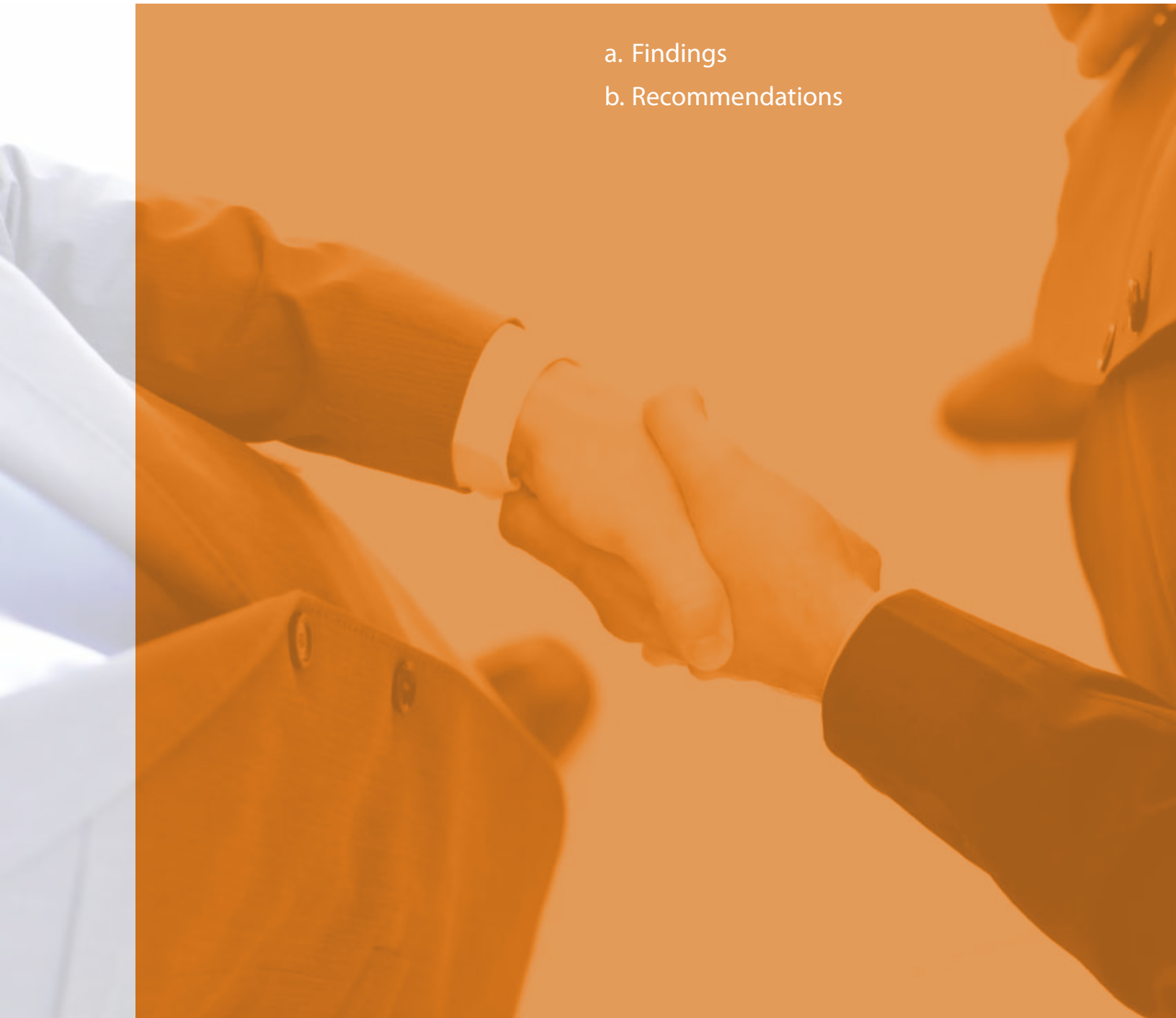
33 See for example the Australian Handbook of Cost-Benefit Analysis which provides guidance in the use of cost-benefit analysis for evaluation and decision-making - http://www.finance.gov.au/publications/finance-circulars/2006/docs/Handbook_of_CB_analysis.pdf.

34 http://www.condusef.gob.mx/PDF-s/marco_juridico/disposicion_entidades_financieras.pdf

35 http://www.sernacfinanciero.cl/wp-content/uploads/2012/08/Reglamento-sobre-informacion-al-consumidor-de-creditos-de-consumo-DTO-42_13-JUL-2012.pdf

IV

Business Practices



a. Findings

b. Recommendations

a. Findings

Industry associations have started playing a role in ensuring that financial institutions comply with a set of standards of service and quality when dealing with their consumers. The Bank Association (Asbanc) has a Code of Ethics, approved in 2002, which includes general principles such as the compliance with the legal and regulatory framework, integrity of the market, banking secrecy, conflict of interest, as well as respect of the competence and responsibility of directors and employees. This Code of Ethics is not publicly available and has not been enforced. The SBS is currently developing a Code of Conduct for the banking and microfinance sector. The Association of Microfinance Institutions of Peru (ASOMIF) issued a mandatory Ethics Code and set up an Ethics Commission in charge of handling accusations of noncompliance with the Code. In 2010 the Peruvian Association of Insurance Companies (APESEG) issued a Code of Conduct with 9 overall conduct principles. The Association of AFPs (AAFP) has also implemented a Code of Conduct containing a set of principles for the industry. The majority of codes has not yet been widely published, and there is a need to enhance implementation of the existing codes of conducts.

The rapid expansion in micro-credit and strong competition among especially small providers brings attention to the risk of over-indebtedness. Peru's successful microfinance industry has expanded micro-credit to levels seen in few other countries. The long period of strong economic growth has underpinned the expansion of the sector both in terms of credit volume and number of debtors, but the long period of growth may also be concealing the build-up of excessive risk. Institutions lending to the micro-finance segment expressed concerns about over-indebtedness for some borrowers. Over-indebtedness in this segment will not present a systemic risk, but rather a social risk as large parts of the low income population could be affected. Such risk has globally received the attention of both policy makers and researchers[36]. Whereas the mission did not find hard evidence of over-indebtedness, supply side evidence reviewed did not rule out the possibility, and anecdotal evidence suggested that at least some borrowers are becoming over-indebted. The credit reporting system effectively covers information on loans/borrowers of microfinance institutions[37] providing for an important tool to monitor arising risks.

The SBS has been taking action to prevent the risk of over-indebtedness of financial consumers, and the BCRP has regularly reported on this issue[38]. Consumer lending has been increasing well above GDP growth reflecting both the entrance of new borrowers and an increase in the average loan size. The measures taken by the SBS include the publication of a regulation on over-indebtedness related to small loans (SBS 6941-2008), the improvement of disclosure to users (such as total effective annual cost, and the risks of not paying debts), measures related to credit limits (requiring previous consent from the costumer to increase them), regulation on the calculation of minimum payment (to guarantee the repayment of credit cards and revolving loans in a short term), and enabling customers to have the option to decline using credit cards to make cash advances. The SBS has recently increased the capital risk weights for long-term and revolving payroll loans (and to a lesser extent, for other long-term consumer loans) as well as for mortgage loans with high loan to value ratio. Additionally, new draft regulations require banks to be cautious in promoting new loans to small debtors which are not classified as "Normal" and standard warnings -to be included in credit card financial statement- regarding the financial impact of paying only the minimum. All these measure have been complemented with the SBS´s financial literacy programs.

Despite the importance of the insurance broker's role, monitoring and supervision has not focused enough on brokerage services. With the historically poor perception of insurers, exacerbated by low levels of financial literacy, it is little surprise that the distribution of insurance continues to be dominated by brokers. The nature of the broker-client relationship will often mean that the consumer places a high degree of trust in the broker, potentially leaving them vulnerable, and

36 See for example Shahidur R. Khandker and Hussain A. Samad (2013), "Are microcredit participants in Bangladesh trapped in poverty and debt?", World Bank Policy Research Working Paper WPS 6404.

37 Except for savings and credit cooperatives.

38 Financial Stability Reports of November 2011 and 2012. The challenge of establishing reliable income information on borrowers, particularly in the low income segments of the population, is recognized.

less inclined to raise formal complaints. It is crucial that this sector receives a level of regulatory oversight that is commensurate with its influence and responsibility to consumers. Due to resourcing constraints, brokers have not been a high priority for supervision and monitoring, so there is likely to be a highly variable level of compliance with existing laws. The introduction of the new Insurance Contracts Law provides an excellent opportunity for the SBS to commence a new engagement strategy with brokers and enhance the existing monitoring and supervision framework.

Uncollected employer pension contributions constitute a consumer protection concern. Although the law provides for the AFPs to pursue unpaid contributions, a substantial volume of payments remains outstanding from both public and private sector employers. Recent reforms have implemented technical and oversight changes that may contribute to a resolution.

b. Recommendations

The development and uniformly implemented Codes of Conduct for all financial sectors would benefit consumers. Such codes could be developed jointly by the SBS and industry associations. They should include requirements in the area of disclosure of information, complaints, product appropriateness, and other key areas of business practice such as high pressure sales practices. It is important that such a code comprises all relevant institutions and contains an effective mechanism to detect and sanction non-compliance. Self-commitment of individual institutions could further ensure compliance with such codes e.g. by declaring in the annual report or report to the regulator that they have complied with the code of conduct. Moreover, it needs to be ensured that Codes of Conduct are published widely and information on them is included in financial education campaigns, so that consumers know the standards to which financial institutions have agreed to adhere in order to ensure accountability for compliance.

It would be advisable to monitor and manage the risk of over-indebtedness among the low income population. With an oversight mandate for all but a small minority of microfinance institutions (cooperatives and informal lenders), the SBS has the mandate and ability to oversee micro-credit. A comprehensive demand perspective can be accomplished through the planned household survey, and ongoing monitoring could for example be established in collaboration with INEI (Instituto Nacional de Estadística e Informática - National Institute of Statistics and Informatics), which surveys the country on an ongoing basis. Supply side data are comprehensively collected in the SBS credit registry providing an excellent basis for analysis (although it does not include information on cooperatives). In addition, reviewing credit policies and behaviors in the financial industry (as the SBS is doing already for prudential purposes) provides for an early understanding of supply side risks for over-indebtedness.

With regard to outstanding pension contributions of employers, direct financial disincentives for withholding employer contributions could be implemented. Depending on the specific situation in Peru, this could include the imposition of a tax[39] on the employer for unpaid contributions, and personal liability for directors of employer entities.

The SBS may be advised to consider putting further emphasis on the monitoring of broker conduct and practices. This could include using risk-based supervision assessments, and adopting strategies such as mystery shopping in order to understand the interactions and potential regulatory issues that arise in the insurance broking process. If resourcing for such monitoring is limited, a risk-based approach would involve targeting those brokers or groups of brokers that are likely to have the largest impact on consumers (assessed using such measures as the volume of consumer clients), and those with the largest number of representatives.

39 In Australia, the Superannuation Guarantee Charge Act 1992 and the Superannuation Guarantee (Administration) Act 1992 require that employers who do not meet mandatory contributions to their employee retirement funds in a timely manner must pay a tax of the amount of the missed contribution plus additional amounts.

V

Dispute Resolution Mechanisms

a. Findings

b. Recommendations

a. Findings

There is a comprehensive legal and regulatory framework in place for the handling of complaints by financial institutions. Circular SBS No. G-146-2009 of 30 December 2009 requires financial institutions to set up complaints handling procedures, and to designate a respective staff member. It specifies the process and timing (30 days generally, or 15 business days for pensions) for financial institutions supervised by the SBS to solve their customers' complaints, and obliges them to have a Complaints Department and established procedures for dealing with complaints. However, with the exception of pension funds, financial institutions are not explicitly required under the law to be the first point of contact for consumer complaints. In addition, a supreme decree[40] requires all types of businesses to have a complaints and suggestions book available in each branch and outline procedures and clear timelines in the handling of such complaints. INDECOPI is charged with handling individual consumer disputes regarding entities supervised by the SBS, with the exception of most cases related to the private pension fund system which is handled by the respective Superintendencia Adjunta. The SBS established a *User Orientation Platform* under the responsibility of GPU in charge of responding inquiries, providing orientation, and receiving formal complaints. In addition, consumers are able to seek redress via industry-established ombudsman schemes for banking and insurance or approach the courts. However, the judicial system in Peru is rarely used to settle consumer matters due to high costs and delays.

GPU has established a User Orientation Platform, an area in charge of responding to inquiries, providing orientation, and receiving formal complaints. However, except for private pensions, the SBS cannot resolve a consumer's complaint. Between 2010 and 2012, the number of complaints increased by 1.4 times from 1063 to 1518. Over 80 percent of complaints related to banks, microfinance and insurance companies. In addition, GPU initiated 135 sanctioning procedures between 2010 and 2012. Sanctions or corrective measures can only be applied to financial institutions in case of violations of the SBS´s regulations. Consumers can contact the Platform in person via offices in Lima, Arequipa and Piura, through customer service platforms in Moquegua, Huancayo and Iquitos, or using a toll-free number, internet or mail.

Table 4 GPU inquiries and complaints statistics

	2010	2011	2012
Inquiries	**50,189**	**43,915**	**48,391**
Personal Attention	28,889	25,709	26,410
Call Center	15,667	12,602	15,414
E-mail	5,633	4,662	5,969
Written Inquiries	1500	942	598
Complaints	**1063**	**1,251**	**1,518**
Claims against financial and insurance companies	788	1032	1,262
Claims against private pension funds administrators	275	219	256
Sanctioning Procedures	**48**	**48**	**39**

Fuente: SBS.

40 Regulation on Complaints Book (Supreme Decree No. 011-2011-PCM), applicable to all economic sectors in the context of the Code of Consumer Protection and Defense.

INDECOPI is charged with handling individual consumer disputes regarding entities supervised by the SBS, with the exception of most cases related to the private pension fund system. INDECOPI's citizen orientation service (SAC) and its decentralized offices are in charge of handling inquiries, complaints and disputes, and may also initiate a free-of-charge conciliation process to the consumer. About 40 percent of total complaints[41] are related to financial services. The Consumer Protection Code explicitly recognizes the authority of the SBS to handle disputes from consumers regarding private pension funds or related insurance products. Asbanc has formally agreed with INDECOPI on a mechanism called "aló banco", under which bank clients who visit INDECOPI's office with a complaint may contact the bank from INDECOPI's office before submitting the complaint to INDECOPI. In most cases consumers already approach their financial institution first before turning to INDECOPI. Secondly, the existing regime does not require explicit mentioning of internal as well as external complaints handling mechanisms in disclosure and sales materials.

In banking and insurance there are also industry-established ombudsman schemes through which consumers may seek redress. The Defensor del Cliente Financiero (DCF, or Defender of the Financial Client) is a banking ombudsman scheme established voluntarily by the bankers' association in 2003. It covers all banks in Peru plus some finance companies. However the current ombudsman's term expired on March 31, 2013 and the association decided to transfer most of its functions to "aló banco". The Defensor del Asegurado (DA, or Defender of the Insured) on the other hand is an insurance ombudsman scheme established voluntarily by the insurers' association in 2000, which covers all insurers in Peru. It takes complaints from consumers and enterprises (of any size) who remain dissatisfied with the outcome of an insurance claim. However, it does not look at other issues not directly related to the claim, such as administration errors or misleading information. The new Insurance Contract Law requires that the SBS promotes external dispute resolution with respect to insurance, and the current draft regulations contain some minimum criteria for external dispute resolution bodies in the insurance area.

As a consequence, there is a variety of external redress mechanisms in place resulting in confusion of the consumer about where to best pursue their complaints. The information by different sources (SBS/INDECOPI websites, institutions website, complaint forms, and complaint information brochures) is not precise in terms of where the claim should be submitted. Consumers end up with a perplexing list of external complaints handling mechanisms without knowing who can do what for them, and some pursue more than one avenue simultaneously. It is not made clear where consumers should choose to go if their priority is to obtain redress or their priority is for a sanction to be imposed on the institution (see Table 5 for further details).

b. Recommendations

It is recommended to encourage consumers to submit a complaint to the financial institution before approaching an external dispute resolution mechanism. This procedure gives the financial institution the opportunity to solve the claim directly with its client within a certain period of time, reducing the user´s time and pressure on the SBS and INDECOPI resources. In the medium term, a revision of the current legal framework will be advisable to ensure that the SBS and INDECOPI do not investigate such cases until the financial institution has responded, or its time for responding has expired. This would help speedy resolution of most cases, and save INDECOPI for cases where the parties cannot themselves reach a resolution.

41 Between March 2012-2013, INDECOPI received around 26000 complaints.

Table 5 **Division of responsibilities related to dispute resolution**

Subject matter	External dispute resolution mechanisms	Consumer Orientation/Inquiries
Banking[42]	INDECOPI *or* DCF	SBS/INDECOPI/industry and consumer associations
Microfinance institutions[43]	INDECOPI *or* DCF[44]	SBS/INDECOPI/industry and consumer associations
Insurance[45]	INDECOPI *or* DA[46]	SBS/INDECOPI/industry and consumer associations
Private Pension	SBS or INDECOPI	SBS/INDECOPI/industry and consumer associations

There would be advantage in the SBS becoming the single agency responsible for supervision and enforcement of consumer protection provisions, while INDECOPI would be the institution where complaints, in second instance, are submitted for redress (see also section on Institutional Arrangements). To provide clarity for consumers, it is desirable to work towards a point where all redress complaints, including in relation to private pensions, fall under the jurisdiction of INDECOPI.[47] INDECOPI may (as now) continue to seek technical input from the SBS; for example, on interpretation of the SBS regulations and is likely to need to seek information or expert support from the SBS, such as the calculation of pension benefits.

In the meantime, the SBS should consolidate the handling of pension complaints into one team under GPU. This would resolve the currently fragmented approach to the resolution of those complaints, and also create efficiencies in the complaints management process. This item is associated with the recommendation above as to the general consolidation of supervision for pensions, and the elevation of GPU to Supertintendencia Adjunta.

Clear guidance should be made available to consumers about where they can turn to in the event of a dispute. A provision should be introduced in circular G-146-2009 requiring financial institutions to disclose in all pre-contractual and contractual disclosure documents detailed information on the internal as well as relevant external dispute resolution mechanisms. Financial institutions could be required to disclose to dissatisfied consumers internal procedures and contact points for complaints within the financial institution as well as external dispute resolution mechanisms and respective contact information including that they should go to INDECOPI (or alternatively to the Ombudsman, where there is one) if what they want is redress; or to the SBS if what they want is for the financial institution to be

42 For banks, microfinance institutions as well as insurance companies, SBS only handles information requests and inquiries while INDECOPI is in charge of complaints handling and individual redress.

43 For banks, microfinance institutions as well as insurance companies, SBS only handles information requests and inquiries while INDECOPI is in charge of complaints handling and individual redress.

44 Only some Microfinance Institutions have been affiliated to the DCF.

45 For banks, microfinance institutions as well as insurance companies, SBS only handles information requests and inquiries while INDECOPI is in charge of complaints handling and individual redress.

46 Only residual matters not covered by Titles IV, V or VII of the Private Pensions Compendium. According to the Consumer Protection Code, SBS is the authority in charge of imposing corrective measures regarding AFP related complaints. In addition, SBS handles respective information requests and inquiries.

47 While SBS resolves complaints regarding affiliate information, general public information, affiliation, contributions and payments other issues such as advertising and market competition are handled by INDECOPI.

sanctioned. It is recommended that detailed contact information, including all the contact alternatives available, is disclosed in the summary sheets and informative notes, complaints procedure brochures, their websites as well as other information materials. Additionally, there is a need to clearly specify the possibility of submitting a claim to the Ombudsman, including the scope, kind of claims and requirements. Moreover, it is important to improve access to complaints handling mechanisms for the vulnerable segments of the population. Nowadays, these mechanisms are scarce in rural areas and people who speak a language different from Spanish have virtually no access to them[48]. Finally, it would be beneficial to require financial institutions to provide complaints statistics by regional breakdowns.

If the industry-sponsored ombudsmen are to retain a role, as an alternative to INDECOPI, it would be advisable to reconstitute them in accordance with best practice. The key issues to be addressed in relation to both DCF and DA are to establish independent governance, independent appointment of the ombudsmen and security of funding. Guidance on best practice, and how to implement it, is available from the World Bank report on fundamental principles for financial ombudsmen.[49] In particular, this would require independent governance, independent appointment of the ombudsmen and security of funding.

48 One exception is the "aló banco" mechanism which is available to clients in regional INDECOPI offices.

49 http://siteresources.worldbank.org/EXTFINANCIALSECTOR/Resources/Financial_Ombudsmen_Vol1_ Fundamentals.pdf

VI

Financial Education

a. Findings

b. Recommendations

a. Findings

A plethora of public or private initiatives for financial literacy or education exist or are in planning stage. GPU created a comprehensive and user-friendly financial education portal as a specific section of the SBS website including a wide range of educational materials, advices, videos, comics and other audiovisual tools. The portal was redesigned in 2012 to ensure enhanced user-friendliness and a better distribution of contents through separate portals on financial education and financial services users (including the recently redesigned price comparison tool RETASAS for financial products as well as REPRIMAS for insurance products). In 2013, the SBS has initiated work on the implementation of an e-learning platform for financial education programs as well as the redesign of its REPRIMAS tool. The SBS also developed a Financial Education Program for School Teachers based on an memorandum of understanding signed with the Ministry of Education. In addition, the SBS prepared a variety of other training modules[50], supplementary educational materials and radio spots. INDECOPI has included on its website and brochures several recommendations for the appropriate use of credit cards and other consumer loans, debt collection methods forbidden by the Consumer Protection Code as well as where and how to submit a claim. The BCRP website includes ("BCRP Educa") educational information (including instructional videos) regarding consumer credits, electronic transfers and security measures in the bills.

Coordination is needed to support an over-arching strategy. Financial education activities are fragmented across multiple public and private institutions. Combined with a lack of an over-arching strategy, it creates the risk of unmet needs in the population and inefficiency in allocating resources.

Industry associations and private financial institutions have also been active in financial education by developing educational materials and providing training, although with still unclear division between marketing and financial education activities. For example, Asbanc has developed an initiative to communicate via TV spots in more simple terms with their clients ("Upa. Let's Talk Simple") with a standardized advertising format. In addition, its financial education page includes brochures, leaflets and tips. Aspec has produced an online/printed brochure "Basic guideline for users of financial services." Many financial institutions have also included sections in their web sites to promote financial education and responsible financial behavior, accompanied with campaigns against the misusage of credit cards.[51]

The current high school curriculum puts very limited emphasis on financial education, and teachers typically lack specialized training. Currently financial education is taught by teachers of the subject courses of History, Geography and Economics and Education for work who in the majority of cases are not versed in financial sector matters. Within the last seven years, around 5,000 teachers have been trained under the Programa de Asesoría a Docentes program with the objective of equipping them with financial literacy content and specialized teaching methodology in order to allow them to transfer this knowledge to their students. However, it is unclear how much financial education is actually given to the students, as schools and the teachers themselves have some flexibility in determining what to emphasize on within the scope of the overall curricula. In order to try to evaluate the effectiveness of the program, an initial baseline assessment on the program has been performed in 2012. The SBS has strengthened its relationship with the Ministry of Education. Both institutions are currently working on revising the curricula as well as other initiatives to improve financial education in schools.

50 During 2012 the SBS has trained more than 15,000 people on financial education. The SBS has performed trainings workshops and developed materials targeted atdifferent groups of the population such as: high school students, high school teachers, youths, dependent workers, micro entrepreneurs and retirees. The trainings are tailored depending on the type of participants and are mainly focused on the following topics: financial system, insurance system, pension systems, financial products and services, transparency and consumer protection, credit bureaus, financial intelligence unit and financial regulation.

51 Among others there are individual initiatives that have been developed by institutions, such as "El ABC de la Banca" by Banco de Crédito and "Aprendo" by BBVA Banco Continental.

A pilot survey was conducted in 2011 providing some initial data on financial literacy of the Peruvian population. However, the survey sample focused mainly on the urban population. A follow up survey using the same methodology is planned for October 2013. In addition, the SBS plans to conduct a nationally representative survey in 2014 that will provide useful demand side information on access and usage, financial capability and consumer protection combined with a variety of information on socio, economic and demographic characteristics of financial inclusion levels of the urban as well as rural population and potential barriers faced by different segments of the population.

So far impact assessments of the effectiveness of these financial education initiatives have been scarce. International experience in financial education demonstrates that increasing the number of financial education programs does not automatically lead to increases in the level of financial literacy or positive change in consumer behavior. Therefore, it is crucial to identify which programs are most effective and should receive wide support.

b. Recommendations

It would be helpful to develop a national program on financial education under the joint leadership of MEF, SBS, BCRP and MIDIS. The establishment of a financial education committee consisting of a broad range of stakeholders from public and private sector could be established as the main body developing the program. This could potentially sit under the financial consumer protection and financial literacy subgroup of the new inter-governmental Financial Inclusion Council, which could bring together various ongoing and planned initiatives into a coordinated program with resources to extend to the rural areas.

The SBS should further deepen its cooperation with relevant education authorities. A memorandum of understanding signed between the SBS and the Ministry of Education in 2006 provides for a good basis for closer coordination on financial education activities. Going forward it will be important to focus on its implementation. An effective communication plan could be helpful to ensure that key decision-makers of the relevant education authorities have appropriate information on the importance of financial education, to be actively involved in the strengthening of financial education curriculum content in schools as well as use synergies as regards to teacher trainings.

Financial education programs should adopt appropriate methods to reach low income and rural populations, especially for remote areas of the country (see Box 2). Currently, the majority of the measures are web-based, thus excluding the illiterate and poor. Peru's unique country characteristics pose specific challenges to financial education programs tailored to low income and rural populations. It is also advisable to consider providing information materials and education programs in Quechua and, to a lesser extent, Aymara, as the languages spoken in Andean provinces. Moreover, cultural aspects will need to be considered, as well as the languages spoken in the Amazon region. An additional study would be helpful to assess the feasibility of translation of materials to a variety of existing language and dialects that are spoken only and/or to use other approaches, particularly for illiterate groups of the population.[52]

The financial literacy survey results could serve as a baseline to measure the impact of financial education and consumer awareness initiatives going forward. The results of the survey should be used by the proposed committee to inform the design of financial education programs and to evaluate them later. By administering key questions in the survey periodically such as every three years or so, progress in financial education can be assessed, policies reformed, and financial education approaches revised to better meet the outstanding challenges. There would be advantage in widely disseminating the results in order to make the data available to all relevant stakeholders.

52 Impact Evaluation Studies of financial education programs targeted to low-income house-holds which were conducted by the World Bank showed positive results.

Box 2 | Impact evaluations of financial education programs targeted to low-income households[53]

- **South Africa -** This study, which sought to deliver financial literacy messages to low-income households through a soap opera, resulted in significant improvements in financial knowledge and behavior, and found the messages to be more memorable. There was greater likelihood to borrow from formal sources, reduced gambling, and reduced likelihood to enter into hire-purchase agreements.

- **Uganda –** A study examined the effect of an eight-week financial education module on low-income households' financial attitudes and behaviors. The training led to increased knowledge of financial literacy, but this did not always translate into direct behavior change. However, savings groups and SACCOs did "nudge" some members towards making better financial decisions.

- **India and Kenya -** For this study, comic books and targeted discount vouchers were used to encourage farmers in rural India and Kenya to take up index-based weather insurance. Though both the vouchers and financial literacy training increased insurance take-up, the 'comic book' financial literacy materials had positive spillover effects on neighbors insurance uptake as well.

- **Mexico –** A study assessed the impact of af our-hour financial literacy training for credit card customers on approximately 40,000 consumers in Mexico. Results highlighted a significant increase in financial knowledge and an increase in savings for study participants, though the effect was often short lived.

- **Brazil –** A large scale study tested the impact of financial education on high school students as well as complimentary workshops for parents. The study which included nearly 900 schools and 20,000 students, led to improved financial proficiency scores for children as well as parents through a "trickle up" effect.

Evaluating the impact of the SBS training programs on credit behavior could help guide future program design. A relatively low cost assessment can be undertaken by evaluating the difference in credit behavior between those that participate in the SBS trainings and those who do not. Both the credit register and the SBS trainings include the national ID thus allowing a merging of data. Impact can be evaluated on propensity to take loans, repayment speed, and likelihood to default on loans.

53 "Financial literacy and education in low-and middle-income countries: measurement and effectiveness" by Robert Holzman, Florentina Mulaj, and Valeria Perotti, The World Bank. 2013.

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