



G20 meetings 2011
Consumers International response to
OECD high level principles on financial consumer protection
FSB report on enhancing protection in consumer finance

Consumers International (CI) is the international federation of consumer organisations with more than 220 members in 115 countries around the world. CI members have considerable experience of working on financial services including product testing, consumer advice and advocacy.

In September 2010, CI working with consumer organisations in all G20 economies launched a campaign calling for the G20 to take urgent action to support financial consumer protection. Weak financial consumer protection contributed to the current financial crisis (through irresponsible mortgage lending in the US), and is a long-standing concern of the consumer movement.

Following the campaign, the G20 leaders meeting in Seoul requested the FSB to report on options to enhance protection in consumer finance (credit), and the G20 finance ministers requested the OECD to develop a set of 'high level principles on financial consumer protection'. Both pieces of work will now be presented to G20 finance ministers and G20 leaders over the coming weeks.

1. The OECD high level principles on financial consumer protection

CI welcomes the fact that the high level principles will give international legitimacy to many well established principles regarding financial consumer protection. However, the document contains too many caveats such as 'non binding' and 'as appropriate,' which collectively undermine its strength. Furthermore, the paper misses out vital mechanisms for consumer protection, which make it incomplete in our judgement.

CI calls for the G20 to request further work is done on the following issues:

- **Proactive regulation of financial products**, including minimum standards to ensure products are safe, fair and comprehensible. Regulators should be able to back this up with the ability to remove products that do not meet the required standard.
- **Deposit guarantees** . The failure to commit explicitly to guarantees of consumer financial deposits, in the event of bank failures for example, is a major weakness in any set of principles on financial consumer protection. It is a key issue at times of financial instability, and the G20 has addressed this issue before.
- **Structural steps to promote competition**. There is no reference to either separating the investment and retail arms of banks or ensuring state intervention in the banking sector is subjected to a public interest test and promotes competition.

2. The FSB report on enhancing protection in consumer finance

CI has not seen the final draft of the FSB paper. However, based on a recent draft, CI welcomes the three 'options' presented in the report, and urges the G20 to accept all of them. Much of the report

covers issues that are relevant beyond the narrow remit of consumer finance, and therefore many of our responses echo our response to the OECD draft.

- **Proactive product intervention.** CI would welcome a commitment to proactive product intervention to prevent very poor and risky financial products entering the market. Such intervention should be supported by a regulator's ability to remove products that do not meet the required standards.
- **Avoidance on conflict of interest.** Remuneration of staff should in no way encourage the sale of financial products that are unsuitable or not in a consumer's best interests.

3. Next steps: implementation and peer reviews

The requests made by the G20 leaders at the Seoul summit and the G20 finance ministers at their Paris meeting were important first steps in addressing problems relating to financial consumer protection. In addition to the points above we urge G20 leaders and finance ministers to:

- **Assess the financial consumer protection offered to their own citizens**, and ensure it meets the highest possible standards.
- **Support the establishment of a new international body to champion financial consumer protection.** It is unacceptable that whilst there are international bodies to support the supervision of pensions, insurance and securities – nothing exists to support the supervision of common financial products such as bank accounts or loans. The new body should:
 - Have a strong mandate and an appropriate level of resources.
 - Be able to intervene in all international processes relating to financial consumer protection.
 - Be free to draw on current and past work by the FSB, OECD, and not be limited to the implementation of one international document.
 - Have an independent consumer panel to review its work.
- **Support the involvement of independent consumer organisations.** CI and our members have played an active part in contributing to the development of the FSB and OECD reports. However, the process has not been without problems, with consumer organisations unable to know the names of the members of key OECD and FSB committees, making it hard for national consumer organisations to lobby their representatives.

Consumer organisations also struggle to ensure the consumer voice is heard in the face of much better resourced lobbying from the financial services industry. Action to address this imbalance could include:

- Establishing a formal process for consumer organisations to input into international processes.
- Improved funding for consumer organisations' research and advocacy.