



## Consumer Empowerment and Market Conduct (CEMC) Working Group

# Consumer Empowerment and Market Conduct Help and Redress for Financial Consumers

This guideline note was developed by AFI's Consumer Empowerment and Market Conduct (CEMC) Working Group to serve as a resource for policymakers developing and implementing help and redress mechanisms, key components of an effective consumer protection regulatory framework.

The AFI Consumer Empowerment and Market Conduct (CEMC) Working Group was created to provide a platform for policymakers in the AFI Network to explore policy and regulatory issues related to consumer empowerment initiatives and market conduct regulations. Since it launched in 2011, the CEMC Working Group has brought together diverse members from across the AFI Network, leveraging interest in this area to develop a common understanding of best practices and cost-effective policy tools that can be adopted at national and global levels.

This guideline note was developed through the collaborative efforts of the CEMC Working Group's Avenues for Help and Redress Subgroup.

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## Context

Consumer protection is a critical part of financial services regulation. A robust, effective and fair consumer protection regime drives consumer confidence in financial services and helps regulators to earn the trust and respect of financial services providers (FSPs). This ultimately encourages investment in the sector, contributes to the development of a more stable and inclusive financial system and supports balanced economic growth and development.

The aim of this guideline note<sup>1</sup> is to provide practical assistance to member countries of the Alliance for Financial Inclusion (AFI) that are implementing consumer protection standards that meet the objectives of the G20 High-Level Principles on Financial Consumer Protection and suit the level of economic development in their countries.

## Purpose and Critical Issues

A reliable and robust help and redress mechanism is a core component of an effective consumer protection framework. Developing one primarily involves establishing internal and external complaint-handling procedures that ensure disputes between consumers and FSPs are dealt with fairly and expeditiously. A complaint-handling mechanism should therefore be independent, transparent, free of charges, easily accessible and effective.

There are several tools that regulators and FSPs can use to develop effective help and redress mechanisms. The types and combinations of mechanisms will depend on a country's legal and regulatory framework, the size and maturity of its financial sector, and the products, market players and other characteristics unique to a particular country or institution. This guideline note outlines the minimum requirements and standards regulators need to follow to develop an effective help and redress mechanism for financial consumers.

The guidelines are based on the following areas:

- Internal dispute resolution
- Accessibility
- Consumer awareness
- Independent external dispute resolution
- Feedback mechanism

## Guidelines

### 1. FSPs are responsible for implementing an effective and impartial internal dispute resolution

The first step in resolving consumer complaints is typically an FSP's own internal dispute resolution mechanism. It is normally quicker, less expensive and more effective for a company to resolve complaints themselves. This process also helps to build trust, improve customer relations and strengthen the brand image and reputation of the sector as a whole.

Internal dispute resolution mechanisms are most effective when FSPs know that dissatisfied customers can appeal to an external body. External channels therefore serve as a secondary rather than first option for most, if not all, consumers and disputes.

It is recommended that the regulator prescribe minimum standards for internal complaint resolution processes, defined through consultation with the industry and consumers and supported by consumer advocacy groups. These might include requirements that:

- FSPs adopt a formal policy and procedures for complaints resolution approved by its board of directors and reviewed regularly;
- the staff overseeing consumer complaints are at a senior level and are required to report independently to the CEO or the board;

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<sup>1</sup> This guideline note draws on a broad range of standards and guidelines, including the United Nations Guidelines for Consumer Protection, the guidelines issued by Consumers International, the World Bank's Policy Research Working Paper on Consumer Protection and Financial Literacy and case studies and regulations from various AFI member countries.

- FSPs designate a particular department (or staff) to be responsible for handling customer complaints;
- all complaints recorded in a register are available for the regulator to inspect; and
- statistics on complaints are reported to the regulator in a standardized format that helps to facilitate oversight of the FSPs and monitoring of the market.

The minimum standards to be developed and issued by the regulator could also require:

- an explanation of consumer rights and recourse options in all marketing and contractual materials, in plain and clear terms in the language in which consumers conduct their everyday business, not just in the official national language;
- consumer rights and dispute resolution mechanisms (both internal and external) to be posted prominently in every branch of the FSP and other public information channels, including its website;
- a visible, well-publicized and accessible complaints process, including information about the stages of the complaint-handling process and the time frame for each;
- the obligations of consumers and FSPs (such as the handling of information requests and good-faith participation in the process);
- a timely, clear and reasonable response from the FSP;
- notification of available external dispute resolution mechanisms if the customer is not satisfied with how a dispute was resolved by the internal dispute mechanism;
- co-branded products and services (e.g., a bank and telco arrangement, such as mobile money) to clearly indicate who is responsible for handling complaints; and
- a compensation system in the event of injury to the consumer.

## 2. Help and redress mechanisms should be easily accessible

Complaint mechanisms are of little value if they are not easily accessible. Consumers should be able to lodge complaints through all locally appropriate and commonly used channels, from Internet and email to telephone, mail or in-person visits to the FSP's internal dispute or complaints office.

It is useful to have one clearly identified central location that consumers can contact with complaints about financial products and services. It is also helpful to provide a toll-free phone number that people can call outside regular working hours (the working poor cannot afford to take time off work to deal with a complaint), and to make information about financial services and consumer rights available to all consumers, regardless of whether they live in urban or rural areas.

Consumers must not be charged a fee to issue a complaint since this creates a barrier for the poor. They should be able to deal with the complaints system in the language in which they conduct their everyday business, not just in the official national language that is understood by the consumer.

## 3. Consumers should be aware of help and redress mechanisms

Consumers must be aware that they can lodge a complaint about a financial product or service and understand how the process works. However, raising this awareness is particularly challenging in developing countries, where there is a higher proportion of vulnerable consumers (the poor, those who are illiterate, minority communities, women in some cultures, and others) who do not have access to information provided through regular channels.

Regulators should require FSPs to inform consumers about its internal and external complaint-handling mechanisms and the procedure for lodging a complaint when they open a new account or sign up for a product or service. Consumers must be informed verbally and in writing about where to submit complaints and inquiries and how to settle disputes. Regulators should require this information to be included in documents such as notices displayed in branch offices, price quotes for products and services, customer contracts and monthly account statements.

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The news media (television, radio, national/local newspapers) can play an important role in raising consumer awareness, so FSPs should pursue collaborative efforts with local and national media outlets.

#### **4. An independent external dispute resolution process should be established**

Consumers who are dissatisfied with the outcome of internal dispute resolution should be able to appeal the decision to an independent external dispute resolution body. Establishing an external appeal process from the outset increases the likelihood that FSPs will implement effective internal dispute resolution mechanisms and that consumers who are entitled to redress will receive it.

An external dispute resolution body may be the complaints department within the office of the regulator, an ombudsman or independent consumer protection department or agency, or a self-regulatory agency. The choice will depend on a country's level of social, economic and financial sector development.

In low-risk environments or early-stage markets, a self-regulatory mechanism may be the best solution because it would make the least demands on government resources and regulatory capacity. In higher risk, more complex or later stage markets, it is advisable to utilize the services of an independent ombudsman. In general, an independent ombudsman should be financed by the FSP. If the regulator's complaints department conducts the dispute resolution, it should be performed as a separate function (outside the prudential regulation function) by staff that specialize in recourse handling and report independently to the head of the regulatory body.

#### **5. Feedback mechanisms should be created to track the results of internal and external dispute resolutions and to improve regulation and supervision**

It is important to establish a process for identifying and reporting systemic problems with a particular financial product, business practice or services provider because this will enable the regulator to take appropriate action.

Feedback mechanisms should include a requirement that FSPs regularly (either monthly or quarterly) submit statistics to the regulator on the number, types and outcomes of complaints resolved internally. They could also require the financial ombudsman to report data and systemic issues to the regulator, where applicable.

Statistics on consumer complaints and resolutions should be analyzed and published, and the regulatory authority should use these statistics to improve the financial consumer protection framework. This information could also help FSPs to identify high-risk business practices or business units and to improve their own business practices and customer service.



## About AFI

The Alliance for Financial Inclusion (AFI) is a global network of financial inclusion policymaking bodies, including central banks, in developing countries. AFI provides its members with the tools and resources to share, develop and implement their knowledge of financial inclusion policies. We connect policymakers through online and face-to-face channels, supported by grants and links to strategic partners, so that policymakers can share their insights and implement the most appropriate financial inclusion policies for their countries' individual circumstances.

Learn more: [www.afi-global.org](http://www.afi-global.org)

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