Executive Summary

This study analyses the impact of work of the World Bank in the areas of consumer protection in financial services and in improving financial literacy in the Czech Republic and Slovakia, the first two countries where the World Bank provided technical assistance in the areas of consumer protection in financial services and financial literacy. Both countries requested assistance from the World Bank when they realized consumer protection framework was lacking and aimed to close the growing gap between ever more complex financial products available on the retail market and the customers that had no history of using sophisticated financial products.

The main actions implemented by the government authorities in Czech Republic and Slovakia as a result of the work conducted by the World Bank are listed below.

The Czech Republic

- In 2006 the Ministry of Finance established the Expert Group on Financial Sector as a multi-stakeholder forum to debate all national initiatives on financial consumer protection, and to discuss World Bank recommendations.
- Consumer protection was included as part of the legal mandate of the Czech National Bank in 2008
- A special Consumer Protection Department was established within the new supervisory structure of the Czech National Bank in 2008
- The Ministry of Finance organized a public consultation process for a 2008 report on the Financial Arbiter, which identified three key institutional problems and outlined several options to resolve them.
- In December 2008, the Ministry of Finance decided to gradually extend the powers of the Financial Arbiter to cover the entire financial sector. The Financial Arbiter has been covering all payment services since November 2009, and will also cover consumer credit from January 2011.
- The Ministry of Finance has drafted a legal amendment to the Act on Financial Arbiter in order to change its funding scheme (transferring the source of funding from the Czech National Bank to the State budget). The draft Act will be submitted to Parliament for approval after elections.
The Ministry of Finance was officially established as the leading
government authority in charge of developing the financial education
strategy, starting from 2006.

The first Financial Education Strategy was approved in 2007. The
Strategy was updated in 2010, including additional public authorities in
the program, and approved by the Government as the National Strategy
for Financial Education.

Financial education standards for high school students were developed
and incorporated into the mandatory school curricula; their
implementation by schools started in September 2009. Financial
education standards for primary school students are planned to be
implemented by 2014.

Financial education programs and teaching aids for teachers have been
developed and delivered by the Czech National Bank and several non-
profit organizations.

The Working Group on Financial Education (WGFE), set up within the
framework of the Expert Group on Financial Sector and chaired by the
Ministry of Finance, became a permanent platform for experience and
information exchange among public, private, non-profit and academic
institutions.

The Ministry of Industry and Trade was authorized by the 2010 National
Strategy to co-finance selected financial education projects within its
consumer protection grant policy.

The Ministry of Finance and the Czech National Bank decided to finance a
comprehensive financial literacy survey planned for autumn 2010 as part
of the OECD Financial Literacy Measurement pilot project.

A multi-stakeholder Working Group on Distribution in the Financial
Market was set up in March 2009, with the objective of defining rules for
financial market distributors (intermediaries and advisors) on
registration, responsibility for advice, business conduct, information
provision and standards of expertise. The Group held meetings until May
2010 and submitted recommendations to the Ministry of Finance.
The Slovak Republic

- In 2006 the Ministry of Finance became responsible for consumer protection in the financial market covering all segments of the financial industry, including the area of consumer credit (contrary to the Czech Republic).


- Responsible authorities started to develop a suitable framework implementing the Conceptual Framework.

- In June 2008 the Slovak Government decided that a special act on consumer protection in the financial market should be drafted and submitted.

- The Ministry of Finance in close cooperation with the National Bank of Slovakia started drafting the Act and decided to introduce a regulatory framework consisting of two pieces of regulation – the "Act on Intermediation and Advisory Services in the Financial Market" covering distribution issues and the "Act on Financial Consumer Protection" regulating remaining areas, including alternative dispute resolution mechanisms and financial education.

- Trying to counter the government activity, the financial market industry became active through several self-regulatory proposals. Along the implementation of codes of conduct, the Slovak Banking Association introduced the Banking Ombudsman Service for retail client dispute resolution.

- In 2008, several consumer protection rules were introduced in the area of consumer credit. Those rules are a part of national legal framework and go beyond the EU Consumer Credit Directive. Credit providers have to report the average APR to the Ministry of Finance on a quarterly basis. The average APR is then calculated, made public and used to define the permitted range for market APRs on consumer credits for the following quarter.

- The 2009 Act on Financial Intermediaries (effective since January 2010) introduced a new framework for financial intermediation and financial advice. All existing intermediaries were transformed into one of three new categories – independent agents, tied agents or subordinated agents. A new category – financial advisor – was also introduced. The Act introduced rules for remuneration, standards of expertise and determined responsibility within the distribution chains.
In 2009 the Act on Financial Consumer Protection covering all financial services was drafted. The proposal was widely discussed and many proposals from the public debate were implemented. However, the legislative process was not finished before the June 2010 parliamentary elections. The new government is expected to revise the proposal and certain changes might be made. The current proposal introduces the institutional framework for consumer protection in the financial market consisting of the Office for Financial Consumer Protection, the Commission for Consumer Contract Conditions Assessment and the Permanent Arbitration Court. The new Office should be responsible for consumer complaints resolution, consumer protection supervision and financial education. The industry is expected to cofinance the operation of the Office by means of fees charged for complaints against particular market player and an annual levy. The Act also sets rules for information provision in relation to consumers where no special regulation exists.
1. Introduction

The topics of consumer protection in financial services and financial literacy have been discussed and worked on at the World Bank since 2005, when the Czech Republic was the first country to ask for technical assistance in these areas. The impulse of the Czech authorities was their understanding that consumer protection was lacking in the area of financial services while the offer and complexity of financial products was growing rapidly in the quickly developing post-communist market.

The authorities were dealing with a growing number of complaints from the public as well as increasing media coverage of consumer complaints, while lacking adequate internal expertise to deal with these issues. Preliminary analysis showed that while some of the issues and complaints stemmed from mis-selling by financial institutions, many also arose from mis-understanding of various financial services and products by consumers, due to low financial literacy and lack of experience with financial products newly available on the market.

Therefore, the Czech Ministry of Finance approached the World Bank and requested assistance for setting up its priorities in improving consumer protection in financial services and increasing financial literacy of the Czech population. This request followed up on the previous technical assistance that the World Bank had provided to the Ministry of Finance on corporate governance in the areas of banking, insurance and capital markets.

The World Bank prepared the Technical Note on Consumer Protection in Financial Services for the Czech Republic. After the Note was presented publicly at a dissemination seminar in the Czech Republic, authorities of the Slovak Republic requested similar assistance as they were dealing with similar issues.

This study describes the impact the pioneering work of the World Bank team had on the Czech Republic and Slovakia, and how it assisted national authorities in improving consumer protection in financial services and developing programs to increase financial literacy of the Czech and Slovak populations. The teams for both countries were led by Sue Rutledge (Senior Private Sector Development Specialist) and composed of Richard Symonds (then Senior Counsel) and Rodney Lester (then Program Director). The team for Slovakia also included Nagavalli Annamalai (Lead Counsel) and Gregory Brunner (Senior Consultant).
2. Contribution of the Reviews to Further Work of the World Bank

**Piloting in the Czech Republic.** When the Czech authorities requested the World Bank to conduct the consumer protection review – and to provide recommendations on this area – both parties agreed to consider it as a pilot project, as there was no generally accepted international methodology to evaluate consumer protection in financial services, and the World Bank staff had to draw on various sources of good practices. The issue was brought to attention at the public dissemination workshop for the consumer protection review, conducted in Prague in June 2006. When the World Bank presented its recommendations, several participants asked what standards the recommendations were based at.

**Benchmarks needed.** To reflect the debate at the Prague seminar and to build the foundation for its work in other countries, the World Bank set to define benchmarks and good practices for the areas of consumer protection in financial services and financial literacy. The initial good practices were developed in 2006 and since then they have been used in all the subsequent work the World Bank has done in this area. The good practices have also been continuously refined, based on the lessons learned from each country experience.

In September 2008 the World Bank publicly released "Good Practices for Consumer Protection and Financial Literacy in Europe and Central Asia: A Diagnostic Tool" as a consultative draft. The document presented the good practices along with annotations of the experiences that have been drawn upon. The current draft is available online at the World Bank website.

3. The Czech Republic

3.1. Background

**New focus on consumer protection.** Consumer protection in financial services had become one of the widely discussed topics in 2004-2005 in the Czech Republic. After the fall of communism in 1989, the 1990s were devoted to developing the basic legal framework of the financial market, building supervisory authorities, and dealing with the usual ailments of the newly established markets – bank and credit union failures, pyramid schemes, inadequate securities regulation and generally inadequate powers and expertise of financial markets supervisors. The interest of the government focused on building a functioning financial market and providing basic system stability.

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1 The World Bank has conducted diagnostic reviews of consumer protection in financial services for the Czech Republic, Slovakia, Azerbaijan, Romania, Croatia, the Russian Federation, Lithuania, Bulgaria, Latvia, and Bosnia and Herzegovina.
As the country started to prepare for its entry into the European Union (EU) (successfully completed on May 1, 2004), the focus of the government authorities in 2002-2004 switched towards implementing all the rules required by the EU, especially financial sector directives, and strengthening relationships with supervisory agencies of other EU countries. Therefore, the capacity of the main financial services regulator – the Ministry of Finance – was fully used in implementation work and no room was left for country-specific work.

**Growing market, more consumers.** As the financial market became more stable, the consumer confidence grew and consumers started to use more sophisticated financial products (mortgages, mutual funds besides money market funds, unit-linked life insurance). Also the number of financial advisors (usually under an umbrella of one of the several large multi-level companies) started to grow.

![Figure 1: Number of Residential Mortgages](image)

*Source: Czech Ministry of Regional Development*
Table 1: Expansion in the Number of Financial Advisors

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Insurance Advisors</th>
<th>Change (Y/Y)</th>
<th>Number of Investment Advisors</th>
<th>Change (Y/Y)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>42 000</td>
<td></td>
<td>9 670</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>59 050</td>
<td>40.60%</td>
<td>12 120</td>
<td>25.34%</td>
</tr>
<tr>
<td>2008</td>
<td>77 350</td>
<td>30.99%</td>
<td>14 980</td>
<td>23.60%</td>
</tr>
<tr>
<td>2009</td>
<td>N/A</td>
<td></td>
<td>N/A</td>
<td></td>
</tr>
</tbody>
</table>

Source: Association of Financial Advisors, based on data of the Czech National Bank

More media attention to consumer finance. The boom of the financial sector brought about also an increased number of complaints and questions from the public. Media also started to devote more space to personal finance, with all mainstream dailies and weeklies providing specialized personal finance coverage and the number of users of personal finance websites growing quickly as well.
Lacking capacity and know-how, fragmented supervision. However, the Ministry of Finance in its regulatory capacity was ill-equipped to deal with specific consumer protection issues, as most of its expertise was in the area of implementing EU directives. The supervisory authorities (until 2006 composed of four separate institutions: the Czech National Bank, the Securities Commission, the Office for Supervision of Credit Unions and the Insurance Supervisor under the Ministry of Finance) focused on system stability and prudential supervision, with only the Securities Commission having market conduct supervision and consumer protection in capital markets as official parts of its legal mandate.

### 3.2. Early Influence of World Bank Assistance

**Assistance requested from the World Bank.** Therefore, in 2005 the Czech Ministry of Finance requested technical assistance from the World Bank as a follow-up of previous work of the World Bank on corporate governance in the areas of banking, insurance and capital markets. From the point of view of the regulator, the World Bank's technical assistance would help to:

- stimulate public debate about consumer protection in the area of financial services between the regulator, the supervisory authorities, the financial industry and consumer organizations

- provide advice to the supervisors in three broad areas:
  - financial education and financial literacy
  - alternative dispute resolution mechanisms
Legal Mandate for Consumer Protection

Define legal mandates, streamline supervisory agencies, make consumer protection equal to prudential supervision. To define its legal mandate in this area, in 2005 the Ministry of Finance initiated a change in the Law on Competencies of Ministries and as of May 1, 2006 became officially responsible for consumer protection regulation and general consumer protection policy with regard to the financial market.

At the same time, the Ministry of Finance proposed to integrate all four financial market supervisors into a single unified supervisory body under the Czech National Bank. Following discussions with the World Bank experts during their 2005-2007 assistance, the Ministry of Finance also decided to define consumer protection in financial services as one of the key tasks of the new supervisory organization (despite the unwillingness of the Czech National Bank that preferred to remain a prudential supervisor only).

Setup of a Multi-stakeholder Group for Financial Consumer Protection

Communication platform to discuss new initiatives needed. As one of the key recommendations of the World Bank experts was to involve all stakeholders in the debate from the very beginning, the Ministry established the Expert Group on Financial Sector in 2006 as the discussion platform to debate all national initiatives in the area of consumer protection, as well as to discuss expected World Bank recommendations from their technical assistance. This Expert Group included representatives of the following bodies:

- Ministry of Finance
- Ministry of Industry and Trade (responsible for general consumer protection and for the area of consumer credit)
- the Czech National Bank (that had become the single financial sector supervisor)
- industry representatives (through representatives of key financial sector associations)
- consumer representatives (through representatives of two largest consumer associations)

Three key areas to be discussed and analyzed. The high-level Expert Group agreed during 2006 to request broader analysis and to propose

- distribution of financial products (including disclosure rules and regulations)
solutions on three main areas. Those three areas, to a considerable extent in line with the World Bank recommendations, were the following:

- enhancement of financial literacy
- consumer protection regulation
- common self-regulatory code of conduct covering the whole financial market

For each of these areas a special working group was established. All three groups started their work in 2006 and were tasked to present their analysis and recommendations in 2007. The working group on financial literacy was later transformed into a permanent working group that has been preparing government policy on financial education and developing financial education projects ever since. Among other topics discussed, the group responsible for consumer protection regulation was tasked to discuss dispute resolution mechanisms and a framework for distribution of financial products.

3.3. Impact of the World Bank Report

**Consumer Protection Supervision**

Consumer protection made part of the mandate of the supervisor, new consumer protection department set up. As consumer protection issues were becoming more openly debated in the country and the need for a responsible supervisory body was growing, consumer protection in financial services was in the end added to the Law On the Czech National Bank (6/1993 Coll. as modified by Law on Changes in the Area of Consumer Protection 36/2008 Coll.) and a special consumer protection unit was established within the new supervisory structure of the Czech National Bank in 2008, providing a structural base for further development of consumer protection policy.

The new Consumer Protection Department at the Czech National Bank was made primarily responsible for market conduct supervision in the following areas:

- unfair and aggressive business practices by financial institutions and financial intermediaries
- non-discrimination of consumers
- fulfillment of disclosure rules of prices
- rules for distance marketing of financial services
**Issues to be still addressed.** While establishing a specialized unit for consumer protection at the supervisory agency was a good first step, there are three major issues that remain to be addressed:

- **limited powers and coordination:** while the Consumer Protection Department is responsible for the areas listed above, it cannot start sanctionary proceedings by itself but must hand the case over to the Sanctions Department that would benefit from more in-depth understanding of consumer protection issues; also, its powers are quite limited in some key areas.

- **need of a more pro-active approach:** the first two years of the Consumer Protection Department were spent primarily by trying to define its procedures and by reacting to complaints from the public; however, a more pro-active approach in warnings about consumer-unfriendly behavior would help the market and the Consumer Protection Department is moving in this direction.

- **partial coverage:** as the Consumer Protection Department deals only with financial institutions supervised by the Czech National Bank, key financial services remain outside of its reach (non-bank consumer credit providers, leasing companies, distributors of financial services other than insurance and investment products). The area of consumer credit is most prone to consumer-damaging practices and the body responsible for this area (the Czech Trade Inspectorate) is inadequately equipped to play any major role, focusing its work solely on monitoring APR disclosure.

**Dispute Resolution Mechanism**

**Improving access to justice through more efficient dispute resolution.** One of the key pillars of a robust system of consumer protection and an effective way of strengthening the confidence of consumers in financial markets is providing a way in which the consumer can easily exercise his right to a fast and effective solution to his complaint or a dispute with a provider or a distributor (a financial adviser or any other third party through which a financial service could be obtained) of financial services.

**Out-of-court dispute resolution mechanisms widely recommended and used.** While going to court is a standard option in all countries, it is an option only a few complainants choose, as it is both time consuming and expensive, because external legal assistance is usually needed. Therefore, many countries develop alternative out-of-court dispute resolution mechanisms and most EU financial services directives also demand that national governments arrange appropriate and effective complaints and redress procedures for the out-of-court settlement of disputes.

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3 For example, when a self-regulatory association expelled a financial advisor for repeatedly damaging a client, the Czech National Bank was unable to withdraw his investment and insurance advisor licenses and the person could thus operate further on the Czech market without any hindrance.
**World Bank recommendations.** To reflect this established international practice, the World Bank recommended in its paper that:

- *The Financial Arbiter should be given powers to hear and resolve complaints on any issue dealing with retail consumers in the financial sector.*
- *The current funding arrangements should be replaced with the financing of the Financial Arbiter by the professional financial firms covered under the Financial Arbiter’s mandate.*
- *A governing board of the Financial Arbiter should be established to ensure its independent governance and accountability.*

**Problems with the Financial Arbiter.** Based on the World Bank Report and further internal analysis, the Ministry of Finance prepared in March 2008 a report on the current status of the Financial Arbiter Office indicating three main problematic areas:

- the overall ineffectiveness of the Financial Arbiter, especially because of a very low amount of disputes resolved compared to the costs of running the office of the Financial Arbiter
- the funding through the budget of the Czech National Bank which was in violation of the relevant EU legislation
- the limited scope and powers of the Financial Arbiter that can deal with only with payment services and payment card misuse

**Public consultation held.** To involve all stakeholders (as was recommended by the World Bank to improve the effectiveness of the process), a consultation document was launched in August 2008, drawing on the March 2008 report. The consultation process initiated a public debate to discuss possible solutions for the three problem areas listed above and to find out what solutions would be supported by the financial industry, which had generally tried to avoid establishing a strong alternative dispute resolution mechanism. In the consultation document, the Ministry of Finance outlined all possible options, including those recommended by the World Bank, and asked 61 questions. In the end, the Ministry of Finance received over 20 responses from various stakeholders, reflecting the need for a workable solution.
The main outcomes from the public consultation were as follows:

- a majority of the respondents agreed on the weaknesses of the current system, as identified by the Ministry of Finance in its consultation document
- vast majority agreed that the Financial Arbiter should be entitled to resolve disputes from the whole retail financial market, as advised by the World Bank
- the funding scheme (from the budget of the central bank) was confirmed to be unsustainable, but there was no consensus on possible solutions. Majority of respondents agreed that the public budget should remain at least as a co-financing source. Financial industry representatives advocated the option under which the state budget would be the only source of funding whereas the other parties, including consumer associations, preferred a scheme financed or co-financed by the industry.

Powers of the Financial Arbiter to be extended. In December 2008, the Ministry of Finance came to a political decision about gradually extending the powers of the Financial Arbiter to cover all sectors according to EU regulation requirements (currently the payments services and consumer credit) rather than to build a completely new institution on a green field.

Financing remains to be solved later in the future. Secondly, the Ministry of Finance decided to transfer the funding of the Financial Arbiter from the Czech National Bank to the state budget as a politically easier solution compared to the negative reaction a proposal for financial industry financing would bring. Nevertheless, the debate about an industry-funded dispute resolution mechanism is expected to be continued in the future, as this option was indicated as the most suitable in the long term and as the Czech Republic will need to focus more intensively on balancing its budget.

Legal changes made to the Arbiter's mandate. In 2009 and 2010, the Ministry of Finance submitted draft legal changes to follow its 2008 decision. The Financial Arbiter has been entitled to resolve disputes in the whole payments system industry since November 2009 (according to the Payments Services Directive transposed by the Payments Services Act), and starting from January 2011 will also cover the consumer credit industry and intermediation of consumer credit (according to the Consumer Credit Directive transposed by the Consumer Credit Act). The amendment to the Act on Financial Arbiter that proposes changing the Arbiter’s funding

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4 See the synthesis of the responses at the Ministry of Finance website http://www.mfcr.cz/cps/rde/xchg/mfcr/xsl/fitrh_vyh_ver_diskusi_43860.html (Czech only).
scheme will be submitted for parliamentary approval by the new government formed after the June 2010 elections.

**Consumer Education and Financial Literacy**

**Educating consumers becomes a priority.** No system of consumer protection in financial markets is effective unless there are educated customers that are able to take informed decisions and that understand and actively use their legally guaranteed rights. Therefore, consumer protection and financial education should be taken as two integral parts of a strong consumer protection system.

Reflecting this approach, the World Bank stressed the importance of financial education in its cooperation with Czech authorities, both through direct involvement of the government and the support of non-governmental organizations that could be active in this area.

**World Bank recommendations.** Specifically, the World Bank provided the following recommendations:

- The capacity of consumers associations to deal with complex financial matters, including securities, loans, insurance and pensions should be strengthened. The Ministry of Industry and Trade and the Ministry of Finance should cooperate in funding programs, to be implemented by consumer protection NGOs, which directly address consumer protection in financial services.

- The public agencies should ensure broad dissemination of educational material for consumers, e.g. through their websites, print, TV and radio, or by distributing the materials through branches of financial institutions.

- A public education program should be developed with funding from the financial industry. The program should concentrate on schools and deal with the role and benefits of insurance in a modern economy and on consumer rights.

The development of financial education policy and programs has become one of the key priorities for the Ministry of Finance since early 2006. The Ministry of Finance, which is legally responsible for the consumer protection in financial services, became the leading public authority in defining and coordinating the Czech financial education system.

**Financial Education Strategy prepared.** During 2006 and 2007 the first Financial Education Strategy was prepared and approved. The Strategy constitutes a systematic approach to dealing with the low level of financial literacy of Czech citizens. It outlines the main problems and priority tasks in this area, including specific tasks for key players, with an emphasis on the
role of public administration entities.

**Key priorities for financial education.** According to the Strategy, financially literate citizens are expected to be able to use information concerning the financial market so that they may ensure their own needs and the needs of their family with regard to changes in their life situation.

There are three priorities defined in the strategy:

- active behavior in the financial market
- prevention of overindebtedness
- preparation for old age

**Ensuring quality of financial education.** Three principles are set to ensure the quality of all financial education programs: contents remain objective and do not contain any marketing (principle of objectivity), educators have sufficient level of expertise (principle of expertise), and education is delivered through adequate channels (principle of information). The whole financial education system involves a combination of public, private and non-profit institutions.

**Financial Education Standards developed for high schools.** The respective public authorities\(^5\) started in 2007 to develop Financial Education Standards, one of the first measures that the Strategy recommended to implement. Financial Education Standards were developed to describe the target level of knowledge and skills for each target group of high school students. These standards were then integrated into the compulsory curricula for high schools (the so called Framework Educational Programs that serve as minimum requirement for the curriculum of each high school). According to the Czech curricular system, the high schools were obliged to implement the standards into their school education programs by September 2009, so the school year 2009-2010 was the first one to include financial education in the educational program. The same process of defining standards and including them into the curricula is expected to be applied for primary schools by 2014.

**Further support provided to teachers.** In parallel with the initiation of the compulsory high school financial education in 2009, several educational programs and teaching aids for teachers were developed and delivered, mostly by the Czech National Bank and several non-profit organizations, as financial issues were a new area for many teachers and they themselves had to be financially educated first.

**Working Group on Financial Education made an official financial education platform.** In 2010 the Ministry of Finance decided to strengthen

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the working group on financial education and to update the Education Strategy by including further public administration authorities. The Working Group on Financial Education (WGFE) was set up within the framework of the Expert Group on Financial Sector and meets twice a year. The WGFE is chaired by the Ministry of Finance and includes representatives from public, private, non-profit and academic institutions.

In 2010 the WGFE became the official permanent platform for experience and information exchange among all relevant stakeholders. An Executive Committee composed of the Ministry of Finance, the Ministry of Education and the Czech National Bank was created to govern the works of the WGFE and to ensure a smooth cooperation among those three institutions. The WGFE was in charge of revising the Financial Education Strategy. In May 2010 the revised Strategy was approved by the Czech Government and became the National Strategy for Financial Education.

**Financial support from the government to selected financial education programs.** In compliance with the World Bank recommendations, the Ministry of Industry and Trade is authorized by the National Strategy to co-finance selected financial education projects within its consumer protection grant policy. The Ministry of Finance and the Czech National Bank decided to finance a comprehensive financial literacy survey planned for autumn 2010. This exercise will be a part of the upcoming OECD Financial Literacy Measurement pilot project.

The industry is not only included in the Working Group on Financial Education, but also carries out its own initiatives as well. For example, the Czech Banking Association in cooperation with other financial industry associations launched a web portal Finanční vzdělávání (Financial Education)⁶ which describes the financial market sectors and their products and services to the general public. The Czech Association of Insurers launched two educational websites, one focused on life insurance⁷ and the other on property insurance⁸. Some banks and investment companies started their own financial education programs or decided to provide financial support to non-profit organizations. The large banks also jointly finance a network of debt-counseling centers around the country as a part of their corporate social responsibility programs.

**Distribution of Financial Products**

**Regulating distribution key to limit misselling and provide adequate disclosure.** When discussing consumer protection in financial services, attention is primarily paid to the financial institutions as the makers of the

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products. However, especially in the new markets, it is even more important to focus on distribution channels as the distributors are also very often the major source of information about financial products and can thus influence customer decisions very easily. In other words, there is a lot of room for misselling and strict disclosure and responsibility rules must be implemented and checked.

**World Bank recommendations.** The World Bank report included several recommendations on sales practices and disclosure, which have been taken into account by the Czech authorities when dealing with distribution of financial products. Such World Bank recommendations are the following:

- **Full disclosure of financial products information before and at the point of sale should be formalized in the legislation and made mandatory for all sellers of retail banking products.**

- **Regulations should specify the "fact find" documentation and "key facts" consumer awareness literature to be given at the point of sale for life insurance and pension contracts as well as for investment products. This should include information on consumer recourse and cooling off periods.**

- **All promotional and illustrative material provided to a client by a financial institution or an agent (of any kind) should be deemed to be part of the insurance contract for determining the terms of sale with the consumer.**

- **For all financial products and especially where pensions-related and life insurance products with substantial savings components are involved, the intermediary should be required to disclose the commission or other forms of remuneration to the consumer upon request.**

- **Brokers should be prohibited from initiating unsuitable trades. A broker should not be allowed to accept orders from someone about whom he has no or insufficient information.**

**Public debate about standards for minimum expertise of distributors.** Following up the World Bank recommendations, a public consultation on standards for minimum expertise of distributors was launched in 2008. The majority of respondents agreed on the need of creating a level playing field in this context and the need for a broader revision of financial market distribution regulation. For this purpose a Working Group on Distribution in the Financial Market was set up in March 2009, chaired by the Ministry of Finance and including all key financial market associations, selected consumer associations, and the Czech National Bank.

**Key issues to deal with in the area of distribution.** The aim of this Working Group was to define rules and methods that should be used to create a level playing field in the architecture of regulated distributors
(intermediaries and advisors), in their registration, responsibility for their actions, conduct of business rules, information provision and standards of expertise. The Working Group held its meetings until May 2010 and produced a set of recommendations that are currently being submitted for approval to the Minister of Finance. Once approved, these recommendations will be used as a basis for drafting new legislation for distribution of financial products.

**Simple architecture and clear responsibility needed.** Regarding the architecture of distributors, the Working Group recommended a simple system of independent and tied agents. Independent agents should be allowed to offer financial products of more than one originator but have to take responsibility for all activities of their tied agents and employees. Tied agents will be allowed to represent only one financial institution or one independent agent. Therefore they will be limited in the financial products offered. Moreover, the company that uses either a tied or an independent agent would be fully responsible for his actions and for any damages causes to consumers by misselling, bad advice or inadequate disclosure.

**All agents should be registered with the supervisor in a public register.** In terms of registration of distributors, the Working Group recommended that all regulated agents be registered by the Czech National Bank, and that this registry should be accessible via internet for all retail clients. The registry should contain all basic information about the agent, including past data to see the individual's work history.

**MiFID used as a benchmark but needs to be adapted for other sectors.** Regarding the conduct of business rules, the capital markets regulation (represented by the MiFID) served as a benchmark, but the Working Group agreed that not all MiFID requirements are implementable in other market sectors. On the other hand, basic principles like acting in the best interest of the customer or "Know Your Customer" policy are recommended to be an integral part of the level playing field that should be developed.

**Minimum set of pre-contractual information to be disclosed, in writing and in an understandable form.** The Working Group agreed that five areas of information should be disclosed and explained to the customer as a required minimum set of pre-contractual information. This information should also be handed over to the consumer in written form, using a simple language:

- who the originator is and who the intermediary is
- definition of the products
- any risks the customer will face when purchasing the product, including presence of any guarantee scheme
- costs and fees paid by the customer
- all duties the customer has when signing the contract
Rules to apply to everybody, issues of verification remain. The Working Group agreed that all persons dealing directly with customers should meet adequate standards of expertise, no matter whether they are branch employees or independent third-party distributors. However, the Working Group did not agree on a common system for verifying the standards. Whereas some Working Group members advocated a compulsory system of exams and a "driving license for distributors", others suggested taking advantage of the current system for the capital market, where there are several ways to verify the expertise and the independent agent or the originator is responsible for the verification.

Further work with results by 2011. It is expected that the debate of the Working Group will continue in fall 2010 with the focus on the minimum standards of expertise for distributors. In 2011, the Ministry of Finance plans to present the new regulation on distribution in the financial market.

4. Deepening of the financial sector and development of consumer confidence in the financial sector in the Czech Republic

4.1. Savings and investments

Total effect of "crisis" limited. The Czech financial market continued to deepen during the past four years (2006-2010). Total resources denominated in Czech crowns which are used in the financial market experienced a steady growth throughout the period, despite the global crisis of 2008-2009. Looking at the structure of retail savings in the Czech Republic, significant effect of the global crisis can be observed in the capital market where mutual funds lost a portion of the capital invested. While part of the decrease in the value was caused by lower equity and bond prices, some of the investors decided to transfer their investments out of mutual funds back to bank deposits.

Worries about safety bring some unwise choices. Unfortunately, the talk of "crisis", together with the lack of financial literacy increased the belief that bank deposits are the only safe product. Therefore, the share of deposits in current accounts with interest rates of 0,01%-0,1% ("demand" deposits) grew from 27% of all retail investments in 2006 to 33% in 2009, making an increased volume of savings unprotected against inflation (see graph Structure of Households Savings and Investments below).

Further growth expected. However, as soon as the turbulences in the financial market disappear and the situation stabilizes, the past trend of capital market growth is expected to continue, probably supported by the current discussion about pension reform in the Czech Republic and the responsibility of every individual to save for his old age.
The following chart shows volumes of retail investments in the Czech Republic:

<table>
<thead>
<tr>
<th>Resources in the retail financial market denominated in CZK (bn CZK)</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits in banks</td>
<td>1,807.3</td>
<td>2,109.8</td>
<td>2,301.0</td>
<td>2,457.5</td>
</tr>
<tr>
<td>of which: building savings schemes</td>
<td>359.8</td>
<td>384.8</td>
<td>401.3</td>
<td>415.2</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>271.3</td>
<td>315.2</td>
<td>243.9</td>
<td>234.5</td>
</tr>
<tr>
<td>Supplementary pension insurance, including state contribution</td>
<td>136.4</td>
<td>162.5</td>
<td>186.7</td>
<td>200.6</td>
</tr>
<tr>
<td>Volume of insurance companies' technical reserves (proxy for expected payouts from life insurance products)</td>
<td>269.7</td>
<td>291.5</td>
<td>296.8</td>
<td>381.9</td>
</tr>
<tr>
<td>Currency in circulation</td>
<td>321.5</td>
<td>324.1</td>
<td>365.5</td>
<td>353.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,806.2</strong></td>
<td><strong>3,203.1</strong></td>
<td><strong>3,393.9</strong></td>
<td><strong>3,628.1</strong></td>
</tr>
</tbody>
</table>

Retail customers the strongest client group. When having a closer look at the bank deposits from client segment perspective, households remain the major client with some 60% share. In the credit sector, households became the significantly strongest segment in 2006 and continued to improve its market share with some 52% share on all loans, especially due to the growth in volume of mortgages.

<table>
<thead>
<tr>
<th>Deposits and loans</th>
<th>Bank deposits (bn CZK)</th>
<th>Bank loans (bn CZK)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
<td>2007</td>
</tr>
<tr>
<td>Non-financial</td>
<td>402.3</td>
<td>485.9</td>
</tr>
</tbody>
</table>
4.2. Loans

Consumer credit grows strongly, defaults increase. Despite the financial crisis, banks continued to issue credits and the level of households’ indebtedness continues to grow. The level of outstanding debt to GDP (27.6%) still lags behind the EU average (where most of the countries experience a higher ratio) but the upward trend and increased level of reported defaults (from 3.2% in 2008 to 5.2% in 2009) represent serious reasons for action in the field of financial education and awareness. The credit market is expected to keep the upward trend with most of the loans used for housing purposes (over 60%) rather than consumption.

![Aggregate mortgage market indicators](image)

Despite the global crisis the Czech financial market continues to deepen, even though certain segments were negatively affected (especially the capital market and the mutual funds industry). However, as the situation stabilizes and the Czech economy starts to grow again, the financial market is expected to rebound quickly.
5. The Slovak Republic

5.1. Background

**Single regulator for the whole financial market.** Since January 2006 the Slovak Ministry of Finance has been responsible for consumer protection in the financial market. Unlike in the Czech Republic, where the responsibility still lies with the Ministry of Industry and Trade, this competency includes consumer credit and thus the Ministry’s regulatory powers cover 100% of the financial sector. This setting is considered to be more suitable as the area of consumer credits, especially with regard to non-bank credit providers, represents one of the financial market sectors with a higher demand for consumer protection measures.

**Consumer protection in financial services listed as one of priorities of the 2006 Slovak government.** According to the 2006 Program Statement of the Government of the Slovak Republic the Government "...shall assure appropriate protection of participants in the financial market, focusing on the appropriate protection of non-professional investors and depositors against a possible failure of financial market subjects and shall strengthen prevention in this area."9

**Three key areas to work on.** As certain measures were anticipated in the government program statement, the Slovak Ministry of Finance submitted the "Conceptual Framework for Consumer Protection in the Area of Financial Services, Provision of Financial Education and Regulation of Mediatory and Advisory Activities in the Financial Market". This framework was approved by the government in August 2007 and covers three main areas where appropriate measures need to be taken:

- First area describes the role of information disclosure and advertising rules in increasing consumer protection and suggests a review of the legal options available to consumers for defending their rights resulting from contractual relations with financial services providers and intermediaries. It also proposes that the institutional framework for enforcing consumer rights focusing on the creation of an effective mechanism for out-of-court settlements should be modified.

- The second area describes the necessity of financial education of the public as well as of distributors of financial products to improve the quality of their work.

- The third area is aimed at distribution and advisory services in the financial market where regulatory conditions are to be unified across sectors to provide for a level-playing field and business ethics are to be promoted and strictly required.

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Two new laws drafted. Following the conceptual framework, the Slovak Ministry of Finance in close cooperation with the National Bank of Slovakia started to set up a new regulatory framework for consumer protection in the financial market consisting of two main pieces of regulation - the Act on Intermediation and Advisory in the Financial Market dealing with distribution issues and the Act on Financial Consumer Protection regulating the other remaining areas. Simultaneously, several EU directives with consumer protection measures were transposed into Slovak legal framework, especially the Payment Services Directive and the Consumer Credit Directive. In the area of consumer credit, certain national specific rules were implemented beyond and before the directive transposition (see the chapter Consumer Credit further below for more details).

Financial industry takes action to get ahead of regulation. While the Ministry of Finance was drafting the legal changes, the financial industry became active in consumer protection as well, especially in order to provide an alternative to the expected new regulations. The Slovak Banking Association went furthest, introducing the Banking Ombudsman Service for retail client dispute resolution.

Five key areas of government activities in 2006-2010. There have been five thematic areas the Slovak authorities focused on in their work on consumer protection during the election cycle between 2006 and 2010:

- financial distribution (rules for distribution of financial products)
- consumer protection office
- dispute resolution
- financial education
- consumer credit

The following chapters describe key developments in each of the areas in more detail.

5.2. Financial Distribution

Defining disclosure and sales practices. Regulation of financial distribution should consist of improving mandatory disclosure and defining rules for sales practices. Many of the World Bank recommendations have been implemented over the last two years when EU directives (especially the MiFID, UCITS, Payment Services and Consumer Credit Directives) were transposed into the Slovak regulatory framework.
World Bank recommendations. However, most of the directives avoided or dealt only in a limited way with the regulation of financial intermediaries and advisors, their interactions with clients, standards of expertise and remuneration. Following recommendations were delivered by the World Bank:

- **A three-tiered system for the training and certification of intermediaries and other sellers of financial products would be useful. Tier 1 would apply to individuals who sold simple products, such as savings accounts. Tier 2 would relate to complex products, such as pension funds, collective investment funds or life insurance that included a savings component. Tier 3 would be the highest level covering certified financial advisors (or planners). All three tiers should require registration with the NBS of all individuals selling financial products. Priority: High**

- **The law should require public disclosure of the fees paid to the brokers. Priority: Medium**

**Recommendations implemented as of 2010.** New regulation on financial intermediaries\(^{10}\) (effective since January 2010) introduced a completely new framework for financial intermediation and financial advisory. Overall, the new Act goes hand in hand with the World Bank recommendations.

All existing intermediaries were transformed into one of three new categories:

- independent agents,
- tied agents, or
- subordinated agents.

Independent agents are allowed to offer financial products and services of more than one originator (financial institution). Subordinated agents represent only one independent agent and tied agents represent only one originator.

The new regulation also introduced a new category in the distribution chain, the so-called financial advisor who provides independent advice to the retail customer.

**Rules for remuneration of distributors.** All intermediaries are remunerated by commissions whereas advisors are required to be strictly independent and therefore not allowed to accept any payment or other type of remuneration from the product originators. To make the structure more transparent, the regulation introduced the legal label "advisor" which can be used in any public communication by financial advisors only. The retail client will therefore know from the name of the individual he or she deals

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\(^{10}\) No. 186 / 2009 Coll.
with whether there will be an independent advice or a commission-based intermediation provided. Agents are obliged to disclose the level of commission upon request of the client.

**Rules for minimum expertise and education.** All intermediaries have to fulfill defined standards of expertise which are to be verified by a centralized examination. The new regulation introduced four different levels of professional qualification. For each level a minimum number of personal financial education training is required and individuals must pass an exam to qualify for any level except for the first one. While the personal financial education can be provided by the industry players in general (including distribution companies or financial service providers), the exams can be organized only by professional associations (only exams for the middle and higher level of agents, not exams for the financial advisors) and the National Bank of Slovakia (all three levels, including exams for the financial advisors). This provision should safeguard the objectivity and equal treatment of exam participants.

**Responsibility for damages clearly defined.** A breakthrough provision of the new regulation lies in determining who is responsible for damage caused to consumer by a wrong execution of the intermediary’s duties. Both agents and advisors have to take full responsibility and are required to have an indemnity insurance coverage.

According to the new regulation, agents have to provide customers with a set of pre-contractual information. This information has to be complete, understandable, comparable and transparent. In case of breaching this provision, the agent takes responsibility for any losses caused to the client by the lack of disclosure.

**5.3. Financial Consumer Protection Office**

Consumer protection laws and institutions are considered the cornerstones of the whole consumer protection system.

**World Bank recommendations.** The World Bank formulated several recommendations which referred to the institution framework and its regulatory function:

- All providers of financial services, including consumer finance companies, should be required to obtain authorization for their activities. **Priority: High**

- The NBS could release consumer alerts noting their responsibility and identifying financing entities that operate in Slovakia but are not authorized by the NBS. **Priority: Medium**
- NBS (and any other agencies responsible for supervision of retail financial sector activities) should include the objective of protecting financial consumers as part of their formal mandate. Priority: High

- NBS should be authorized to use sanctions (such as levying of fines) where finance companies engage in unfair or deceptive practices. Priority: High

As described above, the new financial consumer protection legal framework in Slovakia consists of two main pieces of regulation. While the Act on Intermediation and Advisory in the Financial Market covering distribution issues is already effective, the Act on Financial Consumer Protection was drafted in 2009 but did not undergo the whole legislative process before the June 2010 elections and therefore has to be re-submitted by the new government. The following text draws on the 2010 legislative proposal but some changes may be made by the new Slovak government. The proposed measures giving the new Office its powers meet the World Bank recommendations.

**Full coverage of the market, fighting information asymmetry the main goal.** The new regulation covers the whole financial market including both regulated entities which are supervised by the National Bank of Slovakia and entities operating outside the central bank supervision (consumer credit providers or exchange offices). The overall aim of the regulation is to fight information asymmetry in the financial market and to create a new institution complementary to the central bank supervision - the Financial Consumer Protection Office.

**The role of the Financial Consumer Protection Office.** The Office should have its headquarters in the capital city of Slovakia (Bratislava) with regional offices across the country, allowing all customers to contact the Office personally and seek its assistance. This institution will be responsible for three main areas:

- consumer complaints resolution, including mediation service between consumers and financial institutions (for more details see chapter 5.4 further below),

- conducting supervision and inspections in the field of consumer protection rights and financial institutions' market conduct obligations

- operation and support of financial education programs, with specific programs for intermediaries and financial advisors, financial education for the public, supervision over the new system of intermediaries' and advisors' examination and operation of a financial market information website.

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11 For the final draft see the website of the Slovak government (in Slovak language only): http://www.rokovania.sk/Rokovanie.aspx/NezaradenyMaterialDetail?idMaterial=17961
**Relationship to other institutions to be evaluated later.** The existing Commission for Consumer Contract Conditions Assessment and the Permanent Arbitration Court should remain independent but the regulator is about to evaluate the possibility of including those two institutions into the Financial Consumer Protection Office. The existing deposit guarantee schemes (banking and investment products) will remain independent outside the new structure as well.

**Two-level decision-making.** Within the inspection activity the Office will be allowed to impose sanctions, measures to rectify detected issues and publish general recommendations towards complying with the rules. The Inspection Unit should represent the first decision-making level, the Presidium of the Office the second and final level to which first-level decisions can be appealed.

**The role in financial education.** The Office will play an important role in the financial education framework anticipated by the Financial Education Strategy of Slovakia (see chapter 5.5). There are two areas where the Office is expected to take action. Firstly it should organize and/or provide financial education to the employees of financial institutions, government and central bank officials and other people active in the financial market. The second area represents so-called personal financial education which is obligatory for all intermediaries and financial advisors (see chapter 5.2).

**A new website to inform and educate the public.** The new financial market information website should contain general information about the financial market and specific information on the financial product and services conditions (see above mentioned information requirements) in a simple, transparent and comparable way. Additionally, the website should contain warnings against institutions violating consumer rights.

**Combined financing from the state and market participants.** Although the Office is expected to be financed by the state budget, the industry will be obliged to contribute by means of an annual levy. The level of contribution will depend on the institution. Legal entities registered in Slovakia (including branches of financial institutions operating in other EU countries) will be obliged to pay a levy of EUR 0,001 – 0,1 per million of assets, with maximum payment capped at EUR 50,000. The exact rate will be announced annually. Passporting entities will be subject to a fixed levy of EUR 500 and unregulated entities operating in the financial market to a fixed levy of EUR 250.

**Complaints to financial institutions must be solved within 30 days.** The first set of new rules aims at fighting information and economic asymmetry. The retail consumer gains the right for complaints resolution by the financial institution within 30 days. Should the consumer not be satisfied, he can apply to the new Financial Ombudsman for resolution.
Disclosure rules for non-licensed institutions defined. Particular information disclosure obligations are set in the proposed legislation. All non-licensed financial institutions should provide their clients with the following pre-contractual information (while the licensed institutions are required to follow their sector-specific disclosure requirements):

- purpose of the financial product or service offered, its advantages and risks,
- current and future costs,
- consumer rights related to the contract, means of consumer rights enforcement,
- consequences for the consumer when not complying with the obligations resulting from the contract.

All this information has to be provided in a way allowing the consumer to understand it. The consumer is allowed to select whether he prefers to be informed in writing or by electronic means. When there is a significant change in contractual conditions, the consumer is entitled to withdraw from the contract within a 30 day period without any fee or sanction.

5.4. Dispute resolution

World Bank recommendations. As stated in the 2007 World Bank Technical Note it was difficult for consumers to complain outside of the financial institution. A set of recommendation on alternative dispute resolution system included among others following:

- The NBS should also ensure that all financial institutions have in-house dispute resolution mechanisms with a system of time-bound resolution and a formal mechanism for dispute resolution. Priority: Medium

- All financial institutions should be required to prepare a policy on internal dispute resolution—and the policy should be subject to review by the NBS as part of its standard supervision procedures. Priority: High

- The NBS should require that financial institutions provide information to consumers on how to seek a remedy, including redress, for problems arising out of interactions with the companies or their intermediaries. Priority: High

- A financial ombudsman should be established, and the industry associations should be encouraged to set up their own ombudsman structures. The industries ombudsmen would then operate under the supervision of a general financial sector ombudsman. Priority: High
- The ombudsman should be obliged to publish an annual report describing decisions taken by the ombudsman and be part of FIN-NET. Priority: Medium

- Associations should also be encouraged to take action to mediate, and if possible resolve, disputes where a lender's practice violates the association's code of conduct. Priority: Medium

The above mentioned creation of the Financial Consumer Protection Office, especially its mediation and dispute resolution functions, meets several of the World Bank recommendations. The financial industry has become quite active lately as well.

**The voluntary Banking Ombudsman introduced.** The Slovak Banking Association introduced in 2007 a new service for dealing with consumer complaints – the Banking Ombudsman – which operates on a voluntary basis. This means that no binding decisions can be taken by the ombudsman and the complaint resolution relies on mediation and advice to both parties. The disputes the banking ombudsman is allowed to deal with have to be aimed at Slovak Banking Association members, non-bank or insurance companies and no judicial proceeding should be in progress when the case is dealt with by the ombudsman. During the first three years the banking ombudsman dealt with more than 700 disputes. Most of the disputes were related to mortgages and consumer credit, followed by current accounts, payment services and investments. Alongside, another 850 clients consulted the ombudsman personally, on the phone or via email.

**Government-proposed Financial Ombudsman to be established.** To cover the whole financial market and to overcome the disadvantages of non-binding decisions of the banking ombudsman, a new service – the Financial Ombudsman – should be introduced by the new consumer protection law. This new institution should be an integral part of the Financial Consumer Protection Office and should be chaired by the Financial Ombudsman. The complaint resolution process can be initiated by consumers only and should be finished within a maximum period of three months, in complex cases within six months. According to the draft law, the consumer is obliged to try to solve his complaint with the financial institution before going to the financial ombudsman. The final decision of the Financial Ombudsman should be binding and there is no right to court appeal. The financial institution which is addressed in the complaint is obliged to pay a fee to the Financial Ombudsman office.
5.5. Financial education

**World Bank recommendations.** According to the World Bank Report the ultimate weapon for effective financial consumer protection are well-informed consumers. Therefore, the final set of recommendation was dedicated to the financial literacy area:

- **Consideration should be given to Government support for programs that educate consumers and improve their financial literacy. Priority: High**
- **The NBS should play a key role in alerting consumers to illegal practices. The NBS should put in place a system of consumer alerts to highlight to the press and public any consumer protection issue in the financial sector, such as a “Consumer Affairs” page on its website. Priority: High**
- **Financial institutions should play a role in educating their customers. Priority: Medium**
- **A specialized institution should be established for consumer education and financial literacy, and it should conduct a baseline assessment of the current level of financial literacy and follow-up assessments. Priority: Medium**
- **The specialized institution should also help to set up a national education program through the universities and middle schools to develop programs of financial literacy for students of all ages. Priority: Medium**

Some of the recommendations, especially those aimed at improving information awareness are being implemented within the planned Financial Consumer Protection Office. Most of the remaining recommendations are mirrored in the Slovak financial education system which consists of two elements – the financial education on the financial products supply side (see chapters 5.2 and 5.3) and on the demand side, i.e. the side of the current and future consumers.

**Financial education strategy for schools approved.** In July 2008 the Slovak government approved the Strategy for Education in the Field of Finance and Personal Finance Management. The main purpose of the Strategy was the implementation of financial education into the school curricula. Simultaneously a system of following teachers' education was to be set. The Strategy is considered as the first step in the whole process of financial education implementation.

**Working group established.** An interdepartmental working group involving relevant ministries, education experts and the financial industry was created to broadly discuss financial issues and best ways of implementing the new requirements into the general educational system in Slovakia.

**National Financial Literacy Standard defines financial education targets.** The Strategy anticipates goals for financial literacy to be defined by
means of a National Financial Literacy Standard\textsuperscript{12}. This Standard was created by the Ministry of Education and Ministry of Finance in October 2008 and should be continually updated by the interdepartmental working group to ensure its relevance to future changes in the financial market.

**Seven key topics defined in the National Financial Literacy Standard.** There are seven topics included in the Standard:

- money
- financial responsibility and decisions
- income and work
- financial planning
- credits and debts
- savings and investments
- risk and insurance

The Standard describes all areas in detail and sets the content of partial competencies within each topic. A financial glossary is a part of the Standard, setting common terminology to be used by all involved parties.

**5.6. Consumer credit**

**Publication of average APR for various types of credit.** From 2008, consumer credit providers in Slovakia have to report to the Ministry of Finance selected data on quarterly basis\textsuperscript{13}. These required data include both volumes of new credit granted and average APR of these new loans. The Ministry then calculates the average APR for specific types\textsuperscript{14} of consumer credit and reports these average rates to the public on the ministry website\textsuperscript{15}.

These averages are used to both inform the public about the price level of consumer credits (allowing an easier comparison of particular offer and the general industry average in rather specific segments to make the comparison as relevant as possible) and to calculate the maximum level of APR which is allowed to be charged by the industry during the next quarter\textsuperscript{16}.

\textsuperscript{12} See State Institute of Technical and Vocational Education, www.siov.sk
\textsuperscript{13} Ministry of Finance Notice No. 660/2007
\textsuperscript{14} The credit types are specified by security and maturity – for example one of the credit types is characterized as follows: secured consumer credits up to Eur 6,500 with maturity between 3 and 6 months.
\textsuperscript{15} For the quarterly reports see the Ministry of Finance website (Slovak only) at http://www.finance.gov.sk/Default.aspx?CatID=6783
\textsuperscript{16} Government regulation No. 238 / 2008 Coll.
Maximum APR and interest rate defined for all types of credit. This maximum APR is defined as the double of average APR for a particular credit type and must not exceed a quadruple of average APR for all credit types. As the APR is not exactly quantifiable in some loan products, a limit on the interest rate as a double of average credit card interest rates is set in the law as well for these purposes.

Above mentioned consumer protection measures with regard to the consumer credit go beyond the EU Consumer Credit Directive which was transposed in Slovakia in 2010, identically with other EU member states. They have been developed to address some of the problems the low level of financial literacy in some consumer segments brings. The publication of the measures and the data should help in educating the consumers and making them more capable to make financial decisions.

6. Deepening of the Financial Sector and Development of Consumer Confidence in the Financial Sector in the Slovak Republic

6.1. Savings and investments

Czech and Slovak markets moving separate ways. In general, the Slovak financial market would be expected to deepen during the past four years (2006-2010) in a way similar to the Czech market, as the countries developed from the same starting position. However, a closer look at the sectors shows certain differences in market development.

Retail clients keep the banking sector stable. While the bank deposits of Czech clients grew during the whole period of 2006-2010 despite the crisis, there was a decline in 2009 observed in the Slovak market caused by the lower level of government and corporate deposits. The retail segment, which is the dominant one (with share of 60%, similar to the Czech market), remained stable at the 2008 level during the crisis.

Flight to safety during crisis. Taking only retail deposits into account, an unusual growth can be observed between 2008 and 2009. Similarly to the Czech Republic, the same fund transfer from the capital market (savings in mutual funds) to the banking sector covered by the deposit guarantee scheme took place. It is also illustrated by the mutual funds data where the negative net sales (minus 0.8 bn. EUR) represented the main factor in total volume decrease.

<table>
<thead>
<tr>
<th>Bank deposits (bn EUR)</th>
<th>Periods</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>Corporate</td>
<td>9.61</td>
</tr>
<tr>
<td>Retail</td>
<td>15.13</td>
</tr>
<tr>
<td>Government institutions</td>
<td>2.91</td>
</tr>
<tr>
<td>Financial institutions (without banks)</td>
<td>2.54</td>
</tr>
</tbody>
</table>
Domestic mutual funds dominate the market. Unlike in the Czech Republic, where the share of domestic and foreign funds is equal, there is a significant dominance of domestic mutual funds in Slovakia. The development of net asset value (NAV) managed by domestic and foreign funds shows a dip in the crisis times (2008) with NAV rebounding partially.
in 2009, but still remaining under the 2006 volumes. In general, the 2009 mutual funds data show signals of recovery and support expectations of a continuing recovery in the coming years.

6.2. Loans

**Credit markets remain strong, consumer credit keeps expanding.** While deposits showed a decline in 2009, total credits leveled off. Taking into account the effect of the financial crisis where businesses generally found it much harder to receive new credit, the slight decline in business credits in 2009 is still a positive result. Again, the development is similar to the Czech Republic. What is to be highlighted is the continuing increase in the retail segment where credits issued copied the growth trend from previous years.

<table>
<thead>
<tr>
<th>Loans (bn EUR)</th>
<th>Periods</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprises, Corporate</td>
<td></td>
<td>10,89</td>
<td>13,30</td>
<td>15,03</td>
<td>14,53</td>
</tr>
<tr>
<td>Retail</td>
<td></td>
<td>7,94</td>
<td>10,14</td>
<td>12,66</td>
<td>14,00</td>
</tr>
<tr>
<td>Government institutions</td>
<td></td>
<td>0,63</td>
<td>0,77</td>
<td>0,77</td>
<td>0,86</td>
</tr>
<tr>
<td>Financial institutions (without banks)</td>
<td></td>
<td>2,11</td>
<td>2,23</td>
<td>1,92</td>
<td>1,37</td>
</tr>
<tr>
<td>Non-residents</td>
<td></td>
<td>0,60</td>
<td>1,05</td>
<td>1,30</td>
<td>1,11</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td><strong>22,18</strong></td>
<td><strong>27,48</strong></td>
<td><strong>31,68</strong></td>
<td><strong>31,88</strong></td>
</tr>
</tbody>
</table>

*Source: Slovak Financial Sector Analyses (2006 - 2009), National Bank of Slovakia*
Further growth in all segments expected. All in all, the Slovak financial market can be expected to continue its growth as some segments (banking deposits, consumer credit) were not affected by the crisis at all and the others (especially the capital market and non-retail credits) will rebound soon as the Slovak economy keeps growing. Planned reforms to improve competitiveness of the Slovak economy by the new (July 2010) coalition government should also further support consumer confidence and stimulate increased use of financial products.

7. Conclusion: Value added by the World Bank in improving consumer protection and financial literacy in the Czech Republic and Slovakia

When looking at the value added by the World Bank for the national authorities, there are several areas that should be pointed out beyond providing specific recommendations.

Expanding the viewpoint of national authorities. First of all, the World Bank team provided national authorities with a mirror for local situation. Many national authorities find it hard to find out what international best practices are, and member countries of the European Union often fail to look outside of the EU area. Therefore, a debate with experts from across the world has been very enriching for the development of plans of national authorities, not only because the World Bank experts have a different perspective than national experts.

Stimulating public debate. Secondly, especially in the Czech Republic, the World Bank has stimulated a vigorous public debate about the issues of consumer protection and financial literacy. Having a good base for starting
the debate has been very significant for steering the debate towards key issues and focusing it properly.

**Developing strong internationally accepted benchmarks.** Thirdly, the debate in the Czech Republic showed the need for developing consumer protection benchmarks that could be used for analyzing situation in each country. To facilitate its work in other countries and to get a tool for international comparison, the World Bank developed its Good Practices for Consumer Protection and Financial Literacy in Europe and Central Asia\(^{17}\), officially published in 2008.

**Guiding and inspiring work on national level.** Fourthly, both the national reports with local recommendations and the general good practices helped to guide the ongoing work of national authorities and were incorporated into all debates about consumer protection. Often, the World Bank work was used as an important source of inspiration as there was no other international body that discussed the issues of consumer protection (unlike financial education where also the OECD has been active).

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